

**UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF RHODE ISLAND**

STEPHEN DEL SESTO, AS RECEIVER
AND ADMINISTRATOR OF THE ST.
JOSEPH HEALTH SERVICES OF RHODE
ISLAND RETIREMENT PLAN; ET AL. ,

Plaintiffs,

v.

PROSPECT CHARTERCARE, LLC; ET AL.,

Defendants.

C.A. No. 1:18-CV-00328-LDA

ORAL ARGUMENT REQUESTED

**DEFENDANTS ROMAN CATHOLIC BISHOP OF PROVIDENCE, A CORPORATION
SOLE, DIOCESAN ADMINISTRATION CORPORATION AND DIOCESAN SERVICE
CORPORATION’S MOTION TO DISMISS FIRST AMENDED COMPLAINT**

Defendants Roman Catholic Bishop of Providence, a corporation sole (“RCB”),
Diocesan Administration Corporation (“DAC”) and Diocesan Service Corporation (“DSC”)
(collectively, the “Diocesan Defendants”) respectfully submit this Motion to Dismiss Plaintiffs’
First Amended Complaint, ECF No. 60, pursuant to Fed. R. Civ. P. 12(b)(6). In support of the
Motion, the Diocesan Defendants rely on the memorandum and exhibits filed herewith.

Local Rule 7(e) Statement

Pursuant to Local Rule 7(e), the Diocesan Defendants respectfully request oral
argument on their Motion to Dismiss and estimate that ninety (90) minutes will be needed.

Respectfully Submitted,

ROMAN CATHOLIC BISHOP OF
PROVIDENCE, A CORPORATION SOLE,
DIOCESAN ADMINISTRATION
CORPORATION and DIOCESAN SERVICE
CORPORATION

By Their Attorneys,

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CERTIFICATE OF SERVICE

I hereby certify that on the 4th day of December 2018, the foregoing document has been filed electronically through the Rhode Island ECF system, is available for viewing and downloading, and will be sent electronically to the counsel who are registered participants identified on the Notice of Electronic Filing.

/s/ Howard Merten

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FOR THE DISTRICT OF RHODE ISLAND**

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C.A. No. 1:18-CV-00328-S-LDA

**DEFENDANTS ROMAN CATHOLIC BISHOP OF PROVIDENCE,
A CORPORATION SOLE, DIOCESAN ADMINISTRATION CORPORATION AND
DIOCESAN SERVICE CORPORATION'S MEMORANDUM OF LAW IN SUPPORT
OF THEIR MOTION TO DISMISS PLAINTIFFS' FIRST AMENDED COMPLAINT**

DATED: December 4, 2018

ROMAN CATHOLIC BISHOP OF
PROVIDENCE, A CORPORATION SOLE,
DIOCESAN ADMINISTRATION
CORPORATION and DIOCESAN SERVICE
CORPORATION

By Their Attorneys,

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TABLE OF EXHIBITS

Ex. #	Document	First Am. Compl. ¶¶	Additional/Other Basis To Review On Motion to Dismiss
1	Actuarial Report as of July 1, 2004, for the Plan Year Ended June 30, 2005	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
2	Actuarial Report as of July 1, 2005, for the Plan Year Ended June 30, 2006	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
3	Actuarial Report as of July 1, 2006, for the Plan Year Ended June 30, 2007	230(c)	Public Record (Posted on Receiver's website under "Public Data" heading)
4	Actuarial Report as of July 1, 2007, for the Plan Year Ended June 30, 2008	230(c)	Public Record (Posted on Receiver's website under "Public Data" heading)
5	Actuarial Report as of July 1, 2009, for the Plan Year Ended June 30, 2010	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
6	Actuarial Report as of July 1, 2010, for the Plan Year Ended June 30, 2011	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
7	Actuarial Report as of July 1, 2011, for the Plan Year Ended June 30, 2012	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
8	Actuarial Report as of July 1, 2012, for the Plan Year Ended June 30, 2013	N/A	Public Record (Posted on Receiver's website under "Public Data" heading)
9	Chart reflecting compilation of data in Exhibits 1-8	N/A	Compiled from data in Exhibits 1-8
10	Excerpted Change in Effective Control Application ("CEC Application") to the R.I. Department of Health	305, 431(f)	Public Record (filed with R.I. Department of Health)
11	Asset Purchase Agreement with Selected Exhibits	<i>See Ex. 10; see also 140, 142, 148, 153, 172, 306, 417, 420, 429, 443, 447-449</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
12	Excerpted 2009-2010 Financial Statements	<i>See Ex. 10; see also 447</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)

Ex. #	Document	First Am. Compl. ¶¶	Additional/Other Basis To Review On Motion to Dismiss
13	Excerpted 2010 Government Auditors' Reports	<i>See Ex. 10; see also 447</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
14	Excerpted 2010-2011 Financial Statements	<i>See Ex. 10; see also 447</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
15	Excerpted 2011-2012 Financial Statements	<i>See Ex. 10; see also 447</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
16	2012-2013 Financial Statements	<i>See Ex. 10; see also 447</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
17	R.I. Attorney General's Decision Concerning Hospital Conversion Act Application	391	Public Record (filed decision of R.I. Attorney General)
18	2017 Memorandum from U.S. Conference of Catholic Bishops	106-107	
19	January 4, 2010 Articles of Amendment to the Articles of Incorporation of St. Joseph Health Services of Rhode Island	N/A	Public Record (filed with R.I. Secretary of State)
20	Ethical and Religious Directives of the United States Conference of Catholic Bishops	149 & n.3	
21	September 27, 2013 Letter to the Vatican	171-180	
22	November 11, 2014 Email from Chancellor Reilly	185	
23	September 12, 2013 "Overview of the Strategic Transaction" Presentation	165-168	
24	Organizational Chart Concerning Corporate Structure following the 2014 Asset Sale	<i>See Ex. 10</i>	Public Record (filed with R.I. Department of Health, as part of CEC Application)
25	February 14, 2014 Letter to the Health Services Council	320-321	Public Record (filed with R.I. Department of Health)

Defendants Roman Catholic Bishop of Providence, a corporation sole (“RCB”), Diocesan Administration Corporation (“DAC”) and Diocesan Service Corporation (“DSC”, and collectively with RCB and DAC, the “Diocesan Defendants”) respectfully submit this memorandum in support of their Motion to Dismiss the First Amended Complaint, ECF No. 60, (“Amended Complaint” or “FAC”).

PRELIMINARY STATEMENT

The Diocesan Defendants express sincere sympathy for the retirees of St. Joseph Health Services of Rhode Island (“SJHSRI”). That sympathy, however, cannot cloud the conclusion that this lawsuit is a baseless attempt to undo difficult decisions made in 2014 to save the CharterCARE system from collapse for the sake of an entire state, the employees it supported and the communities it sustained and served. Nor does it change the inescapable conclusion that the allegations lodged against the Diocesan Defendants are patently false, implausible, conclusory and lack sufficient factual or legal basis to state a valid claim for relief.

At the outset it must be noted that this motion is addressed to Plaintiffs’ *Amended* Complaint. Plaintiffs’ first complaint elicited a wave of legal challenges from the defendants. Plaintiffs obviously saw merit in some of those arguments as they substantially revised their pleading in response. They did so, as the Plaintiffs point out to this Court in other filings, after having had the benefit of months of discovery and the production and review of over 1,000,000 pages of documents. Despite having collected and reviewed this exhaustive collection of records, Plaintiffs’ attempts to cure the legal deficiencies in their claims, particularly as it regards the Diocesan Defendants, fail and this Amended Complaint should be dismissed with prejudice.

First, the Diocesan Defendants’ original motion to dismiss demonstrated that Plaintiffs’ claims ignore—and indeed hide—the unfortunate reality of when and how the SJHSRI Retirement Plan (the “Plan”) became underfunded. *Documents cited in the Amended*

Complaint and posted publicly on the Receiver's website show that the Plan was adequately funded—meaning its assets exceeded expected benefits and no annual contributions were needed—for many years leading up to the Great Recession of 2008. Actuarial Reports show that **Plan assets exceeded accrued benefits at present value from 2003 through 2008**. The reported surpluses were so great that Plan actuaries told Plan administrators that no minimum contribution was required. Those same Actuarial Reports also show that Plan assets totaled \$114,718,822 in 2007, but fell to \$78,260,116 in 2009 after the market crash—a drop of \$36,458,706, *a devastating 32%*. It was not until *after* the market crash that Plan Actuaries reported that accrued benefits exceeded assets and that SJHSRI needed to contribute to the Plan.

The Amended Complaint appears to have amended only one paragraph, FAC ¶ 63, in response to these arguments. Ironically, the amendment implicitly makes clear that the Diocesan Defendants' position is entirely correct—i.e., the Plan was fully funded from at least 2003 through 2008. Otherwise, Plaintiffs continue to launch generalized allegations of wrongdoing, some dating back to the 1970s, that are flatly contradicted by the records cited in their very own complaint. *See Infra* Part I.

This Court, however, cannot and should not ignore the massive global financial meltdown that occurred in 2008, or the content of the cited records that document the impact of that disaster on the Plan. Adequate funding for years leading up to mid-2008 breaks any causal chain for conduct allegedly occurring before the financial meltdown that started in late 2008. Further, the Great Recession constitutes a glaring intervening cause for which no defendant is responsible. Claims based upon conduct predating the market collapse must be dismissed. *Infra* at Part I & II.B.

Second, the Diocesan Defendants’ original motion to dismiss demonstrated that Plaintiffs’ complaint distorted the 2014 Asset Sale between CharterCARE Community Board (“CCCB”), Roger Williams Hospital (“RWH”), SJHSRI and various entities associated with Prospect Medical Holdings, Inc. (collectively, “Prospect”) and ripped it from the historical context critical to assessing Plaintiffs’ legal claims. When viewed in proper context, the Diocesan Defendants’ conduct was not fraudulent and was equally consistent with a lawful purpose and thus not actionable.

In 2014, the CCCB system was on the brink of catastrophic failure because of unsustainable operational and Plan losses. The 2014 Asset Sale was proposed to accomplish a number of important goals, all of which were thoroughly and publicly discussed and vetted: (1) helping the hospitals survive and preserving health care for underserved communities, as well as hundreds of jobs; (2) preserving local control of critical health services; (3) guaranteeing substantial and continued capital infusions to help the new hospital system succeed for the long term; and (4) providing a contribution of \$14 million to the Plan and establishing mechanisms for further funding to help a Plan that, at that point, everyone knew was underfunded and losing money. Those goals appeared reasonable and laudable at the time. That the Bishop of Providence—like other interested parties around the state—expressed support for these goals, cannot form the basis of a fraud or conspiracy as a matter of law. *Infra* at Part II.C-F & III.B.

The Diocesan Defendants did not participate in some secret conspiracy to defraud Plan participants, the regulators or anyone else. Documents referenced in the original and Amended Complaint establish that, at least as regards the Diocesan Defendants, the critical facts respecting the 2014 Asset Sale were disclosed to regulators and a matter of public record back in 2014:

- Regulators knew that the Plan was underfunded after 2008. That fact was one of the express drivers of the proposed transaction.
- The transfer of assets away from SJHSRI to a new entity was not hidden from the regulators—it was part of the fundamental architecture of the entire “Asset Purchase.”
- The Asset Purchase Agreement and Change in Effective Control applications stated expressly that liabilities for the pension system were **not** being assumed by the new hospital entities.
- The parties to the transaction, and the regulators who reviewed it, took steps to help the pension, including contributing \$14 million to the Plan’s assets and setting forth future mechanisms to further fund the Plan.
- Listing SJHSRI in the Official Catholic Directory (“OCD”) was wholly appropriate (as discussed below) and the Asset Purchase Agreement and financial statements provided to regulators identified the Plan as a “Church Plan.”

Third, the Diocesan Defendants’ original motion to dismiss demonstrated that Plaintiffs’ attempt to base fraud and conspiracy claims on two letters written by Bishop Tobin was legally deficient for several reasons. Far from attempting to hide or misrepresent anything, those letters declared that the Plan was at “**significant risk**” and at risk of “**failure**” and belie—on their face—any assertion those letters hid those very risks. Moreover, those letters were not written to the Plaintiffs and, therefore, could not have been relied upon by them to their detriment. Those letters were, also, not false and constituted expressions of opinion that are not actionable. *Infra* at Part II.D & III.B.2.

Fourth, the Diocesan Defendants’ original motion to dismiss demonstrated that Plaintiffs’ fraud and conspiracy claims based upon the continued listing of SJHSRI in the OCD after the 2014 Asset Sale could not state a cognizable claim. The Amended Complaint does not materially change or supplement any allegations respecting this claim. Like its predecessor, the Amended Complaint’s own allegations, as well as public documents, prove that SJHSRI was operated in connection with the Roman Catholic Church, rendering the listing entirely proper.

Further, the First Amendment bars any attempt to second-guess that conclusion. Finally, and again, representations about the OCD were not made to Plaintiffs. *Infra* at Part II.E-F & III.A.

Fifth, the Diocesan Defendants' original motion to dismiss demonstrated that Plaintiffs' claims concerning violations of R.I. Gen. Laws § 9-1-2 should also be dismissed. Again, Plaintiffs did not supplement these pleadings, except to add another two counts citing different criminal statutes. These claims, like the others that preceded them, have the very same deficiencies as described in the original motion to dismiss. That is, Plaintiffs' claims for civil liability based on violations of state and federal criminal law under § 9-1-2 fail because the Plaintiffs' alleged injury was not caused "by reason of" the commission of any underlying crime allegedly committed by the Diocesan Defendants. Moreover, the Amended Complaint's attempt to attach § 9-1-2 civil liability based upon an alleged fraudulent filing with the Internal Revenue Service is preempted as a matter of law. *Infra* at Part IV.

Sixth, the Diocesan Defendants' original motion to dismiss demonstrated that Plaintiffs failed to allege any facts to establish a fiduciary relationship with the Diocesan Defendants. Plaintiffs did not supplement or change their allegations with respect to this argument. Nor does the Amended Complaint allege facts here showing a breach of a fiduciary duty that could have possibly caused the alleged harm in this case or the Diocesan Defendants' assistance in that breach. Therefore, Plaintiffs' fiduciary duty claims should be dismissed. *Infra* at Part V & VI.

Seventh, the Diocesan Defendants' original motion to dismiss demonstrated that Plaintiffs' claims for relief under the Employee Retirement Income Security Act ("ERISA") against the Diocesan Defendants are barred because Plaintiffs fundamentally seek monetary

damages, which are unavailable against the Diocesan Defendants as a matter of law, and improperly attempt to use equitable estoppel to modify the Plan's terms. *Infra* at Part VII.

Eighth and finally, the Amended Complaint muddles and mischaracterizes the role of the Diocesan Defendants. The Amended Complaint fails to accurately describe the role of diocesan entities and individuals concerning SJHSRI and the Plan. Both SJHSRI and the Plan are separate legal entities with separate legal existences and responsibilities from any of the diocesan entities identified as defendants, which are also separate legal entities. The Diocesan Defendants had little or nothing to do with the Plan for literally decades—and well before the Plan was indisputably fully funded from 2003 to 2008. Further, the facts and circumstances of the Plan changed over six decades. The Amended Complaint itself avers that the role of the Diocesan Defendants diminished and changed over time.

In some circumstances, sorting out the true roles (or non-roles) of the separate corporate entities muddled together in the Amended Complaint requires reference to facts beyond those pled. The Diocesan Defendants reserve their right to challenge and object to the purported roles of, and allegations against, the Diocesan Defendants as described in the Amended Complaint.¹ When used in this motion, the term “Diocesan Defendants” does not constitute an admission (even implicitly) that RCB, DAC, or DSC are legally responsible for—or ever did as a factual matter—what the Amended Complaint alleges and what this motion must accept as true for purposes of contesting the legal sufficiency of the allegations pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure.

¹ To be clear, the Diocesan Defendants fundamentally disagree with a great many of the allegations in the Amended Complaint. These Defendants reserve their right to deny and dispute each and every allegation in the Amended Complaint, when and as appropriate.

There is one way, however, in which the Plaintiffs' failure to adequately identify the roles and actions of particular diocesan entities is subject to legal attack on this motion to dismiss. The Diocesan Defendants' original motion to dismiss demonstrated that Plaintiffs utterly failed to satisfy Rule 9(b)'s specificity requirement. Their original complaint referenced the "Diocesan Defendants" collectively and without any differentiation, in virtually every allegation directed towards them. Clearly, Plaintiffs realized this was improper because they amended their pleading to eliminate any reference to "Diocesan Defendants." However, the Amended Complaint simply replaced that term with its definitional equivalent—the three defendant entities. It almost always lists them together, with no attempt whatsoever to differentiate which entity did what, when or to whom. This ubiquitous "group pleading" still exists and is still wholly deficient to meet the letter or purpose of Rule 9(b). In and of itself, this constitutes grounds for dismissing the Amended Complaint with prejudice as to the Diocesan Defendants. *Infra* at Part II.A.

JOINDER IN ARGUMENTS OF OTHER DEFENDANTS

The PBGC is a necessary and indispensable party. The Diocesan Defendants join the arguments of Angell Pension Group ("Angell") and Prospect concerning the Pension Benefit Guaranty Corporation's ("PBGC") status as a necessary and indispensable party to these proceedings. Assuming the Court agrees that the PBGC is an indispensable party, the Court should order Plaintiffs to join the PBGC in these proceedings and, to the extent joinder is either impossible or impracticable, dismiss this action.

Plaintiffs' state law claims are preempted by ERISA. The Diocesan Defendants join the arguments of Angell and Prospect that Plaintiffs' state law claims should be dismissed as preempted in the event that the Court concludes that the Plan is covered by ERISA.

Plaintiffs fail to state a claim for “fraudulent scheme.” The Diocesan Defendants join Angell’s argument that Count VIII of the Amended Complaint (Fraudulent Scheme) should be dismissed because “fraudulent scheme” is not an independent cause of action under Rhode Island law, but duplicative of Plaintiffs’ fraud and conspiracy claims. To the extent the Court determines that fraudulent scheme is an independent cause of action, it should be dismissed for the same reasons that Plaintiffs’ fraud and conspiracy claims fail. *See infra* at Parts I-III.

STANDARD OF REVIEW

Angell’s and Prospect’s briefs adequately describe the standard of review on a Rule 12(b)(6) motion and the portions of those briefs discussing the standard are adopted here. The Diocesan Defendants do wish to highlight two aspects of that standard as it applies to this motion. First, motions to dismiss may not only consider documents referenced or summarized in a complaint but may review those documents to determine whether the allegations regarding those documents are supported within them. *See Beddall v. State Street Bank & Tr. Co.*, 137 F.3d 12, 17-24 (1st Cir. 1998) (affirming the district court’s grant of a motion to dismiss after considering a trust agreement referenced to and summarized in the complaint, but not attached therein, because the court found that the agreement did not make the defendant a fiduciary to the plaintiff, as alleged in the complaint).

Second, this Court is now reviewing Plaintiffs’ Amended Complaint. The Diocesan Defendants raised numerous pleading deficiencies in the original complaint, as did other defendants. The Amended Complaint was filed in the face of pending motions to dismiss, and clearly in an attempt to meet the issues raised by various defendants therein. In this circumstance, courts review amended complaints closely because such complaints are a second bite at the apple. Where a party attempts to replead a complaint and still fails to set forth a

cognizable claim, dismissal with prejudice is appropriate. *See e.g., United States ex rel. Gagne v. City of Worcester*, 565 F.3d 40, 47 (1st Cir. 2009) (upholding grant of motion to dismiss and denial of motion for leave to amend where plaintiff had multiple opportunities to plead fraud with particularity through amendment but failed to do so); *Weimer v. Int'l Flavors & Fragrance, Inc.*, 240 F.R.D. 431, 438 (N.D. Iowa 2007) (granting motion to dismiss and stating “[a]lthough a plaintiff is usually permitted to amend the complaint to replead fraud with particularity, . . . because the [plaintiffs] have already had one opportunity to amend their pleadings, the court finds that an effort to replead would be futile”).

In *Tapogna v. Egan*, 141 F.R.D. 370, 371-72, 379 (D. Mass. 1992), the plaintiffs’ original complaint was challenged on a motion to dismiss “pointing out with specificity the failure to comply with Rule 9(b)[.]” In response, plaintiffs amended their complaint and the defendants moved to dismiss the amended complaint on the same ground. *Id.* The court granted defendants’ motion to dismiss the amended complaint for failure to comply with Rule 9(b) and refused leave to amend. *Id.* In so holding, the court stated that “the plaintiffs took their best shot at drafting a pleading which complied with the rule. There is no indication that they have any further factual matter which they could plead that would satisfy the requirements of the rule.” *Id.*

Such scrutiny is particularly appropriate here as, unusually, Plaintiffs already have had many months to conduct substantial discovery. Indeed, in the memorandum in support of their motion to approve attorneys’ fees filed in this court on November 21, 2018, Plaintiffs’ counsel described their considerable discovery efforts predating the filing of the initial complaint to justify the considerable fee they are requesting: “This discovery entailed the production of over 1,000,000 pages of documents which were obtained and reviewed by Special Counsel over an eight-month period prior to the commencement of this action. In total, Special Counsel

devoted over 1,470 hours of attorney time to this pre-suit investigation.” Pls.’ Mem. In Supp. Of Mot. For Att’ys’ Fees, ECF No. 64-1, at 4 (“Fee Mot.”) (footnote omitted); *see id.* at 6; *see also* Pls.’ Mem. In Support Of Mot. For Settlement Approval, ECF No. 63-1, at 4. Those efforts included discovery directed to the Diocesan Defendants. Fee Mot. at 3-4.

The Amended Complaint does not cure the deficiencies in the original complaint identified in the Diocesan Defendants’ original motion to dismiss. Here, where those deficiencies have been specifically identified, and where Plaintiffs have had the benefit of substantial pre-filing discovery and yet still are unable to set out a sustainable theory of liability against the Diocesan Defendants, Plaintiffs should not be given a third bite at the apple. *See Tapogna*, 141 F.R.D. at 379.

ARGUMENT

I. THE AMENDED COMPLAINT DOES NOT SET FORTH A PLAUSIBLE CAUSATION CLAIM FOR ANY ACTS OR OMISSIONS PRIOR TO THE GREAT RECESSION IN 2008

The Amended Complaint asserts nefarious conduct as far back as 1995. For example, Plaintiffs allege that:

- “At various times during the period from 1995 to the present, SJHSRI did not fund the Plan in accordance with the requirements of ERISA and the recommendations of the Plan’s actuaries, including but not limited to 2010, 2011, 2012, 2013, 2014, 2015, and 2016, with the result that the Plan is grossly underfunded.” FAC ¶ 63.
- “During the period from 1995 to the present, SJHSRI and the other entities and individuals administering the Plan and communicating with Plan participants at no time informed Plan participants that . . . the Plan was underfunded, or that the Plan was not being funded in accordance either with ERISA or the recommendations of SJHSRI’s actuaries”² *Id.* ¶ 64.

² *See also* FAC ¶¶ 211-216 (alleging that splitting the Plan in 1995 was improper or nefarious); *id.* ¶¶ 219-224 (alleging that the so-called “Exculpatory Provisions” in the diocesan and SJHSRI plans were improperly hidden from the Plan participants, both before the split of the plans in 1995 and thereafter); *id.* ¶¶ 226-234 (alleging that SJHSRI did not adhere to funding obligations for various years, including years pre-dating the 2008 crash).

Yet documents only selectively quoted in the Amended Complaint demonstrate that from at least 2003 through 2008, actuaries consistently reported that the Plan was more than appropriately funded. *See infra* at Part I.A. It remained so up until the stock market crash in September 2008. This is not surprising. The “Great Recession” of 2008 was the most serious economic crisis in this country since the Great Depression of the 1930s. *Eclectic Props. E., LLC v. Marcus & Millichap Co.*, 751 F.3d 990, 998 n.6 (9th Cir. 2014) (“We take judicial notice of the recession in the U.S. economy from December 2007 to June 2009.”); *see In re Irving Tanning Co.*, 555 B.R. 70, 85 n.11 (Bankr. D. Me. 2016) (“A more likely culprit was the unforeseen, intervening, and devastating impact of the recession of late 2007 through 2009, about which several Defendants testified and of which I can take judicial notice.”).

A. The Actuarial Reports

The Diocesan Defendants do not have complete visibility into the condition of the Plan for all of the years predating the 2008 stock market crash. They do, however, have access to the Actuarial Reports posted on Plaintiff Receiver’s public webpage for the years 2003 through 2013.³ Three of those reports for 2006, 2007, and 2008 are referenced in the Amended Complaint. FAC ¶ 230(c) & (d).⁴ Other Actuarial Reports are attached to this memorandum as Exhibits as set forth in note 5 below.⁵

³ Specifically, the Diocesan Defendants are not in possession of any actuarial reports post-dating 1995, when the Plan split off on its own (except for the reports posted on the Receiver’s website). FAC ¶¶ 214-215. The Actuarial Reports are posted at <https://www.pierceatwood.com/receivership-filings-st-joseph-health-services-rhode-island-retirement-plan>, under the heading: “Public Data Associated with this Matter.”

⁴ Although the Amended Complaint cites to it in paragraph 230, the Receiver has not posted the Actuarial Report as of July 1, 2008, for the Plan Year Ended June 30, 2009. The link that purports to lead to the 2008 report instead leads to the Actuarial Report, as of July 1, 2009. The Actuarial Report, as of July 1, 2009, contains various look backs and collections of information from the previous plan year (i.e. from July 1, 2008 to June 30, 2009). *See* Ex. 5 at 2, App. B (Actuarial Report as of July 1, 2009, for the Plan Year ended June 30, 2010) (“2009 Actuarial Report”). The Diocesan Defendants have drawn their information concerning the period from July 1, 2008 to June 30, 2009, from Exhibit 5.

⁵ Ex. 1 (Actuarial Report as of July 1, 2004, for the Plan Year Ended June 30, 2005); Ex. 2 (Actuarial Report as of July 1, 2005, for the Plan Year Ended June 30, 2006); Ex. 3 (Actuarial Report as of July 1, 2006, for the Plan Year Ended June 30, 2007) (“2006 Actuarial Report”); Ex. 4 (Actuarial Report as of July 1, 2007, for the Plan Year

Also attached as Exhibit 9 is a chart that collects the following information from each of the Actuarial Reports posted on the Receiver’s website: Minimum Contribution; Maximum Contribution; Market Value of Assets; Present Value of Accrued Benefits; Assets Minus Present Value of Accrued Benefits; Annual Return on Assets; and Assets Divided by Present Value of Accrued Benefits expressed as a percentage. The key information from that chart for the years leading up to and including the Great Recession is summarized here:

	7/1/2009	7/1/2008	7/1/2007	7/1/2006	7/1/2005	7/1/2004	7/1/2003
Minimum Contribution	\$1,444,178	\$0	\$0	\$0	\$0	\$0	\$0
Recommended Maximum Contribution	\$1,624,311	\$2,118,043	\$2,151,319	\$2,052,351	\$0	\$0	\$0
Market Value of Assets	\$78,260,116	\$104,417,252	\$114,718,822	\$102,323,479	\$94,892,973	\$89,475,173	\$80,687,937
Present Value of Accrued Benefits (PVAB)	\$94,770,770	\$88,272,495	\$82,413,392	\$76,100,377	\$71,820,978	\$66,950,823	\$60,221,708
Assets minus PVAB	(16,510,654)	\$16,144,757	\$32,305,430	\$26,223,102	\$23,071,995	\$22,524,350	\$20,466,229
Annual Return on Assets	-20.8%	-7.4%	16.8%	11.7%	10.1%	14.9%	N/A
Assets/PVAB (%)	82.6%	118.3%	139.2%	134.5%	132.1%	133.6%	133.9%

The data in these Actuarial Reports tells a very different story than the negative and conclusory allegations in the Amended Complaint. The Plan’s actuaries told SJHSRI for at least six consecutive years prior to the 2008 Crash—in 2003, 2004, 2005, 2006, 2007, and 2008⁶—that the Plan’s assets exceeded its accumulated liabilities, and by a substantial margin. SJHSRI’s actuaries also reported that *they applied ERISA funding guidelines* to their analysis and declared, for each of the six years from July 1, 2003 to July 1, 2008, that no minimum contribution was required.⁷

The 2007 Actuarial Report, quoted at paragraph 230(c) of the Amended Complaint, is illustrative. Ex. 4. This Report stated that the Total Value of Plan Assets as of

Ended June 30, 2008) (“2007 Actuarial Report”); Ex. 5 (2009 Actuarial Report); Ex. 6 (Actuarial Report as of July 1, 2010, for the Plan Year Ended June 30, 2011); Ex. 7 (Actuarial Report as of July 1, 2011, for the Plan Year Ended June 30, 2012); Ex. 8 (Actuarial Report as of July 1, 2012, for the Plan Year Ended June 30, 2013).

⁶ *Supra* note 4 (concerning information for the Plan Year from July 1, 2008 to June 30, 2009).

⁷ Ex. 1 (2004 Actuarial Report) at 1-3, 13-14, 16-17; Ex. 2 (2005 Actuarial Report) at 2, 11; Ex. 3 (2006 Actuarial Report) at 2, 11; Ex. 4 (2007 Actuarial Report) at 2, 11; Ex. 5 (2009 Actuarial Report) at 11 & App. B.

July 1, 2007 was \$114,718,822. *Id.* at 3. By comparison, the Report also declared that the “Actuarial present value of accumulated plan benefits as of the current valuation date” was \$82,413,392. *Id.* at 4. Plan assets thus exceeded the present value of accrued benefits by more than \$32,000,000. *See id.* at 3-4.

The 2007 Actuarial Report also discussed “Recommended Funding Levels.”

Specifically, it declared:

The recommended contribution is based on the Plan’s Normal Cost plus an amortization of the Plan’s unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations.

Id. at 11. Having declared that they were following ERISA’s funding guidelines, the actuaries then set forth a series of calculations to determine the minimum and maximum recommended contribution. *Id.* at 13 (“Development of Contributions”). The Report then declared that the minimum contribution was “\$0.”⁸ *Id.* at 2.

The 2006 Actuarial Report, also quoted at paragraph 230(c) of the Amended Complaint, similarly reported “Total Value of Plan Assets” of \$102,323,479, and an “Actuarial present value of accumulated plan benefits as of the current valuation date” of \$76,100,377. Ex. 3 at 3-4. Again, Plan assets exceeded the present value of accrued benefits by \$26,000,000. *See id.* The 2006 Report repeated the same reference to ERISA funding requirements and reported that the minimum contribution level for that year was “\$0.” *Id.* at 2.

This pattern repeats in every Report posted on the Receiver’s website predating the Great Recession of 2008. *See* Exs. 1-5 (Actuarial Reports reflecting information from 2003-

⁸ When a defined benefit plan is overfunded, an “employer may reduce or suspend his contributions.” *Hughes Aircraft Co. v. Jacobson*, 525 U.S. 432, 440 (1999).

2008); *see also* Ex. 9.⁹ The assets of the Plan exceeded the present value of accrued benefits and the actuaries repeatedly reported that applying ERISA funding requirements resulted in a minimum contribution level of “0.” *See* Exs. 1-5; *see also* Ex. 9.

That reality changes drastically as a result of the Great Recession of 2008. In the last part of 2008, the Plan’s assets fell 7.4% in the run-up to the market collapse. Ex. 5 at 2. The year 2009 was far worse. Plan assets cratered still further, by more than an additional 20%. *Id.* As a result, assets went from \$114,718,822 in 2007 to \$78,260,116 in 2009. *Compare* Ex. 4 at 3 *with* Ex. 5 at 2. By 2009, for the first time (for the reports the Diocesan Defendants have access), the actuarial present value of accumulated benefits exceeded Plan assets. Ex. 5 at 3-4. Unlike the Reports for the prior six years, the 2009 Actuarial Report recommended a minimum payment and also inserted a new line in the report, “Contribution to reach 100% funding level projected to the end of the plan year.”¹⁰ *Id.* at 2.

Tellingly, the Amended Complaint contains a section entitled, “Defendants Knew The Plan Was Underfunded.” FAC ¶¶ 235-255. Each and every one of the allegations in that section, however, reference facts from 2008 going forward. *Id.* Yet, the next few paragraphs of the Amended Complaint purport to identify “Misrepresentations to Plan Participants” dating back to the 1970s, 1980s, and 1990s. *See, e.g., id.* ¶¶ 256-258, 265-269. The Amended

⁹ The 2006 and 2007 Actuarial Reports cited in the Amended Complaint establish that the actuaries were telling SJHSRI that the Plan was adequately funded and no contributions were required. Case law in this and other jurisdictions makes clear that it is appropriate for the court to consider the entire array of such reports posted on the Receiver’s website as matters of public record. *In re Colonial Mortg. Bankers Corp.*, 324 F.3d 12, 15-16 (1st Cir. 2003) (“For one thing, matters of public record are fair game in adjudicating Rule 12(b)(6) motions[.]”); *see also Better Homes Realty, Inc. v. Watmore*, No. 3:16-cv-01607-BEN-MDD, 2017 WL 1400065, at *2 (S.D. Cal. Apr. 18, 2017) (“[T]he screenshots of searches run on the County’s Fictitious Business Name Statement website, . . . are proper subjects of judicial notice because they are public records”); *Brown v. Sears Roebuck & Co.*, No. 02 C 3939, 2002 WL 31433395, at *1 (N.D. Ill. Oct. 29, 2002) (“In considering Sears’ motion to dismiss, the licensing agreement is considered part of the pleadings In addition, the later agreements that modified the licensing agreement are considered under the doctrine of completeness.”).

¹⁰ As discussed *supra* note 4, the Diocesan Defendants do not have access to the Actuarial Report for the Actuarial Valuation as of July 1, 2008.

Complaint also claims that “actuaries throughout the life of the Plan annually calculated the amount of money that SJHSRI should pay into the Plan” and further that “SJHSRI routinely disregarded their recommendations . . . with the result that the Plan became more and more underfunded over time.” *Id.* ¶ 270.

Nowhere does the Amended Complaint reference, much less attempt to square those allegations with the recommendations or conclusions in the Actuarial Reports from 2003 through 2008. Likewise, Plaintiffs do not try to explain how any alleged misconduct in the 1970s, 1980s and 1990s (which is denied) could have plausibly or causally been the source of their harm or damages, when the Plan had positive financial funding from at least 2003 through 2008. Nor could any such conduct be causally related to the Plan’s financial condition in 2017 when SJHSRI petitioned the Plan into receivership. *Id.* ¶ 54 (discussing receivership).

The Actuarial Reports selectively cited in the Amended Complaint show that the Plan did not “become more and more underfunded over time.” *Id.* ¶ 270; *see* Ex. 9. It was not underfunded until the stock market crash of 2008 crippled it, along with other businesses, and retirement plans all over the globe. *See Irving Tanning Co.*, 555 B.R. at 85 n.11.

Critically, the Diocesan Defendants made these very same arguments in their original motion to dismiss. Plaintiffs appear to have made only one change in the Amended Complaint in response to the Diocesan Defendants’ arguments that the Actuarial Reports negate any claims pre-dating 2008. In paragraph 63 of the Amended Complaint, Plaintiffs added the below italicized language to what was paragraph 65 in the original complaint:

“At various times during the period from 1995 to the present, SJHSRI did not fund the Plan in accordance with the requirements of ERISA and the recommendations of the Plan’s actuaries, *including but not limited to 2010, 2011, 2012, 2013, 2014, 2015, and 2016*, with the result that the Plan is grossly underfunded.”

FAC ¶ 63 (emphasis added). Dispositively, at this point in the proceedings, this addition amounts to an admission that the Diocesan Defendants are correct and the Plaintiffs are not specifically alleging that the Plan was not adequately funded in any years prior to 2010—despite having those earlier reports in their possession and despite having cited to those earlier reports in the Amended Complaint. Given these facts, the Court should ignore the conclusory allegations respecting earlier years in this and other paragraphs of the Amended Complaint.

B. Any Causal Connection Between Acts Or Omissions Prior To 2008 Was Broken Because There Were Many Intervening Years of Adequate Funding And The Great Recession Of 2008 Constitutes A Separate Intervening Cause

Each and every allegation of wrongdoing predating the stock market crash of September 2008 must be dismissed. To establish causation, Plaintiffs must link the defendants' alleged wrongdoing to their alleged harm, which in this case is an underfunded Plan. “[I]t is only when the total amount of funding falls below the threshold level necessary to pay beneficiaries that beneficiaries’ benefits are endangered.” *Hill v. Vanderbilt Capital Advisors, LLC*, 834 F. Supp. 2d 1228, 1255 (D.N.M. 2011). Even if one assumes that the Diocesan Defendants were somehow involved in earlier missteps or misrepresentations, such conduct could not have caused any damages for two independent and dispositive reasons.

First, for at least 6 years, the Plan’s assets outstripped the present value of the accrued benefits and no minimum contribution was required to maintain that status. *See supra* at Part I.A. The Plan was funded.¹¹ *See id.* That is apparent not only from the actuarial reports, but also what is (and is not) in the Amended Complaint. FAC ¶ 63. Plaintiffs’ delineation of specific years—all of which are after 2009—implies sufficient funding prior to 2009, an

¹¹ Even ERISA does not require that defined benefit plans maintain full funding every year. Instead, ERISA permits plans to make contributions designed to address any underfunding issues over time. 29 U.S.C. § 1082(c); Angell’s Mem. of Law in Supp. of its Mot. to Dismiss (“Angell Brief”), ECF No. 49-1, at 6.

implication confirmed by the actuarial reports.¹² As a result, the causal link between alleged earlier misrepresentations or decisions and any future impact on the retirement benefits that Plan participants might receive was broken.¹³ *See Holmes v. Sec. Inv'r Prot. Corp.*, 503 U.S. 258, 268 (1992).

Second, alleged misconduct predating the 2008 Great Recession had nothing to do with any harm to Plaintiffs precisely because something else—global economic calamity—caused the Plan to become “underfunded.” *See id.* (providing that proximate cause demands “some direct relation between the injury asserted and the injurious conduct alleged”). As an intervening force, the Great Recession cut off any liability for the Diocesan Defendants for conduct prior to 2008. *See In re State Street Bank & Trust Co. Fixed Income Funds Inv. Litig.*, 772 F. Supp. 2d 519, 543-44 (S.D.N.Y. 2011); *see also Dura Pharm., Inc. v. Broudo*, 544 U.S. 336, 342-43, 348 (2005) (affirming dismissal of a claim because other factors besides misrepresentations, such as “changed economic circumstances, changed investor expectations, new industry-specific or firm-specific facts, or other events, which taken separately or together” could account for a lower price); *In re Merrill Lynch & Co.*, 273 F. Supp. 2d 351, 362 (S.D.N.Y. 2003) (“The alleged omissions are not the ‘legal cause’ of the plaintiff’s losses. There was no causal connection between the burst of the bubble and the alleged omissions; it was the burst which caused the market drop and the resultant losses . . .”).

This failure of causation is particularly critical to the claims against the Diocesan Defendants. Plaintiffs, themselves, affirmatively aver that “[a]s of 2009, SJHSRI had taken over

¹² The Amended Complaint’s inclusion of the phrase “including but not limited” does not change the calculus, as the Amended Complaint does not allege facts suggesting underfunding prior to 2009, nor would the Actuarial Reports sustain such an allegation. FAC ¶ 63.

¹³ For example, if Plaintiffs had filed this lawsuit in 2002, the case would have been dismissed as moot in 2003 because, at that time, the Plan was funded and Plaintiffs could not demonstrate any “actual and imminent” threat as required to show injury-in-fact. *See Hill*, 834 F. Supp. 2d at 1255-56.

the administration of the SJHSRI Plan, and SJHSRI’s Finance Committee was administering the Plan and making its investment decisions.” FAC ¶ 75; *see id.* ¶¶ 84, 87. Similarly, the Amended Complaint alleges that the Plan ceased to be a church plan sometime in or after 2009, *see, e.g., id.* ¶¶ 68-69, meaning that ERISA funding obligations would not have attached until after the 2008 market collapse and SJHSRI’s takeover of “the administration of the SJHSRI Plan.”¹⁴ *Id.* ¶ 75.

Those portions of Counts III, VII, VIII, IX, XXI and XXII that rely upon and incorporate allegations respecting conduct or alleged misrepresentations predating September 2008 should be dismissed. *See Merrill Lynch*, 273 F. Supp. 2d at 365 (dismissing securities fraud claim because “plaintiffs’ allegations utterly fail to take into account the intervening cause of the Internet market collapse”).

II. COUNT VII (FRAUD THROUGH INTENTIONAL MISREPRESENTATION AND OMISSION) MUST BE DISMISSED AGAINST THE DIOCESAN DEFENDANTS FOR FAILURE TO STATE A CLAIM

A. Count VII Must Be Dismissed For Improper And Conclusory Group Pleading That Lumped The Diocesan Defendants Together In Violation Of Rules 8(a) And 9(b)

The Amended Complaint must be dismissed because it abounds with group pleading contrary to Fed. R. Civ. P. 8(a)(2) and 9(b). “To fulfill the demands of notice pleading,

¹⁴ The Amended Complaint claims that on December 5, 1984, the “Retirement Board for the predecessor to the Plan . . . disregarded their fiduciary duties to the Plan” by rejecting a proposal to make an election that would subject the Plan to ERISA “because they saw no benefit to SJHSRI in protecting employees and other Plan participants by making the election[.]” FAC ¶ 62. This allegation is meritless. First, the Amended Complaint contains no facts to suggest any funding issues with the Plan in December 1984, that the 1984 Retirement Board was not interested in “protecting employees and other Plan participants,” or that the Plan was not a church plan in 1984. *Id.* Indeed, the Amended Complaint alleges that the Plan did not lose church plan status until sometime in 2009. *Id.* ¶¶ 68-69. Second, the Amended Complaint’s supposition that the 1984 Retirement Board breached a fiduciary duty by continuing to avail itself of the “church plan” exemption to ERISA, 29 U.S.C. § 1003(b)(2), is absurd. Under this theory, every church plan administrator that does not elect to subject a church plan to ERISA—a decision that ERISA affords discretion over—would be in breach of a state law fiduciary duty. *Id.* The Supremacy Clause precludes such an outcome. *See PLIVA, Inc. v. Mensing*, 564 U.S. 604, 621-22 (2011) (holding conflicting state law claim preempted by federal regulation).

a plaintiff cannot lump multiple defendants together and must state clearly which defendant or defendants committed each of the alleged wrongful acts.” See *Beta Grp., Inc. v. Steiker, Greenapple, & Croscut, P.C.*, No. 15-213 WES, 2018 WL 461097, at *1 (D.R.I. Jan. 18, 2018) (discussing prohibition of group pleading in context of Fed. R. Civ. P. 8) (internal quotation marks omitted); see *Laurence v. Wall*, C.A. No. CA08-109 ML, 2010 WL 4137444, at *2 (D.R.I. Sept. 30, 2010) (same).

This standard is especially important for claims of fraud, which are subject to the heightened pleading standard of Fed. R. Civ. P. 9(b). “[W]here multiple defendants are involved, each person’s role in the alleged fraud must be particularized in order to satisfy Rule 9(b).” *W. Reserve Life Assurance Co. of Ohio v. Caramadre*, 847 F. Supp. 2d 329, 343 (D.R.I. 2012) (internal quotation marks omitted); see also 2 Moore’s Federal Practice § 9.03[1][f] (2012) (“[A] claimant usually may not group all wrongdoers together in a single set of allegations. Rather, the claimant is required to make specific and separate allegations against each defendant.”).

This deficiency was raised in the Diocesan Defendants’ original motion to dismiss. Diocesan Defs.’ Mem. In Supp. Of Mot. To Dismiss, ECF 54-1 at Part II.A. Plaintiffs’ attempt to amend their complaint to address this deficiency makes a mockery of the Rule and the purpose behind it. The Amended Complaint removes the “Diocesan Defendants” label. In its place—indeed in virtually every instance where the term “Diocesan Defendants” appeared in the original complaint—Plaintiffs have merely replaced that collective term with the collective listing of RCB, DAC, and DSC. In short, Plaintiffs continue to treat the Diocesan Defendants as though they are one entity. When one acts, they all act. When one “misleads,” they all

“mislead.” Plaintiffs’ failure to make any attempt at all to distinguish which allegations pertain to which entity is impermissible group pleading. *See Beta Grp., Inc.*, 2018 WL 461097, at *1.

In identifying the parties at the beginning of the Amended Complaint, Plaintiffs devote single paragraphs to each of RCB, DAC, and DSC. FAC ¶¶ 26-28. Otherwise, Plaintiffs never again reference the entities independently. Every relevant allegation lists RCB, DAC, and DSC together. There are zero descriptions of actions taken or statements made solely by RCB, or by DAC, or by DSC. Conversely, the Plaintiffs refer to these three defendants together in at least 103 paragraphs and 11 different counts.¹⁵

This is improper and the Amended Complaint alleges no facts to excuse this failing. For instance, the Amended Complaint states that Bishop Tobin was an officer of RCB, DAC, and DSC, *id.* ¶¶ 26-28, but includes no other allegations that justify treating the three corporations as though they were one entity. Plaintiffs’ pleading deficiencies are particularly critical here because so many of the allegations are phrased in general and conclusory terms, covering decades of conduct. *See, e.g., id.* ¶¶ 214-216, 227, 256-258. Yet the Amended Complaint acknowledges that the role of RCB, DAC, and DSC changed dramatically over time to the point where “[a]s of 2009, SJHSRI had taken over the administration of the [Plan].” *Id.* ¶ 75; *see also id.* ¶¶ 84, 87.

Despite having had months to conduct and review substantial discovery (including a subpoena directed to the Diocesan Defendants),¹⁶ and two chances to properly plead their claims, Plaintiffs remain unable to set out a theory of the case that pleads particularized

¹⁵ FAC ¶¶ 23, 38, 50, 55, 56, 65, 90, 91, 104, 106, 108, 109, 110, 112, 114, 126, 127, 128, 129, 135, 139, 140, 141, 148, 149, 150, 151, 152, 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, 174, 177, 179, 180, 183, 185, 188, 189, 190, 192, 193, 194, 198, 200, 201, 202, 203, 204, 205, 206, 207, 211, 214, 215, 216, 223, 254, 255, 259, 276, 318, 320, 321, 322, 338, 340, 342, 354, 355, 361, 362, 370, 372, 373, 377, 402, 471, 495, 498, 504, 532, 536, 540, 544, 552, 553, 555, and 557; Claims for Relief (Count III, VII, VIII, IX, XVI, XVII, XVIII, XIX, XXI, XXII, and XXIII).

¹⁶ FAC ¶ 46; *supra* at Standard of Review

allegations concerning RCB, DAC, and DSC’s individual roles in the alleged fraud. Group pleading denies RCB, DAC, and DSC the protections of Fed. R. Civ. P. 8(a)(2) and 9(b), and the Amended Complaint is a transparent (and faulty) attempt to circumvent these protections by rotely listing RCB, DAC, and DSC together in place of an equally improper collective moniker. Because “there is no reasonable basis for inferring that any future complaints would arrive in any more viable condition,” the Court should not afford Plaintiffs another opportunity to plead their claims and dismiss the Amended Complaint with prejudice. *Tapogna*, 141 F.R.D. at 379 (internal quotation marks omitted); see *U.S. ex rel. Gagne*, 565 F.3d at 47; *Weimer*, 240 F.R.D. at 438; *supra* at Standard of Review.

B. The Alleged Misrepresentations To Plan Participants From The 1970s Through The 2008 Market Crash Are Not Actionable

Plaintiffs allege that there were certain “Misrepresentations to Plan Participants” in the 1970s through the mid 2000s. FAC ¶¶ 256-284. The Diocesan Defendants dispute that they made these statements. Leaving that aside for the moment, these statements are not actionable for three reasons. First, for the reasons set forth *supra* at Part I.B, none of Plaintiffs’ statements concerning the state of the Plan prior to the 2008 market crash could have caused Plaintiffs’ alleged harm. See *Dura*, 544 U.S. at 342-43; *Bendaoud v. Hodgson*, 578 F. Supp. 2d 257, 270 (D. Mass. 2008).

Second, the alleged misrepresentations were not factually false and merely conveyed an intent to fund the Plan in a particular manner or make certain payments to Plan beneficiaries in the future (i.e., merely statements to do a particular thing in the future, and thus cannot be actionable misrepresentations).¹⁷ An alleged misrepresentation ““must relate to

¹⁷ The Diocesan Defendants adopt Angell’s argument noting the absurdity in the assertion that statements referring to lifetime benefits are fraudulent when contained in participant benefit statements, when such statements continue to be made in participant benefit statements issued by Plaintiff Receiver. Angell Brief at 23 n.17

something that is a fact at the time the assertion is made in order to be a misrepresentation. Such facts include past events as well as present circumstances but do not include future events.” *St. Paul Fire & Marine Ins. Co. v. Russo Bros., Inc.*, 641 A.2d 1297, 1299 n.2 (R.I. 1994) (quoting Restatement (Second) *Contracts* § 159, cmt c. at 428 (1981)). “[T]he general rule is that mere unfulfilled promises to do a particular thing in the future do not constitute fraud in and of themselves.” *Cote v. Aiello*, 148 A.3d 537, 548 (R.I. 2016) (internal quotation marks omitted) (holding that, because a company owner’s “statements regarding [the company] always revolved around the future disposition of the company, . . . [they] therefore could not form the basis for a claim of fraud” (underlining in original)).

For example, Plaintiffs allege that the Plan participants were provided booklets with information concerning the Plan. *E.g.*, FAC ¶ 266. The 1973 edition of this booklet stated: “The Hospital will pay the entire cost of the Plan beginning January 1, 1973 – not only your pension but also all actuarial, legal and investment expenses incurred in the administration of the Plan.”¹⁸ *Id.* The Amended Complaint fails to allege facts to indicate this statement was false or that SJHSRI did not pay such costs. Additionally, documents referenced in the Amended Complaint prove that the Plan was adequately funded through 2008. *See* Ex. 9; *supra* at Part I.A. And this is in spite of Plaintiffs’ admission that the Plan did not lose its status as a church plan (and therefore become subject to ERISA funding requirements) until at least 2009. FAC ¶¶ 68-69.

¹⁸ The allegations set forth in paragraphs 256-278 of the Amended Complaint do not sufficiently differentiate among the defendants, and the Diocesan Defendants cannot decipher which statements, if any, Plaintiffs attribute directly to them. The one cited here, for example, references a statement made by “the Hospital.” FAC ¶ 266. To the extent Plaintiffs allege any such representations were made by the Diocesan Defendants, when these statements were made and by whom are important for the reasons set forth herein.

Third, Plaintiffs have not alleged any facts sufficient to establish that there was a lack of intent to keep promises made to the pensioners in the 1970s to 2008 when those alleged promises were made. *See In re DeRosa*, 103 B.R. 382, 386 (Bankr. D.R.I. 1989). Although the Amended Complaint is rife with alleged misrepresentations from the 1970s through the 1990s, it never once references the status of the Plan’s funding during that entire time period. The Receiver has records containing that data at least through 1995 because they were produced in response to a subpoena several months ago. Had they been referenced in the Amended Complaint, the Actuarial Reports for the Plan show consistent surplus funding through 1995. While the Court cannot consider the content of those documents on a motion to dismiss because they were not referenced in the Amended Complaint, it can consider that the Amended Complaint pleads no facts about the Plan’s funding when alleged promises were made decades ago.¹⁹ Indeed, no specific allegations of underfunding in the Amended Complaint predate September 2008. FAC ¶¶ 235-255. Without those averments, any fraud claims based on facts before September 2008 must be dismissed.

C. Any Alleged Reliance On Any Alleged Misrepresentations Of Fact (Of Which There Were None) Respecting The Alleged “Quid Pro Quo” In The 2014 Asset Sale Is Not Justifiable As A Matter Of Law Because Plaintiffs (And Regulators) Had Notice Of The Key Facts Alleged Against The Diocesan Defendants

1. The Alleged “Quid Pro Quo” Scheme

The Amended Complaint describes a scheme in which the Diocesan Defendants allegedly plotted with other defendants to surreptitiously isolate and abandon SJHSRI’s unfunded pension liability to a surviving SJHSRI shell entity that would have no operating

¹⁹ If anything, the Amended Complaint suggests adequate funding, the keeping of promises, and the truthfulness of statements, when it alleges: “Defendants SJHSRI, RWH, and CCCB never informed Plan participants that the earlier assurances that the Plan was being funded in accordance with the recommendations of the Plan’s actuaries were *no longer true*.” FAC ¶ 270 (emphasis added).

assets. *Id.* ¶¶ 114-158. The allegations are as follows: At the time of the 2014 Asset Sale, SJHSRI, RWH, CCCB, Prospect and the Diocesan Defendants “knew” that the Plan was underfunded. *See, e.g., id.* ¶ 148. All of SJHSRI’s assets would be transferred to a new separate company. *Id.* ¶¶ 55, 148, 154. The Plan would be left alone without any operating assets and receive “only” an *additional* \$14 million. *Id.* ¶ 147. The Diocesan Defendants would agree to continue to maintain SJHSRI in the OCD and therefore the Plan could continue as a church plan, which meant that ERISA would not apply. *Id.* ¶¶ 153-154. In return, the Diocesan Defendants would receive Catholicity covenants that would apply to both “New” Our Lady of Fatima Hospital and “New” Roger Williams Hospital. *Id.* ¶ 153. Via this scheme, and unbeknownst to all but the schemers, the Plan participants would not have the protection of ERISA. *Id.* ¶ 154.

Plaintiffs conflate whether this scheme, or various parts of it, constitute fraud, conspiracy, or aiding and abetting on the part of the Diocesan Defendants. Accordingly, this section of the brief will examine each component of this so-called “plot” in turn and demonstrate that each and every component was revealed to the regulators, and thus the world, in the Change in Effective Control application (“CEC Application”) provided to the regulators at the time of the proposed transaction. *Infra* at Part II.C.1.i-iv. These facts—all of them—were disclosed and public, explicitly and in several different locations. *Id.* Even more bizarrely (in the context of an alleged fraud or illicit conspiracy) several of them were expressly identified to the regulators, and thus the world, as the very problem driving the transaction *and* the solution to those problems. *Id.* Viewed in this context, the alleged fraud or conspiracy is beyond implausible, it is absurd and belied by completely legal acts and public disclosure, and more plausibly understood to have legitimate purposes. *Stubbs v. Taft*, 149 A.2d 706, 708-09 (R.I. 1959); *see Eclectic Props.*, 751 F.3d at 999; *see also Kowal v. MCI Commc’ns Corp.*, 16 F.3d 1271, 1277 (D.C. Cir.

1994) (affirming dismissal of securities fraud claim premised on “pejorative characterizations of disclosed factual matters”); *Precision Assocs., Inc. v. Panalpina World Transp. (Holding) Ltd.*, No. 08-CV-00042(JG)(VVP), 2015 WL 4987751, at *5 (E.D.N.Y. Aug. 19, 2015) (dismissing antitrust conspiracy claim where defendant was subject of regulatory inquiry because it was “not plausible that the antitrust regulators would have offered leniency to a defendant that continued to actively participate in the conspiracy”).

Further, it is axiomatic that a plaintiff cannot establish reasonable reliance on a false statement or “undisclosed” fact if the plaintiff knows the very fact he/she claims the defendant failed to disclose—or if the fact is made obvious to him/her. *See* Restatement (Second) Torts § 541 (“The recipient of a fraudulent misrepresentation is not justified in relying upon its truth if he knows that it is false or its falsity is obvious to him.”). Accordingly, it is a defense to a fraud claim “that the complainant had knowledge, actual or constructive, of the actual facts[.]”²⁰ 37 Am. Jur. 2d *Fraud & Deceit* § 309 (2018); *see Merrill Lynch*, 273 F. Supp. 2d at 375 (dismissing securities fraud claim premised on purported omission as to ratings system and conflicts of interest, where the “ratings and conflicts for all of the securities were known to the market and were specifically disclosed in the Sector Reports”).

- i. No One Hid That The Plan Was Underfunded In 2014;
Rather It Was Public Knowledge That The Plan Was At Risk
And That Risk Was A Key Driver Behind The 2014 Asset Sale

Any suggestion that the unfunded status of the Plan²¹ was hidden from the public or regulators fails when juxtaposed with the public record. The response to the very first

²⁰ In Rhode Island, “[c]onstructive notice” ordinarily means that a person “should be held to have knowledge of a certain fact because he knows other facts from which it is concluded that he actually knew, or ought to have known, the fact in question. Constructive notice also exists whenever it is shown that reasonable diligence would have produced actual notice.” *Conti v. Governor Dyer Coop. Mkt., Inc.*, No. 83-4400, 1986 WL 716034, at *2 (R.I. Super. Ct. May 27, 1986) (internal quotation marks omitted).

²¹ FAC ¶¶ 258(b), 282, 322, 356.

question in the CEC Application²² submitted by Prospect Medical Holdings, Inc. to the Department of Health, states as follows:

Based on operating revenue alone, the combined [CCCB] hospital systems have reduced operating losses to approximately \$3M per year. Although a significant improvement, these losses cannot be sustained. Furthermore, although sufficient capital expenditures have been made to the facilities, the physical plants at the Existing Hospitals are aging and need upgrading.

Of additional concern are pension costs (this same issue is impacting hospitals throughout the country). If pension losses are taken into consideration, the [CCCB] system will, over the long term, incur significant losses.

Ex. 10 at 2 (Excerpted CEC Application) (emphasis added); see FAC ¶¶ 305, 431(f) (referencing application to Department of Health).

Other references to Plan deficits abound in the CEC Application. For example, the CEC Application attaches the Asset Purchase Agreement (“APA”) between Prospect and CCCB, SJHSRI, and RWH. Ex. 11 (APA). Section 4.29 of the APA addresses the Seller’s (i.e., CCCB, SJHSRI, and RWH’s) solvency and states that it is not insolvent “[a]fter exclusion of ***Liabilities associated with the Retirement Plan due to their uncertainty of amount[.]***” Ex. 11 § 4.29 (PCEC000044) (emphasis added); see FAC ¶ 449.

The CEC Application also attached SJHSRI’s financial statements for the years 2009 through 2013.²³ That application is referenced in the Amended Complaint and also is public record, susceptible to judicial notice.²⁴ Each of those financial statements contains several pages of notes discussing the Plan. Each shows a negative funding status for the Plan. The year

²² The complete CEC Application is available through the Rhode Island Department of Health’s website at <https://drive.google.com/file/d/0B9lx-sHDAL9qczFyRkVfTmPoRVk/view>.

²³ Ex. 12 (Excerpted 2009-2010 Financial Statements); Ex. 13 (Excerpted 2010 Government Auditors’ Report); Ex. 14 (Excerpted 2010-2011 Financial Statements); Ex. 15 (Excerpted 2011-2012 Financial Statements); Ex. 16 (2012-2013 Financial Statements).

²⁴ *Colonial Mortg. Bankers Corp.*, 324 F.3d at 15-16 (discussing the consideration of “matters susceptible to judicial notice” on a motion to dismiss and recognizing “the hoary tenet that a court ‘may look to matters of public record in deciding a Rule 12(b)(6) motion’” (internal citation omitted)).

2010 is illustrative. It shows the “[f]unded status of the Plan” as (\$51,004,155). Ex. 12 at PCEC001543. The figures set forth in the reports submitted to the regulators for the other years go from (\$50,871,072) in 2009, *id.*, to (\$92,962,281)²⁵ in 2013, Ex. 16 at PCEC001297. All of this information was affirmatively disclosed to the regulators.

The Attorney General’s Decision²⁶ approving the transaction under the Hospital Conversion Act establishes that everyone involved understood the issue. FAC ¶ 371; Ex. 17 (Attorney General’s Decision). It states that the CCCB hospital system was sustaining operating losses of approximately \$3 million dollars per year, “not including pension losses.” Ex. 17 at 8. After noting that these losses raised questions about the “continued viability” of the CCCB system, the Attorney General’s Decision turned to a discussion of the Plan specifically:

Of additional concern to [CCCB] is its pension funding (an issue that is impacting many hospitals around the country). If pension losses are taken into consideration, in fiscal year 2012, the [CCCB] system sustained losses of over \$8 million dollars which are increasing without additional contributions. Such losses cannot be sustained by [CCCB].

Id. at 9. There can be no doubt that the regulators were told and understood that the Plan was losing significant amounts of money each year—unsustainable losses that exceeded \$5 million annually. *See id.* at 8-9 (discussing \$3 million in losses to CCCB that grew in excess of \$8 million when pension losses were considered).

There was, in short, no fraudulent statements or conspiracy to hide that the Plan had serious funding issues. There was, rather, consensus amongst various constituencies that the CCCB system as a whole and the Plan, in particular, were in jeopardy and something needed to be done to help them. *See id.*

²⁵ The valuations in the financial statements are pursuant to accounting principles and not the actuarial standards applied in ERISA or by actuaries and used in the Actuarial Reports discussed *supra* at Part I.

²⁶ The Attorney General’s decision is referenced in the Amended Complaint. FAC ¶ 391. It is also available on the Attorney General’s website at <http://www.riag.ri.gov/documents/5-16-14AGFinalDecision.pdf>.

Nor was there any misapprehension or conspiracy to hide the amount of money that was going to be contributed to the Plan or that this figure would not bring the Plan to full funding. The \$14 million contribution was discussed in the Attorney General’s Decision. Ex. 17 at 21. Likewise, there was no misapprehension that, even after the contribution of \$14 million to the Plan, it would not be one hundred percent funded. FAC ¶¶ 341-344, 355-357. The parties to the transaction had made plans for further contributions to the Plan. *Id.* 357-358. Indeed, part of the regulatory process was directed at establishing mechanisms for additional funding. *Id.* ¶¶ 357-358, 391-393.

Further, as a matter of law, the Court must reject the Amended Complaint’s conclusory, oft-repeated predicate that all Plan participants had no idea that the Plan was underfunded. *See, e.g., id.* ¶¶ 54, 64. First, as mentioned above, the pension issue was raised in the very first answer in the CEC Application. Ex. 10 at 2. Second, the pension deficit and what was to be done with the pension deficit was discussed at various public hearings, as referenced in the Amended Complaint. *See, e.g.,* FAC ¶¶ 341, 350, 370. Third, many pensioners were surely aware that there were issues in the funding of their pension because it had been frozen on four separate occasions leading up to the 2014 transaction.²⁷

ii. The Structure Of The 2014 Asset Sale, Including That Prospect Was Not Assuming Any Liabilities For The Plan, Was Disclosed And Public

The Amended Complaint also alleges that the Diocesan Defendants conspired with other defendants to strip SJHSRI of all of its assets and leave the Plan’s liability with SJHSRI after the 2014 Asset Sale. FAC ¶¶ 154-155. As a threshold matter, the structure of the 2014 Asset Sale was a secret to no one. The very name of the governing agreement—Asset

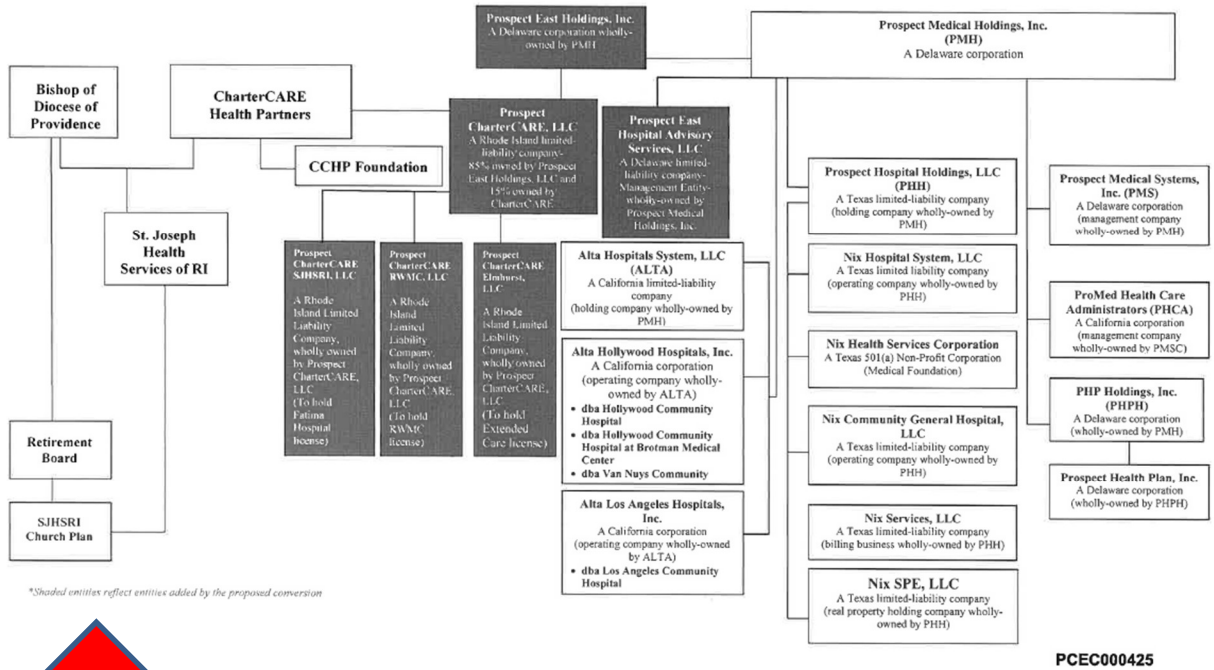
²⁷ The notes to the SJHSRI financial statements for September 30, 2011 and 2010, submitted as part of the 2014 CEC Application, document pension freezes on October 1, 2007, October 1, 2008, September 30, 2009 and September 30, 2011. Ex. 14 at PCEC001507; *see* FAC ¶¶ 76, 287, 297 (discussing pension freezes).

Purchase Agreement—screams out that this transaction is an *asset purchase*. See generally Ex. 11. The structure of this deal was not lost on the regulators. See Ex. 17 at 20. The Attorney General’s Decision declares: “As described in the Asset Purchase Agreement (APA), Prospect Medical Holdings (Prospect) through a series of subsidiaries, is acquiring substantially all of the assets of [CCCCB].” *Id.*

Likewise, the APA declares that the liability for the Plan will remain with SJHSRI. Section 2.14 of the APA states:

2.4 Excluded Liabilities of Sellers. Notwithstanding anything herein to the contrary, the Company and/or the Company Subsidiaries are assuming only the Assumed Liabilities and are not assuming and shall not become liable for the payment or performance of any other Liability of Sellers (collectively, the “Excluded Liabilities”). The Excluded Liabilities are and shall remain Liabilities of the Sellers. Without limiting the generality of the foregoing, the term “Excluded Liabilities” includes any Liability: ... (iii) that is described on Schedule 2.4

Ex. 11 at PCEC000017. Schedule 2.4, “Certain Excluded Liabilities,” explicitly lists “***All Liabilities related to the Retirement Plan.***” *Id.* at PCEC000274 (emphasis added). If the written description were not enough, the CEC Application contained a graphic representation of the end result of the contemplated transaction. It showed SJHSRI off by itself, with the words “Church Plan” written underneath it:



Ex. 24 (Organizational chart concerning corporate structure following the 2014 Asset Sale) (red arrow not in original).²⁸

iii. The Plan’s Status And Intended Future As A Church Plan Were Disclosed

The Amended Complaint rails that the intent in this transaction was that the Plan would remain a church plan not subject to ERISA. FAC ¶¶ 55(d)(ii), 64, 128, 136, 139, 153-154, 317, 426. It claims that defendants concealed this. *Id.* ¶¶ 64, 275, 317. This is untrue, as demonstrated by documents referenced in the Amended Complaint—documents submitted to state regulators. For example, Section 4.17(i) of the APA states clearly that “The Retirement Plan is a Church Plan.” Ex. 11 at PCEC000037. “Retirement Plan” is a defined term in the

²⁸ The Diocesan Defendants had no role in drafting Exhibit 24 and reserve the right to contest its accuracy.

APA. *Id.* at PCEC000106. “Retirement Plan” means “the St. Joseph Health Services of Rhode Island Retirement Plan.” *Id.*

The financial statements submitted with the CEC Application also explicitly identify it as a “church plan.” Ex. 15 at PCEC001474. The Notes to the Consolidated Financial Statements for September 30, 2012 and 2011 state:

SJHSRI has a defined benefit pension plan which covers substantially all of the SJHSRI’s employees. The Plan is a *non-electing church plan* under the Internal Revenue Service and is not subject to the participation, vesting, and provisions of the Internal Revenue Service code.

Id. (emphasis added).

Plaintiffs also allege that the Diocesan Defendants (who had nothing to do with the process) improperly listed SJHSRI in the Official Catholic Directory (“OCD”) as part of this “quid pro quo” arrangement. FAC ¶ 153. Treatment of the OCD and the deficiencies of Plaintiffs’ claims related thereto are discussed *infra* at Part II.F & III.A.²⁹

iv. The Continued Catholicity Of The Hospitals Following The 2014 Asset Sale In No Way Demonstrates A Conspiracy

The fact that the new entities created as part of the 2014 Asset Sale would be subject to Catholicity requirements was disclosed in the APA, Ex. 11 at PCEC000075-PCEC000076, PCEC000263, and referenced in the Attorney General’s Decision. Ex. 17 at 45. The Amended Complaint’s absurd and implausible allegation is that *if* the Diocesan Defendants wanted Our Lady of Fatima to remain Catholic *then* they would have to knuckle under to the illicit demands of the other defendants. FAC ¶¶ 153-154. Our Lady of Fatima was already

²⁹ The Amended Complaint’s bald assertion that it “was never ‘public knowledge,’ and Plan participants were never told that the Plan was being administered as a Church plan,” does not change the analysis. FAC ¶ 318. The Amended Complaint does not attempt to address the public disclosures discussed *supra* at Part II.C.1.iii. Its conclusory assertions as to non-disclosure, therefore, must be disregarded. *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 550 (2007); *see also Pew v. Cardarelli*, No. 5:03-CV-742 (NAM), 2005 WL 3817472, at *5-9, 14 (N.D.N.Y. Mar. 17, 2005) (dismissing securities fraud claim, where “Agway disclosed the relevant presently existing facts as to its available sources of funds, its use of borrowing and/or proceeds from the sale of new Certificates”).

under contractual restrictions to comply with various Catholicity requirements. *See id.* ¶ 150 (“These ‘Catholic identity covenants’ included essentially all the rights which the Diocesan Defendants were entitled to exercise over Old Fatima Hospital.”). The Diocesan Defendants did not need to join some alleged fraudulent scheme to obtain the benefit of that bargain. Ex. 19 at Ex. A (Articles of Amendment to Articles of Incorporation of SJHSRI). They already had it and saying no to the deal would not divest them of those rights. *See id.* Certainly, this is no basis for a conspiracy claim. *Advanced Tech. Corp. v. Instron, Inc.*, 925 F. Supp. 2d 170, 180 (D. Mass. 2013) (dismissing conspiracy claim as implausible where defendants “had no apparent need to conspire to block an ABI standard when they could effectively accomplish this objective” individually).³⁰

2. *The Disclosures Render Any Reliance Unreasonable As A Matter Of Law*

The public record reveals that all relevant facts concerning the funding and church plan status of the Plan, the structure of the 2014 Asset Sale, and the continued Catholicity of the hospitals were disclosed to state regulators and the public, including Plan participants. “The recipient of a fraudulent misrepresentation is not justified in relying upon its truth if he knew that it is false or its falsity is obvious to him.” Restatement (Second) Torts § 541; *see Ang v. Spidalieri*, No. WC-2006-0569, 2018 WL 810086, at *14 (R.I. Super. Ct. Feb. 5, 2018) (holding that fraud claim failed where plaintiff was aware of falsity of alleged statement). This is true even if the complainant does not have actual knowledge but reasonable diligence would have produced actual notice. *See, e.g., Soft Stuff Distribs., Inc. v. Ryder Truck Rental, Inc.*, No. CCB-11-2605, 2012 WL 3111679, at *5 (D. Md. July 30, 2012) (finding fraud allegations were not

³⁰ *See Twombly*, 550 U.S. at 564-70; *Stubbs*, 149 A.2d at 708-09; *see also Optronix Techs., Inc. v. Ningbo Sunny Elec. Co.*, No. 5:16-cv-06370-EJD, 2017 WL 4310767, at *7 (N.D. Cal. Sept. 28, 2017) (rejecting conspiracy claim because “Plaintiff’s theory that [defendants] are involved in a conspiracy to restrain trade makes no economic sense in the face of allegations that [one defendant] is already a monopolist” in the relevant market).

sufficient to support reasonable reliance where nothing stopped plaintiff from investigating the allegedly fraudulent practice, plaintiff had at least constructive knowledge of the fact that defendant was employing the allegedly fraudulent practice, and company could have clarified the nature of the allegedly fraudulent practice); *In re Ford Motor Co. Bronco II Prod. Liab. Litig.*, 982 F. Supp. 388, 397-98 (E.D. La. 1997) (granting summary judgment on fraud claim for defendant where there was no genuine dispute of material fact as to whether plaintiffs could have discovered the alleged fraud through the exercise of reasonable diligence as sufficient information had been disseminated to the media concerning the product's defect to "excite plaintiffs' attention"). Accordingly, the Amended Complaint fails to state a plausible claim for fraud or conspiracy as regards the allegations discussed herein.

**D. The Plaintiffs' Claim For Fraud Fails Because
The Alleged Statements In The Vatican And Health
Services Council Letters Were Not False And Were Opinions**

In support of their fraud claims, Plaintiffs point to two letters. FAC ¶¶ 170-179, 320. In those letters, Bishop Tobin affirmatively declared that the Plan was at "*significant risk*" and in danger of "*failure*," which would be "*catastrophic*." *See id.* ¶¶ 172, 320 (emphases added).

The first letter, dated September 27, 2013, was directed to the Vatican ("Vatican Letter"). *Id.* ¶ 170-171. That letter stated:

[W]ithout [approval of] this transaction, it appears that a consistent Catholic healthcare presence in the Diocese of Providence would be gravely compromised, and *the financial future for employees-beneficiaries of the pension plan would be at significant risk*. I believe that the APA [Asset Purchase Agreement] between CharterCARE and Prospect will help avoid *the catastrophic implications of such a failure*, and at the same time, enhance the quality of care at SJHSRI/Our Lady of Fatima.

Id. ¶ 172 (emphasis added).³¹

Bishop Tobin’s second letter was to the Health Services Council (“HSC”), dated February 14, 2014 (“HSC Letter”). Plaintiffs allege that the Bishop wrote the HSC Letter, “pursuant to the conspiracy in which Corporation Sole [RCB], Diocesan Administration [DAC], and Diocesan Service [DSC] were participating with [SJHSRI, RWH, CCCB, and Prospect] . . . to relieve Fatima Hospital of any liability under the Plan at the expense of the Plan participants” *Id.* ¶ 320. The HSC Letter, like the Vatican Letter, stated that, “[w]ithout this transaction, . . . **the financial future for employee-beneficiaries of the pension plan would be at a significant risk. I believe that this partnership will help avoid the catastrophic implications of such a failure**” *Id.* (emphasis in Amended Complaint).

Plaintiffs allege that the HSC Letter contains misrepresentations because the Diocesan Defendants knew that “the Plan was at much more than a ‘significant risk’”, *id.* ¶ 322, and “that ‘the proposed partnership between CharterCARE Health Partners and Prospect Medical Holdings’ made pension failure much more likely, and, indeed, a virtual certainty” *Id.* ¶ 321. They make similar allegations concerning the Vatican Letter. *Id.* ¶ 177.

On their face, the letters are far more consistent with a lawful purpose: The Bishop was deeply interested in doing what he could to help a community hospital system that all agree was suffering unsustainable losses. *See* Ex. 25 at 1-2 (HSC Letter); Ex. 21 at 1 (Vatican Letter). He wrote a letter to a governmental authority and the Vatican in support of a transaction that was described to him—in a presentation that tracked information also provided

³¹ Plaintiffs make much of the claim that SJHSRI’s counsel suggested revisions to the draft Vatican Letter “*deleting* a reference to ‘spiraling and gaping’ liability, and substitut[ing] ‘significant’ liability[.]” FAC ¶ 175 (emphasis in original). However, none of the other above-quoted statements were changed. *Id.* ¶ 176. For reasons discussed *infra* at Part II.D & III.B.2, these changes made absolutely no difference to the analysis of Plaintiffs’ fraud and conspiracy claims as regards these letters.

to the regulators³²—as the last best hope of saving that floundering hospital system. *See* Ex. 25 at 1-2; Ex. 21 at 1-2. He did so to help avoid the catastrophic impact closing that system would have on the system’s employees, patients and especially the underserved members of the community that the system served. *See* Ex. 25 at 1-2; Ex. 21 at 2; *see also Eclectic Props.*, 751 F.3d at 999 (“Plaintiffs’ fraud theory is not plausible when considered in light of the innocent explanation that failure of franchise businesses in making rental payments, and their abandonment of leases, took place in the context of a deep national recession.”).

The statements in these letters are not false. Plaintiffs do not dispute that there was a serious risk of failure of the Plan or CCCB’s system or that such failure would have been catastrophic. *See, e.g.,* FAC ¶ 55(b) (describing Plan as “grossly underfunded”). Accordingly, Bishop Tobin’s statements cannot be the basis for a fraud claim. *See Laccinole v. Assad*, C.A. No. 14-404 S, 2016 WL 868511, at *8 (D.R.I. Mar. 7, 2016). (“To establish a *prima facie* case of fraud in Rhode Island, a plaintiff must allege . . . the defendant made a **false representation**[.]” (emphasis added)).

The two letters cannot form the basis of a fraud claim because the alleged false statements are opinions. Indeed, after quoting the language from the HSC Letter discussed above, FAC ¶ 320, the Amended Complaint literally alleges that the Bishop should have formed **a different opinion** based upon what it claims he knew and the information that it claims he had. *Compare id. with id.* ¶ 321. Paragraph 321 of the FAC states:

However, as explained above, rather than believing the 2014 Asset Sale would help avoid pension failure, Bishop Tobin personally, and, through him and other officials, Defendants Corporation Sole, Diocesan Administration, and Diocesan Service, knew that “the proposed partnership between CharterCARE Health Partners and Prospect Medical Holdings” made pension failure much more likely,

³² *Compare* Ex. 23 (September 12, 2013 “Overview of Strategic Transaction” Presentation) *with* Ex. 10 at 2 and *supra* at Part II.C.

and, indeed, a virtual certainty, absent unanticipated and extremely improbable investment gains, because it would cut the link between the Plan and an operating hospital, and would transfer assets from SJHSRI that otherwise would be available to help fund the Plan.

Id. ¶ 321; *see id.* ¶¶ 178-180, 322 (making similar assertions concerning Vatican Letter). This paragraph is astonishing on many levels. First, every fact in paragraph 321 from which Plaintiffs assert that the Bishop should have known that “pension failure” was “a virtual certainty” was also known to the public and the regulators. *See supra* at Part II.C. How then, can the Bishop—or more accurately the Diocesan Defendants—be held liable for fraud or conspiracy for failing to form what Plaintiffs (now) consider to be the appropriate conclusions, when regulators and experts with training and expertise ultimately reached the same conclusion and approved the transaction? *See, e.g.*, Ex. 17 at 20, 53 (discussing Attorney General’s retention of experts). This claim is outrageous.

Second, the Amended Complaint is alleging that the Bishop’s *opinion* was wrong. FAC ¶ 322. An opinion—whether right or wrong or modified by a sufficiently severe adjective in the eyes of the Plaintiffs or their counsel now (in hindsight)—does not a fraud claim make. *See St. Paul Fire*, 641 A.2d at 1299 n.2 (“The general rule is that a misrepresentation should take the form of an expression of fact and not the offering of an opinion or estimate.”); *see also Siemens Fin. Servs., Inc. v. Stonebridge Equip. Leasing, LLC*, 91 A.3d 817, 822 (R.I. 2014) (Accordingly, “matter[s] of opinion, estimate, or judgment may not be the subject of misrepresentation claims[.]” (internal citation omitted)). Neither does disagreement about the speaker having reached the wrong opinion.³³

³³ Although the Rhode Island Supreme Court applied Massachusetts law in *St. Paul Fire*, it found that there was no conflict between Massachusetts and Rhode Island law. 641 A.2d at 1299 n.2. The same is true of *Siemens*, 91 A.3d at 820 n.4.

Third, the opinions in these paragraphs are actually predictions about future events and what is likely or unlikely to happen. *See* FAC ¶ 320; *see id.* ¶¶ 170-180 (discussing similar language in Vatican Letter). As a matter of law, an opinion on how future events will play out cannot constitute a misrepresentation. *Siemens*, 91 A.3d at 822. An alleged misrepresentation “must relate to something that is a fact at the time the assertion is made in order to be a misrepresentation. Such facts include past events as well as present circumstances but do not include future events.” *St. Paul Fire*, 641 A.2d at 1299 fn. 2 (quoting Restatement (Second) *Contracts* § 159, comment c. at 428 (1981)); *see also Hogan v. E. Enter./Boston Gas*, 165 F. Supp. 2d 55, 64-65 (D. Mass. 2001) (holding that statement about whether an office would remain open and expressing doubt as to the employer’s future financial resources were “simply not factually verifiable” at the time they were made, and the employee could not have reasonably relied on them); *Seimans*, 91 A.3d at 819-20, 823 (rejecting claim based upon equipment lessor’s proposed business plan because “any forecasts of the future performance of the imaging center” constituted an opinion, estimate or judgment and could not “form the basis of a misrepresentation claim or defense”).

Moreover, Plaintiffs’ allegation that the Diocesan Defendants misrepresented the extent to which the Plan was underfunded by changing the description of the plan’s liability from “spiraling and gaping” to “significant” in the final version of the Vatican Letter is irrelevant. See FAC ¶¶ 171, 175, 254, 322. Bishop Tobin’s statements that the Plan was at a “significant” risk indisputably and strongly declare that an important problem existed. See id. The Amended Complaint’s attempt to base a fraud or conspiracy claim on the Bishop’s choice of adjectives must be rejected. Id. ¶¶ 175-177, 321. These types of statements simply cannot be the basis for a fraud claim as a matter of law. See Poley v. Bender, 347 P.2d 696, 699 (Ariz. 1959) (stating

that “[i]t is obvious that the indefinite adjectives ‘good’, ‘sufficient’, and ‘proper’, are . . . too vague to be taken as anything other than reflections of the opinion of the speaker”); *see also Hogan*, 165 F. Supp. 2d at 65 (stating that, “[w]ith the use of the indefinite term ‘much,’ there is no way the . . . the truth of that statement” could be verified”).

E. The Alleged Misrepresentations By The Diocesan Defendants To The Vatican, HSC, USCCB, OCD And IRS Could Not Have Been The Cause Of Any Harm Suffered By Plaintiffs As A Matter of Law Because They Were Not Made To Plaintiffs And Plaintiffs Did Not Rely On Them

The Amended Complaint fails to state a claim for fraud because the alleged misrepresentations to the Vatican, the HSC, the U.S. Conference of Catholic Bishops (“USCCB”), the OCD, and the IRS could not have been the cause of any harm suffered by *Plaintiffs* as a matter of law.³⁴ None of the alleged misrepresentations were made to Plaintiffs or the Plan participants, and Plaintiffs have not alleged that they were the intended recipients of the information conveyed by the various Diocesan Defendants to the Vatican, the HSC, the USCCB, the OCD or the IRS. Furthermore, Plaintiffs have not alleged that they actually relied on any of these statements.

1. *Plaintiffs Do Not Allege That They Were The Intended Recipients Of Purported Misrepresentations*

Fraud claims based on statements to persons other than the plaintiff claiming to have been defrauded generally do not lie, unless the plaintiff was an intended recipient of the misrepresentation. *Lifespan/Physicians Profl Servs. Org., Inc. v. Combined Ins. Co. of Am.*, 345 F. Supp. 2d 214, 226 (D.R.I. 2004) (noting that a “third party . . . *who is intended as a recipient* of the information and who foreseeably relies on such information is entitled to recovery if he or

³⁴ FAC ¶¶ 170-180 (Vatican Letter); *id.* ¶¶ 320-321 (HSC Letter); *id.* ¶¶ 192-194 (representations to the USCCB and OCD); *id.* ¶¶ 198-202 (representations to the OCD and IRS). Plaintiffs’ specific allegations concerning the Diocesan Defendants’ alleged false statements regarding the OCD are discussed in detail *infra* at Part II.F.

she does indeed rely” (emphasis added and internal quotation marks omitted)).³⁵

Plaintiffs have not alleged any facts to show that the alleged misrepresentations attributed to the Diocesan Defendants were received by and intended to deceive Plaintiffs. Plaintiffs allege that the “misrepresentations and omissions” in the Vatican Letter “were included because Defendants SJHSRI, RWH, CCCB, [and the Diocesan Defendants], *all understood that Vatican approval was required for the transaction to proceed, and knew or were told that that [sic] the Vatican must approve specifically the ‘pension restructuring.’*” FAC ¶ 180 (emphasis added). Thus, Plaintiffs are alleging that the Diocesan Defendants intended to deceive the *Vatican*—not Plaintiffs. *See id.*

Similarly, with respect to the HSC Letter, Plaintiffs allege that, “pursuant to the conspiracy in which the Diocesan Defendants were participating with Defendants SJHSRI, RWH, CCCB and [Prospect] to relieve Fatima Hospital of any liability under the Plan at the expense of the Plan participants, *Bishop Tobin personally wrote to the Health Services Council to lobby in favor* of regulatory approval of the for-profit hospital conversion[.]” *Id.* ¶ 320 (emphasis added). Again, Plaintiffs are alleging intent to deceive the *HSC*—not Plaintiffs. *Id.*

This is also true with respect to the alleged false statements to the USCCB, OCD and IRS. Plaintiffs allege that the Diocesan Defendants “knew that continuing to list SJHSRI in the Catholic Directory was misrepresenting *to the U.S. Conference of Bishops, the editors of the Catholic Directory, and the IRS*, that SJHSRI continued to be ‘operated, supervised, or controlled by or in connection with the Roman Catholic Church.’” *Id.* ¶ 192 (emphasis added). Plaintiffs further allege that, “[t]hese false claims were material in that they *hindered or had the*

³⁵ *See also* 37 Am. Jur. 2d *Fraud & Deceit* § 281 (“Particular rules, however, may limit who is entitled to relief . . . such as . . . that the party seeking redress be the party the fraud was intended to deceive.[] That is, the fraud must have been directed toward the person bringing the fraud claim in the sense that this was the person intended to act upon it.”).

potential for hindering the IRS's efforts to monitor and verify Defendant SJHSRI's tax liability." *Id.* ¶ 199. Plaintiffs do not, however, allege that they were the intended recipients of these purported misrepresentations.

Nowhere in the Amended Complaint do Plaintiffs allege that the Diocesan Defendants intended to deceive Plaintiffs or Plan participants with any of these statements to third-parties. *See Gorbey ex. Rel. Maddox v. Am. Journal of Obstetrics & Gynecology*, 849 F. Supp. 2d 162, 166 (D. Mass. 2010); *see also Ang*, 2018 WL 810086, at *14 (rejecting fraud claim premised on defendant's statements to third parties and reasoning "[a]t no time did [defendant] make a false statement of fact to [plaintiff] which [plaintiff] then relied upon"). Accordingly, their fraud claims should be dismissed.

2. *Plaintiffs Fail To Allege Reliance On The Statements To Third-Parties*

Moreover, Plaintiffs have failed to allege that they or Plan Participants knew of, let alone relied on, the purported statements to the Vatican, HSC, USCCB, OCD, or IRS. Failing to do so is fatal to Plaintiffs' fraud claim. *See E. Providence Loan Co. v. Ernest*, 236 A.2d 639, 642 (R.I. 1968) ("It is also fundamental . . . that a plaintiff must present evidence which shows he or she was induced to act 'because of the reliance upon the alleged false representation.>"). *Gorbey* is particularly instructive. 849 F. Supp. 2d at 166. There, the court denied the plaintiffs' motion to amend their complaint to add a claim for fraud. *Id.* The court reasoned: "Plaintiffs here do not allege that they relied or acted upon any alleged misrepresentation but rather that third parties so relied and acted which, in turn, resulted in plaintiffs' injury." *Id.* "Plaintiffs point to no case," the court added, "in support of a theory that third-party reliance on fraud is

cognizable under Massachusetts law.” *Id.* Rhode Island law recognizes no such action either.³⁶

F. The Listing Of SJHSRI In The Official Catholic Directory Was Proper And, In Any Event, Cannot Be Challenged In These Circumstances; Accordingly No Fraud Or Conspiracy Claim Can Be Based On That Inclusion

The Amended Complaint alleges that the Diocesan Defendants agreed to maintain the Plan as a church plan by listing SJHSRI in the OCD. Specifically, Plaintiffs claim that SJHSRI should not have appeared in the OCD because it was not “operated, supervised or controlled by or in connection with the Roman Catholic Church” FAC ¶ 69(c). Plaintiffs cannot sustain Count VII on this ground because (1) SJHSRI was, in fact, supervised and controlled *in connection* with the Church and (2) Plaintiffs cannot challenge the sufficiency of the Diocesan Defendants’ determination on this score as a matter of constitutional law.

1. *The Amended Complaint’s Allegations Regarding Listing A Subordinate Organization In The OCD*

Each year, the IRS issues a Group Ruling determination letter to the USCCB pertaining to the group tax-exempt status of the USCCB and its subordinate organizations. *Id.* ¶¶ 100, 106. The IRS accepts listing of a subordinate organization in the OCD as confirmation that the organization falls within the USCCB’s group exemption. *Id.* ¶ 102. The Amended Complaint alleges that to be included under the USCCB group exemption letter the listed organization must be “operated, supervised, or controlled by or in connection with the Roman Catholic Church” *Id.* ¶ 101. The Diocese of Providence is responsible for assessing the eligibility for OCD listing within its geographic bounds. *Id.* ¶ 104.

³⁶ See *Ang*, 2018 WL 810086, at *14 (dismissing fraud claim concerning statements to third parties due to lack of reliance by plaintiff); see also *Siemens*, 91 A.3d at 820 n.4 (addressing fraud claim and observing, “we do not perceive a conflict between the relevant substantive law of Massachusetts, where defendants contend the misrepresentations were made, [or] Rhode Island, where the imaging center was located”); *St. Paul Fire*, 641 A.2d at 1300 n.2 (applying Massachusetts fraud law, but noting that there was no conflict with Rhode Island law).

2. Count VII Fails Because Plaintiffs Acknowledge That SJHSRI Was Operated In Connection With The Diocese Of Providence And Plaintiffs Cannot Challenge The Sufficiency Of That Connection As A Matter of Law

The Amended Complaint fails to plausibly allege that the listing of SJHSRI in the OCD was fraudulent due to a purported lack of connection between SJHSRI and the Diocese of Providence or the Roman Catholic Church. Rather, based on records capable of judicial notice, documents referenced in the Amended Complaint, and Plaintiffs' allegations, the opposite is true.

The Amended Complaint focuses on the purported lack of diocesan control over the corporate governance of SJHSRI, *id.* ¶¶ 87-90, rather than the lack of a diocesan *connection* in the operation of SJHSRI. A connection, however, is all that is required according to the USCCB's Group Ruling determination letter. Ex. 18 at 2 (2017 Memo from USCCB) (providing that the USCCB's Group Ruling determination letter from the IRS applies to "the agencies and instrumentalities and educational, charitable, and religious institutions operated, supervised or controlled by or *in connection* with the Roman Catholic Church in the United States" (emphasis added)). Although Plaintiffs assert that SJHSRI had no *connection* with the Diocese of Providence, FAC ¶ 157, they fail to plead sufficient facts to support the claim (and in fact plead sufficient facts establishing there was a connection).

i. SJHSRI's Diocesan Connection Post-2014 Asset Sale

Following the June 2014 Asset Sale, SJHSRI retained a tangible connection with the Roman Catholic Church and specifically, the Diocese of Providence. SJHSRI's amended articles of incorporation, dated January 4, 2010, name RCB the Class B member of SJHSRI. Ex. 19 at Ex. A (Articles of Amendment to Articles of Incorporation of SJHSRI) ("The corporation [SJHSRI] shall have two classes of members The Class B member shall be the Roman

Catholic Bishop of Providence, a body politic and corporation sole, or its designee.”). These articles, as amended, are on file with the Rhode Island Secretary of State. *Id.*

As Class B member, RCB possessed specific controls over the conduct of SJHSRI, even in wind-down, to prevent the diminishment of SJHSRI’s Catholicity and its continued adherence to the USCCB’s Ethical and Religious Directives for Catholic Health Care Services (the “ERDs”). *Id.* at Ex. A (Articles of Amendment). For example, RCB held veto power over “any amendment to the Articles of Incorporation, bylaws, or other governing documents of SJHSRI that adversely affected or diminished the Catholicity of the corporation or causes or permits” certain prohibited medical procedures such as abortion. *Id.* Likewise, RCB had authority to prohibit any amendment to SJHSRI’s governing documents relating to the ERDs or “the performance of Prohibited Procedures [like abortion] at the corporation.” *Id.*

Accordingly, even after the 2014 Asset Sale, SJHSRI continued to be operated *in connection with* the Diocese of Providence. SJHSRI’s listing in the OCD, therefore, was not fraudulent. *See Cote*, 148 A.3d at 548.

Plaintiffs recognize this connection, FAC ¶ 88, but try to sever it by referencing statements to the press by diocesan personnel following the petitioning of the Plan into receivership. *Id.* ¶¶ 161-162. For example, the Amended Complaint quotes the following:

“St. Joseph Health Services of Rhode Island is not a diocesan entity. The pension plan was adopted, sponsored, operated, managed and funded by SJHSRI, an independent corporation, and not by the Diocese of Providence. Changes over the last decade, including the formation of CharterCARE Health Partners, sharply reduced diocesan involvement in SJHSRI and the hospitals. And upon the 2014 transaction with Prospect, that involvement essentially ended.”

Id. ¶ 161; *see id.* ¶ 162. Such statements are easily squared with the continued ties between SJHSRI and the Church as a matter of law and corporate form. From the perspective of managing the day-to-day business of SJHSRI and administering the Plan, the Church’s role was

admittedly quite limited to non-existent. Likewise, RCB's right to enforce Catholicity and the ERDs, Ex. 19 at Ex. A, when SJHSRI no longer operated a hospital was less significant. But this does not render meaningless the Church's continuing right to keep SJHSRI from using its resources in a manner that would diminish its Catholicity or its adherence to the ERDs. The ERDs, for example, state: "Catholic health care institutions are not to provide abortion services, even based upon the principle of material cooperation."³⁷ Ex. 20 at 18 (ERDs). Thus, even though SJHSRI had ceased to operate a hospital, if as part of winding up its affairs, SJHSRI sought to change its governing documents to permit the use of corporate resources to support abortion providers, the Church could have stopped SJHSRI from doing so. *See* Ex. 19 at Ex. A. Consequently, there was certainly a connection in the eyes of the Church and there was nothing, therefore, false in the post-2014 Asset Sale listing of SJHSRI in the OCD. *See id.* Count VII should be dismissed. *See Cote*, 148 A.3d at 548; *see also Laccinole*, 2016 WL 868511 at *8.

Nonetheless, having minimized this connection, the Amended Complaint goes on to confuse the OCD listing inquiry with that for church plan qualification. FAC ¶¶ 69(c), 129, 140, 157, 202-203. That is, Plaintiffs attempt to test the decision to list SJHSRI in the OCD against the standard chosen by a federal appeals court for assessing whether an organization is "controlled by or associated with a church" for the purposes of the church plan analysis. *Id.* ¶ 86. The Court should reject this conflation. The two standards are not the same. *Infra* at Part III.A.2.

³⁷ The ERDs provide:

[C]ooperation is *material* if the one cooperating neither shares the wrongdoer's intention in performing the immoral act [in the example above, abortion] nor cooperates by directly participating in the act as a means to some other end, but rather contributes to the immoral activity in a way that is causally related but not essential to the immoral act itself.

Ex. 20 at 24 (emphasis in original).

Plaintiffs appear to rely on the factors set out in *Lown v. Continental Casualty Co.*, 238 F.3d 543, 548 (4th Cir. 2003), to argue that SJHSRI was not controlled by or associated with a church for the purposes of their church plan and OCD qualification arguments. FAC ¶ 86 (quoting *Lown* factors); *see also id.* ¶¶ 87-90 (alleging purported lack of diocesan control or association). The *Lown* factors ask: (1) “whether the religious institution plays any official role in the governance of the organization”; (2) “whether the organization receives assistance from the religious institution”; and (3) “whether a denominational requirement exists for any employee or patient/customer of the organization.” 238 F.3d at 548.

Plaintiffs’ reliance on *Lown* as a standard for OCD inclusion is improper. First, the USCCB does not suggest strict adherence to *Lown* or anything approaching the *Lown* factors. *See* Ex. 18. Rather, the USCCB sets out no such “test” for deciding whether a subordinate organization seeking listing in the OCD has a sufficient connection to the Roman Catholic Church. *Id.* The decision instead rests with the local dioceses. *See id.*; *see also Overall v. Ascension*, 23 F. Supp. 3d 816, 832-33 (E.D. Mich. 2014) (identifying decisions as to challenges to “a church’s polity, administration, and community” as beyond judicial inquiry).

Second, even assuming the *Lown* factors have any relevance at all to the OCD listing question, *Lown* hardly represents a consensus standard, even in the church plan setting. Instead, *Lown* has been criticized as out of step with ERISA’s own definition of “associated with a church,” which provides: “an organization . . . is associated with a church . . . if it shares common religious bonds and convictions with that church . . .” 29 U.S.C. § 1002(33)(C)(iv); *see Medina v. Catholic Health Initiatives (“Medina I”)*, 877 F.3d 1213, 1224 (10th Cir. 2017). As the U.S. Court of Appeals for the Tenth Circuit explained in *Medina II*:

Setting aside their uncertain derivation, the *Lown* factors cannot be the exclusive means of determining whether an organization is “associated with a church.”

This is because the *Lown* factors are much narrower than the broad language of the definition in § 1002(33)(C)(iv). Under the statute, to be “associated with a church,” a corporation need only share “common religious bonds and convictions with that church or convention or association of churches.” The statute imposes no denominational requirements, corporate governance requirements, or funding requirements. Thus, an organization could share “common religious bonds and convictions” with a church while satisfying none of the *Lown* factors. Because the *Lown* factors are narrower than the statutory language, satisfying the *Lown* factors may *suffice* to establish that an organization is associated with a church. But an organization does not *need* to satisfy the *Lown* factors in order to be associated with a church.

877. F3d at 1224 (emphases in original). This Court, therefore, should decline to follow *Lown* and defer to the wide discretion afforded to local dioceses by the USCCB and—to the extent church plan “association” standards are relevant at all to this inquiry—the broader definition of “association” under 29 U.S.C. § 1002(33)(C)(iv) and dismiss Count VII.

ii. Plaintiffs Cannot Challenge The Sufficiency Of The Connection Between SJHSRI And The Diocese Of Providence For OCD Listing Purposes

Plaintiffs begrudgingly acknowledge SJHSRI’s continued diocesan connection, but strive to minimize it as “moot” after the 2014 Asset Sale. FAC ¶ 88. Plaintiffs miss the mark.

For OCD listing purposes, if there is a connection between SJHSRI and the Diocese of Providence (and there is), then Plaintiffs cannot challenge the sufficiency of that connection as a matter of law. The First Amendment precludes judicial inquiry into “a church’s polity, administration and community.” *See Overall*, 23 F. Supp. 3d at 832 (citing *Serbian E. Orthodox Diocese v. Milivojevich*, 426 U.S. 696, 713 (1976)). Plaintiffs’ challenge to the sufficiency of SJHSRI’s connection to the Diocese of Providence for the purposes of listing in the OCD, therefore, must fail.

In *Overall*, the court ruled that the First Amendment barred the plaintiff’s argument contesting the sufficiency of a defendant hospital’s connection with the Church (in the

context of a church plan challenge). *See id.* at 832-33. The Court reasoned that, even assuming the plaintiff’s “allegations are true, this argument regarding religious orthodoxy is prohibited by the Constitution because the First Amendment creates a protected zone for churches to decide these issues of religious doctrine free from government intrusion.” *Id.* at 832 (internal quotation marks omitted). “This protected zone includes: (1) a church’s law and doctrine; (2) a church’s religious mission, and (3) a church’s polity, administration, and community.” *Id.* Here, as in *Overall*, Plaintiffs challenge SJHSRI’s connection with the Diocese of Providence and the determination that this connection was sufficient to list SJHSRI in the OCD. *See id.* This represents an improper challenge to the Diocese of Providence’s assessment of “who is within [its] religious community.” *See id.*; *see also Medina v. Catholic Health Initiatives (“Medina I”)*, 147 F. Supp. 3d 1190, 1202 (D. Colo. 2015) (reasoning similarly as to a challenge of a Catholic hospital’s “common religious bonds” with a church). As such, Count VII should be dismissed.

III. THE AMENDED COMPLAINT DOES NOT PLAUSIBLY ALLEGE THAT THE DIOCESAN DEFENDANTS ENTERED INTO AN AGREEMENT FOR AN UNLAWFUL ENTERPRISE AND SO PLAINTIFFS’ CLAIM FOR CONSPIRACY (COUNT IX) SHOULD BE DISMISSED

To plead a claim for civil conspiracy under Rhode Island law, “evidence must be produced from which a party may reasonably infer the joint assent of the minds of two or more parties to the prosecution of the unlawful enterprise.” *Stubbs*, 149 A.2d at 708-09 (internal quotation omitted); *see Smith v. O’Connell*, 997 F. Supp. 226, 241 (D.R.I. 1998). “Disconnected circumstances, any one of which or all of which are just as consistent with a lawful purpose as with an unlawful undertaking, are insufficient to establish a conspiracy.” *Stubbs*, 149 A.2d at 708-09. Rather, the “evidence must do more than raise a suspicion. It must lead to belief.” *Id.* Civil conspiracy, moreover, “is not an independent basis of liability,” and therefore “requires a valid underlying intentional tort theory.” *Fogarty v. Palumbo*, 163 A.3d 526, 543 (R.I. 2017)

(internal citation and quotation marks omitted)). Finally, because Plaintiffs' claim for civil conspiracy is based on their underlying claims of fraud and other counts sounding in fraud, Rule 9(b) applies to further test the sufficiency of the pleading. *See Hayduk v. Lanna*, 775 F.2d 441, 443-44 (1st Cir. 1985); *R.I. Res. Recovery Corp. v. Albert G. Brien & Assocs.*, C.A. No. PB 10-5194, 2012 R.I. Super. LEXIS 113, at *39 (R.I. Super. Ct. Jul. 16, 2012).

The factual underpinnings of Plaintiffs' "quid pro quo" fraud claims against the Diocesan Defendants were discussed at length, *supra* at Part II.C, and those sections are incorporated here to the extent that they apply equally to any analysis of the conspiracy claims. Having failed to allege any cognizable fraud, Plaintiffs' conspiracy claims must also fail. *Fogarty*, 163 A.3d at 543. This section will address legal deficiencies in Count IX not previously discussed.

A. The Amended Complaint Does Not Allege Facts Suggesting An Improper Agreement Concerning The Listing Of SJHSRI In The OCD

1. *There Was Nothing Unlawful About The Listing Of SJHSRI In The OCD*

Plaintiffs contend that the Diocesan Defendants conspired with other defendants to maintain the Plan as a church plan by fraudulently listing SJHSRI in the OCD, following the sale of SJHSRI's hospital assets to Prospect. FAC ¶¶ 69(c), 129, 140, 157, 202-203. As discussed in detail *supra* at Part II.F, there was nothing false about SJHSRI's listing in the OCD following the 2014 Asset Sale given the continuing connection between SJHSRI and the Church. Accordingly, there was no "intentional tort" that the Diocesan Defendants' agreed to prosecute to support a conspiracy claim. *See Fogarty*, 163 A.3d at 543. Count IX should be dismissed.

2. *Listing In The OCD And Maintaining Church Plan Status Are Not The Same*

As discussed *supra* at Part II.F.2, the Amended Complaint improperly conflates listing in the OCD with the ability of the Plan to remain a church plan. *Id.* ¶¶ 69(c), 129, 140,

157, 202-203. The power to list an organization in the OCD is *not* equal to the power to maintain that organization's pension plan as a church plan.

The Amended Complaint admits as much. Plaintiffs allege that a pension plan of a non-church organization controlled by or associated with a church must be maintained by an organization that has a principal purpose of administering or funding the plan and is also controlled by or associated with a church.³⁸ *Id.* ¶ 70. There is no requirement for a principal purpose organization for listing in the OCD. *Compare* 29 U.S.C. § 1002(33)(A) & C(ii)(II) (defining church plan under ERISA); FAC ¶ 70 (describing principal purpose organization requirement for church plan status) *with* Ex. 18 (describing OCD listing considerations, without reference to principal purpose organization element). Accordingly, even under Plaintiffs' own alleged facts, the Diocesan Defendants— assuming that they had any role in this determination— could not maintain the Plan as a church plan simply by listing SJHSRI in the OCD.

3. *Other Aspects Of The Amended Complaint Undermine Plaintiffs' Claim That There Was An Agreement For An Illegal Undertaking Concerning The OCD*

On top of the improper conflation between qualifying for listing in the OCD and attaining church plan status, the Amended Complaint also undercuts Plaintiffs' contention that the Diocesan Defendants engaged in any sort of illegal agreement concerning the OCD to render the Diocesan Defendants' conduct inconsistent with lawful purposes. Plaintiffs assert that it is an annual responsibility to make submissions concerning the OCD, FAC ¶¶ 104-108, and that SJHSRI had a history of listing in the OCD prior to 2015, *id.* ¶ 109. There was nothing out of the ordinary then with the continued listing of SJHSRI in the OCD after the 2014 Asset Sale. Any "agreement" between the Diocesan Defendants and others to fraudulently list SJHSRI in the

³⁸ For the purposes of this motion to dismiss, the Diocesan Defendants take no position as to whether SJHSRI had a principal purpose organization and over what time period.

OCD is belied, moreover, by Plaintiffs’ claim that Chancellor Reilly—alleged to have been intimately involved in those dealings—challenged the ability of SJHSRI to remain in the OCD mere months after the 2014 Asset Sale. *Compare id.* ¶¶ 141-159, 164-166 *with id.* ¶ 185. Rather, Chancellor Reilly’s November 11, 2014 email was consistent with (and representative of) the Chancellor performing the function as gatekeeper to the OCD, so that no organization would be listed improperly.³⁹ Ex. 22 (November 11, 2014 Email from Chancellor Reilly).⁴⁰

Likewise, documents within the public record and referenced in the Amended Complaint indicate that the meetings/presentations to Bishop Tobin, Chancellor Reilly, and Monsignor Theroux in August 2013 and to the Diocesan Finance Council in September 2013 respectively were far more consistent with lawful business dealings than an unlawful plot against the Plan and its participants. Plaintiffs allege:

Defendants SJHSRI, RWH, CCCB, Prospect Chartercare, Prospect Chartercare St. Joseph, Prospect Chartercare Roger Williams, Prospect Medical Holdings, and Prospect East, Corporation Sole, Diocesan Administration, and Diocesan Service all knew that the power of Corporation Sole, Diocesan Administration, and Diocesan Service to delete SJHSRI from the Catholic Directory gave Corporation Sole, Diocesan Administration, and Diocesan Service a complete veto over the asset sale, because claiming that the Plan was a Church Plan, although unlawful, was a requirement by SJHSRI, RWH, CCCB, and Prospect Chartercare, Prospect Chartercare St. Joseph, Prospect Chartercare Roger Williams, Prospect Medical Holdings, and Prospect East for the sale to proceed, as expressly set forth in the Overview of the Strategic Transaction shared with Corporation Sole, Diocesan Administration, and Diocesan Service on August 14, 2013.

³⁹ The Amended Complaint mischaracterizes Chancellor Reilly’s November 11, 2014 email to so great a degree that it is barely recognizable. Ex. 22 (November 11, 2014 Email from Chancellor Reilly). The Chancellor’s comment that “Fatima and SJHSRI are not eligible for listing” in the OCD was *not* an admission that SJHSRI was not controlled or connected with the Diocese of Providence, but driven by the Chancellor’s then-held belief that SJHSRI was now owned by the for-profit Prospect. If Prospect owned SJHSRI, Chancellor Reilly warned, this would jeopardize SJHSRI’s place in the OCD. *See id.* (“Except in exceptional circumstances, the USCCB group exemption policies and the IRS rules for public charities would not permit an organization owned by a *for-profit* to continue to be listed in the Directory” (emphasis added)); *see also* Ex. 18 at 2-3 (discussing public charity requirement for fitting within USCCB’s group ruling).

⁴⁰ *See Stubbs*, 149 A.2d at 708-09; *see also RSM Prod. Corp. v. Freshfields Bruckhaus Deringer U.S. LLP*, 682 F.3d 1043, 1050 (D.C. Cir. 2012) (dismissing conspiracy claim against law firm because, although alleged co-conspirators provided the funding for another co-conspirator’s arbitration defense, it was implausible to infer law firm’s provision of legal services at arbitration was intended to further conspiracy, where law firm’s involvement in arbitration proceeding was “more likely explained by . . . its normal business practice of providing legal services.”).

FAC ¶ 202. Plaintiffs are correct in one respect: RCB (though not DAC or DSC) did hold a “complete veto over the asset sale.” *Id.* But, that authority had nothing to do with the “power to delete SJHSRI from” the OCD, *id.*, and everything to do with the legal authority afforded to RCB in SJHSRI’s governing documents. Ex. 19 at Ex. A. That is, the Amended Articles of Incorporation for SJHSRI expressly granted RCB a veto over “the sale, mortgaging, or leasing of any real or personal property of the corporation with a value in excess of the canonical threshold then in effect[.]” *Id.* at Ex. A ¶ D(i). As such, for any significant asset sale to go through, SJHSRI, CCCB, RWH, and Prospect would need to seek RCB’s approval as a pure matter of corporate governance. *See id.*; *see also Instron*, 925 F. Supp. 2d at 180 (dismissing conspiracy claim as implausible where defendants “had no apparent need to conspire to block an ABI standard when they could effectively accomplish this objective” individually).

Additionally, the presentation at the September 12, 2013 meeting to the Diocesan Finance Council—which was allegedly identical to the August 14, 2013 presentation, save for deletion of references to “Attorney-Client Privilege” and a title change⁴¹—does not reflect an offer directed at the Diocesan Defendants, let alone the “quid pro quo” described in the Amended Complaint. Ex. 23 (Sept. 12, 2013 “Overview of Strategic Transaction” Presentation). Nor does the presentation suggest any affirmative obligation specific to the Diocesan Defendants relative to the Plan. *See id.* at 11. This is not surprising because the presentation, as Plaintiffs acknowledge, was originally a “Presentation to the Board of Directors,” referring to the Boards of Trustees for SJHSRI, CCCB, and RWH. FAC ¶ 143. The presentation makes no reference to the OCD, let alone an agreement on the part of the Diocesan Defendants to list SJHSRI therein. *See Ex. 23.* Rather, it describes in detail the various covenants agreed to between Prospect,

⁴¹ FAC ¶ 165.

CCCB, SJHSRI, and RWH. *See id.* at 3-4, 9-10. The Diocesan Defendants were not signatories to the APA. *See* Ex. 11 at PCEC000089-PCEC000092.

The presentation, moreover, does not list “requirements” on the part of the Diocesan Defendants, but “Requirements of the post-Closing structure of CCHP”:

Requirements of the post-Closing structure of CCHP

- Maintain the retirement plan of St. Joseph Health Services of Rhode Island as a “Church Plan”
- Maintain an organization to –
 - enforce the post-closing covenants of Prospect and Newco; and
 - hold the membership (ownership) interest in Newco

See Ex. 23 at 11. Although “maintain the retirement plan of St. Joseph Health Services of Rhode Island as a ‘Church Plan’” appears beneath the “Requirements” heading, this hardly represents a “quid pro quo” to the Diocesan Defendants. *See id.* The other “requirement” describes the need to “Maintain an organization to enforce the post-closing covenants of Prospect and Newco” and “hold the membership (ownership) interest in Newco” (an apparent reference to the entity that would become Defendant Prospect Chartercare LLC). *See id.* From the face of the document therefore, this is simply a list of two of the conditions of the agreement between *Prospect*, *CCCB*, *SJHSRI*, and *RWH*, and not a conspiracy with the Diocesan Defendants. This makes sense when the presentation is viewed as originally drafted for the purposes of the Boards of Trustees of *SJHSRI*, *CCCB*, and *RWH*; not the Diocesan Defendants’ alleged (and non-existent) power to maintain the Plan as a church plan by listing *SJHSRI* in the OCD.⁴² FAC ¶ 143; *see Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 564-70 (2007); *Stubbs*, 149 A.2d at 708-09.

⁴² Plaintiffs’ allegation concerning the receipt of \$638,838.25 in proceeds from the 2014 Asset Sale does not change the analysis. FAC ¶ 209. *SJHSRI* had previously borrowed that money, through the Inter-Parish Loan Fund. *Id.* ¶ 206. This payment, therefore, was hardly an improper “kickback,” but simply in satisfaction of a preexisting debt to a lender. Indeed, virtually all loan debts of *CCCB*, *SJHSRI*, and *RWH* were paid off as part of the closing of the 2014 Asset Sale. *See* Ex. 17 at 20-21 (discussing general allocations of payments under the APA).

Stubbs is instructive. In *Stubbs*, the Rhode Island Supreme Court considered whether the plaintiffs, heirs of an alleged victim of a conspiracy to deprive the victim of an inheritance, asserted sufficient facts to support the conclusion of law that there was a conspiracy. 149 A.2d at 707. The Court held that a conspiracy claim must include facts that, if proved, would “lead to belief” of a conspiracy. *Id.* at 709. Alleging “[d]isconnected circumstances any of which . . . are just as consistent with a lawful purpose as with an unlawful undertaking are insufficient to establish a conspiracy.” *Id.* at 708-09. Observing that the plaintiffs had only alleged that the defendant had appointed others to positions of trust and asked the court to infer the defendant’s involvement in a conspiracy against the alleged victim as a result of the purported harm that befell her, the court deemed this a bridge too far. *Id.* Rather, the court concluded that the plaintiffs did not allege facts supporting the elements of a conspiracy. *Id.*

Similar concerns exist here. When considered in light of the applicable law, the public record, the documents referenced in the Amended Complaint, and the Amended Complaint itself, Plaintiffs fail to cast the Diocesan Defendants’ dealings with SJHSRI *et al.* concerning the OCD as “an unlawful undertaking.” *Stubbs*, 149 A.2d at 708-09. As a matter of law, the Diocesan Defendants could not maintain the Plan as a church plan by listing SJHSRI in the OCD. *See supra* at Part III.A.2. Moreover, when taken in fuller context and divorced of Plaintiffs’ spin, the Amended Complaint describes circumstances that “are just as consistent with a lawful purpose.” *Stubbs*, 149 A.2d at 708-09. Like the *Stubbs* plaintiffs who sued a defendant who had appointed others to positions of trust that were allegedly abused, Plaintiffs here ask this Court to infer the Diocesan Defendants’ involvement in the conspiracy essentially because they were both the gatekeeper of the OCD and had authority to veto the 2014 Asset Sale (although not for the reasons Plaintiffs ascribe). Such alleged circumstances are insufficient to establish a

conspiracy. *See id.*; *see also RSM Prod. Corp. v. Freshfields Bruckhaus Deringer U.S. LLP*, 682 F.3d 1043, 1050 (D.C. Cir. 2012); *Instron*, 925 F. Supp. 2d at 180.

**B. The Amended Complaint Fails To Allege Facts
Suggesting An Illegal Agreement Concerning The 2014 Asset
Sale Or The Bishop's Communications In Support Of That Transaction**

The Amended Complaint does not allege sufficient facts to establish any sort of illegal agreement as it concerns the funding/church plan status of the Plan, the structure of the 2014 Asset Sale, the adoption of Catholicity rules at “New” Our Lady of Fatima Hospital and “New” Roger Williams Hospital, or the Bishop’s Letters to the Vatican or HSC. Plaintiffs try to place the trappings of a conspiracy on a transaction that was on full display to the public, and heavily vetted by two state regulators that received substantial facts concerning the present and future of the Plan. *See supra* at Part II.C. They do so largely by assuming bad intent and using conclusory and pejorative word choice throughout the Amended Complaint, not by alleging particular facts. No claim for conspiracy can plausibly lie in such circumstances. *See Twombly*, 550 U.S. at 564-70; *Stubbs*, 142 A.2d at 708-09; *see also Eclectic Props.*, 751 F.3d at 994 (dismissing complaint for failing to contain adequate factual allegations to plausibly infer that the defendants specifically intended to defraud).

1. *Disclosure Of Funding/Church Plan Status Of The Plan, The Scope Of The 2014 Asset Sale, And The Continued Catholicity Of The Hospitals*

As discussed in detail *supra* at Part II.C, the funding and church plan status of the Plan, the scope of the 2014 Asset Sale, and the continued Catholicity of the hospitals were publicly disclosed, as was the fact that the Plan’s status was a prime motivator for the 2014 Asset Sale. There was no predicate wrong, therefore, to support a conspiracy claim. *See Fogarty*, 163 A.3d at 543; *see also Precision Assocs., Inc.*, 2015 WL 4987751, at *5 (dismissing antitrust conspiracy claim where defendant was subject of regulatory inquiry because it was “not

plausible that the antitrust regulators would have offered leniency to a defendant that continued to actively participate in the conspiracy”).

2. Letters To The HSC And The Vatican

Plaintiffs describe the letter to the HSC as written by the Bishop “pursuant to the conspiracy in which Corporation Sole, Diocesan Administration, and Diocesan Service were participating with Defendants SJHSRI, RWH, CCCB, and Prospect Chartercare, Prospect Chartercare St. Joseph, Prospect Chartercare Roger Williams, Prospect Medical Holdings, and Prospect East, to relieve Fatima Hospital of any liability under the Plan at the expense of the Plan participants” FAC ¶ 320. They make similar allegations concerning the Bishop’s letter to the Vatican. *Id.* ¶ 322. When considering plausibility however, courts must consider an “obvious alternative explanation” for a defendant’s behavior. *Eclectic Props. E.*, 751 F.3d at 996; *see Read & Lundy, Inc. v. Wash. Tr. Co. of Westerly*, No. PC99-2859, 2002 WL 31867868, at *20 (R.I. Super. Ct. Dec. 13, 2002) (dismissing conspiracy claim and reasoning: “the facts . . . are all consistent with [defendant’s] interest in making a lawful commercial loan”). And here, both letters on their face are far more consistent with a lawful purpose: the Bishop was deeply interested in doing what he could to help a community hospital system that all agree was suffering unsustainable losses. *See supra* at Part II.C-D.

Plaintiffs are completely unconstrained and need not balance the many critically important interests that were at play in this decision: whether that hospital system would survive? whether the system would have access to sufficient capital to succeed? where and how healthcare would be delivered, if at all, to the underserved populations that had used that hospital system for decades? *See generally* Ex. 25 at 1-2 (reflecting Bishop Tobin’s consideration of such interests); Ex. 21 at 1-2 (same).

With the benefit of hindsight, Plaintiffs (now) may not like the deal that was ultimately adopted, nor the support expressed by the Bishop (and many others) in connection with that decision. Such retrospective disagreement does not mean that the Diocesan Defendants had assented to the prosecution of an unlawful enterprise. Rather, it is far more consistent with a lawful purpose and the furtherance of the interests described here. *Stubbs*, 149 A.2d at 708-09; *see Read & Lundy, Inc.*, 2002 WL 31867868, at *20. “When faced with two possible explanations, only one of which can be true and only one of which results in liability, plaintiffs cannot offer allegations that are merely consistent with their favored explanation but are also consistent with the alternative explanation.” *Eclectic Props. E.*, 751 F.3d at 996. “Something more is needed, such as facts tending to exclude the possibility that the alternative explanation is true, in order to render plaintiffs’ allegations plausible.” *Id.* at 996-97. Plaintiffs, therefore, must show more than a business deal that went contrary to their present tastes for some economic or non-fraudulent reasons. *Id.* at 997; *see RSM Prod. Corp.*, 682 F.3d at 1051-1052 (“allegations that a defendant acted in ways consistent with a conspiratorial agreement, but also equally well explained by legitimate economic incentives, do not suffice” (internal quotation marks omitted)). Measured against these standards, Plaintiffs fraudulent conspiracy claims fall short as a matter of law.

C. The Court Should Disregard Conclusory Allegations Attempting To Impute Conduct Of Other Parties To The Diocesan Defendants

Plaintiffs try to tie the purported misconduct of other parties to the Diocesan Defendants without pleading facts to render plausible their assertion that the Diocesan Defendants unlawfully conspired with those actors. For example, when discussing statements by CCCB and Prospect executives in the press, the Amended Complaint alleges: “These statements constituted false statements of material fact by Defendants SJHSRI, RWH, CCCB, Prospect

Chartercare, Prospect Chartercare St. Joseph, Prospect Chartercare Roger Williams, Prospect Medical Holdings, and Prospect East and their co-conspirators, Defendants Angell, CC Foundation, Corporation Sole, Diocesan Administration, and Diocesan Service.” FAC ¶ 372. The Amended Complaint is rife with such conclusory language.⁴³ The Court should discount these allegations for two reasons. First, as discussed in detail *supra* at Parts II.C-D & III.A-B, the Amended Complaint has failed to plead sufficient facts to establish a plausible conspiracy in light of the voluminous public disclosure and obvious alternative explanations. *See 16630 Southfield Ltd. P’ship v. Flagstar Bank, F.S.B.*, 727 F.3d 502, 505 (6th Cir. 2013) (“the existence of obvious alternative explanations simply illustrates the unreasonableness of the inference sought and the implausibility of the claims made.”). The Court, therefore, should give no credence to these “legal conclusion[s] couched as a factual allegation.” *RSM Prod. Corp.*, 682 F.3d at 1050.

Second, the Amended Complaint does not plead facts supporting an overarching conspiracy, meaning that Plaintiffs could not impute other defendants’ conduct to the Diocesan Defendants, even if they had plausibly pled a conspiracy (which they have not). Rather, on its

⁴³ *See, e.g.*, FAC ¶ 318 (arguing that failure of SJHSRI, RWH, and CCCB to disclose the Plan’s status as a church plan should be imputed to Diocesan Defendants); *id.* ¶ 338 (alleging that fraud in HCA applications to regulators by SJHSRI, RWH, CCCB, and Prospect was “aided and abetted” by “co-conspirators” the Diocesan Defendants and should be imputed to them); *id.* ¶ 340 (asserting that statement to Department of Health by CCCB and Prospect executives that \$14 million contribution would strengthen plan was “aided and abetted by their co-conspirators” the Diocesan Defendants); *id.* ¶ 342 (alleging that misrepresentation by CCCB executive regarding funding level of plan also constituted an “intentionally false statement” of “co-conspirators” Diocesan Defendants); *id.* ¶¶ 354-355 (alleging that misrepresentations to the HSC by CCCB official were also “false statements of material facts” by “co-conspirators” the Diocesan Defendants); *id.* ¶ 361 (asserting misrepresentations by SJHSRI, RWH, and CCCB to the Attorney General concerning RWH’s designated funds were also “false statements” of “co-conspirators” the Diocesan Defendants); *id.* ¶ 362 (claiming that SJHSRI, RWH, and CCCB’s failure to disclose to state regulators a desire to abandon the Plan “constituted false statements” by “co-conspirators” the Diocesan Defendants); *id.* ¶ 370 (claiming that assurances to Project Review Committee by SJHSRI, RWH, and CCCB were “part of the conspiracy” by all defendants); *id.* ¶ 373 (asserting that statements by CCCB to employees regarding local control “constituted false statements” of “co-conspirators” the Diocesan Defendants); *id.* ¶ 377 (alleging that misrepresentations by SJHSRI, CCCB, RWH, and Prospect to regulators concerning governance of Prospect Chartercare were “false statements” of “their co-conspirators” the Diocesan Defendants); *id.* ¶ 402 (asserting that misrepresentations by SJHSRI, RWH, and CCCB to the Attorney General regarding satisfaction of Plan liability through other assets “were in furtherance of the common fraud and conspiracy” of all defendants, including Diocesan Defendants).

face, the Amended Complaint describes “separate” schemes, only one of which features any effort—albeit insufficient—to allege facts implicating the Diocesan Defendants. FAC ¶ 55. Plaintiffs allege that SJHSRI, RWH, CCCB, Prospect, and the Diocesan Defendants struck a “deal”, where the Diocesan Defendants would improperly maintain the Plan as a church plan in exchange for Catholicity controls over the hospitals, freeing New Fatima Hospital from Plan liability to the benefit of SJHSRI, RWH, CCCB, and Prospect. *Id.* ¶ 151; *see* ¶¶ 165, 168, 203-205. But, for example, the Amended Complaint also speaks of an entirely separate scheme concerning deceit of regulators and the state court, and the establishment of Chartercare Foundation, without reference to facts plausibly tying the Diocesan Defendants to that alleged conspiracy. *Id.* ¶¶ 319-409. Instead, the Amended Complaint relies on conclusory assertions to accomplish that goal.

Alleged misrepresentations to regulators and the state court by others, however, cannot be imputed to the Diocesan Defendants just because Plaintiffs say so. Plaintiffs must allege facts that plausibly suggest the Diocesan Defendants’ knowledge and involvement in this separate scheme. Plaintiffs have not. They do not, for example, describe deception of regulators and the state court as part of any other defendant’s “deal” with the Diocesan Defendants, except in the improper conclusory form listed at *supra* note 43. FAC ¶ 151. There is nothing, moreover, in the September 12, 2013 “Overview of Strategic Transaction” presentation—which allegedly reflects the “quid pro quo” between the Diocesan Defendants and SJHSRI, RWH, CCCB, and Prospect—concerning misrepresentations to regulators or state court proceedings or the establishment of Chartercare Foundation. *Id.* ¶ 153; *see* Ex. 23. This is hardly surprising, as the Amended Complaint fails to list the Diocesan Defendants, when defining the participants in this “fraudulent scheme.” FAC ¶ 379. Allegations concerning the Bishop’s letter to the HSC,

moreover, do not save the conspiracy claim for the reasons set out *supra* at Part II.D & III.B. The Court, therefore, should discount the Amended Complaint's conclusory effort to impute other defendants' alleged misconduct to the Diocesan Defendants and dismiss Count IX as implausible. *See Eclectic Props. E.*, 751 F.3d at 996-97; *Stubbs*, 149 A.2d at 708-09.

IV. COUNTS XVI THROUGH XIX (CIVIL LIABILITY UNDER R.I. GEN. LAWS § 9-1-2) SHOULD BE DISMISSED

In Counts XVI through XIX, Plaintiffs allege that the Diocesan Defendants violated four criminal statutes (three state, one federal) and should, therefore, be subject to civil liability under R.I. Gen. Laws § 9-1-2. FAC ¶¶ 531-546. In their original motion to dismiss, the Diocesan Defendants demonstrated why Plaintiffs' § 9-1-2 claims failed. The Amended Complaint adds no new facts to change this outcome, despite adding two new counts. As pled, the § 9-1-2 claims still fail for three reasons. *First*, Plaintiffs' claims of violations of the Hospital Conversion Act ("HCA"), the Internal Revenue Code ("IRC") and R.I. Gen. Laws §§ 11-18-1 and 11-41-4 could not have "caused" Plaintiffs' alleged injuries as a matter of law. *Second*, federal law preempts Plaintiffs' "fraud on the IRS" claim. *Third*, the Amended Complaint does not sufficiently plead the elements of the crime of false pretenses.

A. The Amended Complaint Alleges Injuries That Were Not Caused "By Reason Of" The Alleged Violations Of Criminal Law

1. *Counts XVI Through XIX Rest On Allegations Of Events That Took Place After The Plan Was Allegedly Underfunded And Could Not As A Matter Of Law (Or Chronology) Have Caused The Alleged Underfunding*

Rhode Island General Laws § 9-1-2 provides that "[w]henver any person shall suffer any injury to his or her person, reputation, or estate *by reason of* the commission of any crime or offense, he or she may recover his or her damages for the injury in a civil action against the offender." (Emphasis added). This requires both actual and proximate causation. *Kelly v.*

Marcantonio, 187 F.3d 192, 203 n.8 (1st Cir. 1999). “The plain language of the statute thus requires a causal connection between the alleged crime and the claimed injury.” *Id.* The Amended Complaint fails to establish this causal connection because the Diocesan Defendants’ alleged violations occurred *after* Plaintiffs’ alleged injury.

The only facts described in the Amended Complaint that could constitute a violation of the HCA or R.I. Gen. Laws §§ 11-18-1 and 11-41-4 are alleged to have occurred in 2014. *See* FAC ¶ 193. Additionally, Plaintiffs only plead that the Diocesan Defendants aided in the submission of two Form 990 tax returns that contained false information. *Id.* ¶¶ 196-197. Those two tax returns were for tax years ranging from October 1, 2014 to September 30, 2015⁴⁴ and October 1, 2015 to September 30, 2016. *Id.* But Plaintiffs claim that the Plan was underfunded long before any improper conduct alleged in Counts XVI through XIX. *Id.* ¶ 255. Indeed, the Amended Complaint explicitly states that the alleged violations were designed to cover up the unfunded liability of the Plan. *Id.* ¶¶ 205, 322.

Actions occurring after an injury has already occurred cannot be the cause of that injury: “to the extent plaintiff-appellants are asserting a claim under § 9–1–2 for an alleged cover-up, their claim also fails because of the lack of any nexus between the alleged cover-up and the injuries (and damages) that they claim.” *Kelly*, 187 F.3d at 203 n.8. Here, the alleged cover-up of a previously underfunded pension could not have caused the underfunding. *Id.*; *see Smith v. O’Connell*, 997 F. Supp. 226, 241 (D.R.I. 1998).

⁴⁴ The Amended Complaint states that the Form 990 which was filed on August 16, 2016 was “for the tax year from October 1, 2014 to September 30, 2014.” FAC ¶ 196. The Diocesan Defendants assume that the tax year end date contains a typographical error and should have read “September 30, 2015”, as opposed to 2014.

2. *The Alleged Harm To Plaintiffs Is Not Direct And Far Too Attenuated From The Alleged Criminal Violations To Constitute Proximate Causation*

Rhode Island General Laws § 9-1-2 requires that a plaintiff's injury be caused "by reason of" the commission of a crime. (Emphasis added). The Rhode Island Superior Court has interpreted this provision to require proximate causation between the criminal conduct and the injury alleged and further equates the proximate cause requirement and the language "by reason of" to both the state and federal civil RICO statutes. *Cortelleso v. Cortelleso*, NO. P.C. 95-457, 1997 WL 839911, at *8 (R.I. Super. Ct. Apr. 29, 1997) ("this Court reads 'by reason of' in G.L. 7-15-4(c) and 9-1-2 to mean 'proximately caused by.'").

Turning to that guiding law, "by reason of" causation means a "*direct relation* between the injury asserted and the injurious conduct alleged." *Holmes*, 503 U.S. at 268 (emphasis added). "A link that is 'too remote,' 'purely contingent,' or 'indirec[t]' is insufficient." *Hemi Grp., LLC v. City of New York*, 559 U.S. 1, 9 (2010) (quoting *Holmes*, 503 U.S. at 271, 274). Moreover, "[t]he general tendency of the law, in regard to damages at least, is not to go beyond the first step." *Holmes*, 503 U.S. at 271 (internal quotations omitted).

i. Counts XVI, XVIII And XIX

In *Holmes*, the defendant's fraudulent stock-manipulation scheme directly harmed stockbrokers by causing the prices of stock they owned to plummet. *Id.* at 262-63. After the stockbrokers' failure, the plaintiff, an insurer standing in the shoes of the stockbrokers' creditors, brought suit alleging that the defendant conspired in a fraudulent scheme causing injury to the creditors. *Id.* at 262. The Court held that "the link [wa]s too remote between the stock manipulation alleged and the [creditor]s' harm, being purely contingent on the harm suffered by the [stockbrokers]," and, therefore, plaintiffs failed to demonstrate proximate cause. *Id.* at 271. The Court further stated that the creditors and their insurer were "secondary victims" who were

“injured only indirectly,” and, consequently, were “not proper plaintiffs.” *Id.* at 274. Thus, if the causal chain from a defendant’s acts to a plaintiff’s injury requires a court to “go beyond the first step,” the chain is too long to establish proximate causation. *Id.* at 271.

Applying *Holmes*, Plaintiffs could, at most, be “injured only indirectly” by alleged violations of the HCA. *Id.* at 274. The underlying statute prohibits misrepresentations to state regulators. R.I. Gen. Laws § 23-17.14-30. The statute itself defines whom it exclusively protects, and it is not the Plaintiffs. *Id.* If Plaintiffs were harmed as a result of the alleged violations somewhere down the line, then they are, at most, “secondary victims,” because the Court would be required to look “beyond the first step” to reach their harm, which is “purely contingent” on harm to state regulators. *See Holmes*, 503 U.S. at 271, 274. Likewise, any alleged violation of R.I. Gen. Laws §§ 11-18-1 and 11-41-4 based on alleged misrepresentations to state regulators would also fail. *See Holmes*, 503 U.S. at 271, 274.

ii. Count XVII

Plaintiffs’ § 9-1-2 claim premised on aiding and abetting the filing of a false tax return with the IRS (Count XVII) fails for the same reasons. *Supra* at Part IV.A.2.i. There is no link between the direct victim and the Plaintiffs on this claim. The allegedly false tax returns submitted to the IRS did not cause the underfunded pension—the alleged underlying crime and harm are unconnected. Instead, Plaintiffs’ theory is that the conduct constituting the alleged crime against the IRS (inclusion of SJHSRI in the OCD) also—separate and apart from the allegedly fraudulent tax returns—led to Plaintiffs’ injury by allowing SJHSRI to claim church plan status under ERISA. FAC ¶ 188. However, if the causal chain does not run through the victim of the crime (the IRS), then Plaintiffs’ harm cannot be linked to the offense (and is, at

most, tangentially related to the underlying crime). This is insufficient. *In re McNulty*, 597 F.3d 344, 352 (6th Cir. 2010).

Furthermore, a finding of “direct” injury requires “that the harm to the victim be closely related to the conduct *inherent to the offense*.” *Id.* (emphasis added). The underfunding of a pension plan is in no way inherent to the offense of filing a false tax return. *See id.* Count XVII should be dismissed.

3. *The Alleged Violations In Counts XVI Through XIX
Are Based On Alleged Misrepresentations To Regulators
Not The Plaintiffs, And They Cannot Be A Basis For Relief Under § 9-1-2*

Where the alleged criminal violation is based on misrepresentations to a regulator—and not the plaintiffs—harm to those plaintiffs cannot have been caused “by reason of” the underlying violation. *Hemi Grp.*, 559 U.S. at 10. In *Hemi Group*, New York City sued an out of state cigarette seller for failing to file customer lists with the State of New York, in violation of state law. *Id.* at 6. The City claimed that the business’ failure to file its customer report constituted mail fraud and allowed the business’ customers to evade City excise taxes, thereby causing lost revenue for the City. *Id.* The Court held, in reversing a denial of a motion to dismiss, that the City could not show proximate cause, because the business’ fraudulent conduct was directed at a third-party—the State of New York—and the City was only indirectly injured as a result. *Id.* at 9-11. The Court refused to extend civil liability “to situations where the defendant’s fraud on the third party (the State) has made it easier for a fourth party (the taxpayer) to cause harm to the plaintiff (the City).” *Id.* at 11. Here, Plaintiffs ask the Court to impose liability “where the defendant’s [alleged misrepresentation] on the third party (the [regulators]) has made it easier for a fourth party ([SJHSRI]) to cause harm to the plaintiff[s].” *Id.*

4. *Plaintiffs Also Fail To Allege Facts Sufficient To Establish Proximate Cause Because There Are More Direct Victims Of The Alleged Crimes Who Have The Exclusive Right To Remedy The Alleged Violation*

Courts have held that where “those directly injured . . . could be counted on to bring suit for the law’s vindication” plaintiff’s claims based on “by reason of” causation should be dismissed. *Holmes*, 503 U.S. at 273. “The requirement of a direct causal connection is especially warranted where the immediate victims of an alleged . . . violation can be expected to vindicate the laws by pursuing their own claims.” *Anza v. Ideal Steel Supply Corp.*, 547 U.S. 451, 458-60 (2006) (granting motion to dismiss where plaintiff-storeowner alleged that the defendants filed fraudulent tax returns with the State of New York to allow them to lower their prices and gain competitive advantage over the plaintiff, as “[t]he direct victim of this conduct was the State of New York, not [the plaintiff] and it was the State that was being defrauded and the State that lost tax revenue as a result”). This principle is based, in part, on a policy determination that “[i]f the allegations are true, the State can be expected to pursue appropriate remedies” and “[t]here is no need to broaden the universe of actionable harms to permit . . . suits by parties who have been injured only indirectly.” *Id.* at 460.

The alleged direct victims here (the state regulators and the IRS) are perfectly capable of pursuing appropriate remedies under their regulatory and statutory authority, without broadening the universe of civil actions to indirect victims. 26 U.S.C. § 7206; R.I. Gen. Laws § 23-17.14-30; *see Anza*, 547 U.S. at 460. As the direct victims, the government actors are better suited to vindicate the law. *Anza*, 547 U.S. at 460; *see also Fortunet Inc. v. Gametech Ariz. Corp.*, No. 206-CV-00393, 2008 WL 5083812, at *1-6 (D. Nev. Nov. 26, 2008) (holding that plaintiff’s claim that a company making and selling gaming devices without a Nevada gaming license caused alleged lost sales and revenue for plaintiff failed for lack of proximate cause

because “a more direct victim of the alleged wrongful conduct [the Nevada Gaming Control Board and Commission] exists that can be counted on to vindicate Nevada’s gaming laws”).

Similarly, here, the HCA and the IRC are comprehensive statutory schemes, which govern the conduct that Plaintiffs allege violated those schemes. State regulators and the IRS are “well suited to address any such violations.” Accordingly, if those laws must be vindicated, the direct victims—not Plaintiffs—are the proper parties to do so. *Anza*, 547 U.S. at 460; see *James Cape & Sons Co. v. PCC Constr. Co.*, 453 F.3d 396, 404 (7th Cir. 2006) (holding that plaintiff’s claim for damages caused by defendants’ bid-rigging scheme that defrauded the Wisconsin Department of Transportation (WisDOT) was properly dismissed because “WisDOT is fully capable of pursuing appropriate remedies” and, therefore, plaintiff “has not shown that its injuries were proximately caused by the bid-rigging scheme”).

Furthermore, not only are the direct victims of the alleged crimes capable of vindicating the law, the HCA and the IRC provide that *only* those direct victims have a right to seek remedies. The HCA provides no private right of action and, instead, grants to the Attorney General and the Director of the Department of Health the exclusive right “to take corrective action necessary to secure compliance under this chapter.” R.I. Gen. Laws § 23-17.14-30. Additionally, 26 U.S.C. § 7206 provides no private right of action for violations of that section. See, e.g., *I-Remiel Azariah: Ibn Yahweh v. Shelby Cty. Gen. Sessions Court*, No. 12-3073-JDT-CGC, 2014 WL 1689297, at *8 (W.D. Tenn. Apr. 29, 2014) (“Section 7206 is a criminal statute prohibiting fraud and false statements under the Internal Revenue Code and grants no explicit private right of action.”); see also *Rezner v. Bayerische Hypo-Und Vereinsbank AG*, 630 F.3d 866, 873-74 (9th Cir. 2010) (holding that fraud on the IRS and filing a false tax return cannot be used as a basis for civil liability because the IRS is the direct victim of those crimes, not a private

plaintiff suing under RICO for tax fraud, and holding “that [plaintiff] cannot show proximate causation based on [defendant]’s fraud against the United States”); *United States v. Credit Suisse AG*, No. 1:14CR188, 2014 WL 5026739, at *2-4 (E.D. Va. Sept. 29, 2014) (finding that defendant’s crime of filing of false tax returns did not proximately cause movant’s injuries even if movant was also defrauded as part of the same scheme, because movant’s “alleged harm is too attenuated from the offense of conviction”).⁴⁵

5. *Permitting Claims By Private Citizens Based On Alleged Crimes Against Regulators Would Create An End Run Around The Administrative Procedures Act And Public Policy Which Militates Against A § 9-1-2 Claim In This Context*

Strong public policy reasons also compel strict adherence to the proximate cause jurisprudence discussed above to dismiss claims brought by private citizens based on alleged misrepresentations to regulators in the context of administrative proceedings. If R.I. Gen. Laws § 9-1-2 and proximate cause could be stretched to establish a cognizable claim by private citizens for alleged misrepresentations in such proceedings, it would deal a devastating blow to that statutory framework and the finality of decisions obtained pursuant to the Administrative Procedures Act. *See* R.I. Gen. Laws §§ 42-35-1 *et seq.*

That act governs “*all* agency proceedings and *all* proceedings for judicial review or civil enforcement of agency action.” R.I. Gen. Laws § 42-35-1.1 (emphasis added). The act sets forth the law and procedure that must be followed whenever an administrative body reviews a matter and whenever there are any allegations of wrongdoing or an erroneous decision as a result of that administrative review. *Id.* §§ 42-35-1 *et seq.* Moreover, the act sets forth the

⁴⁵ The movant in *Credit Suisse* brought his motion under the Crime Victims’ Rights Act of 2004, 18 U.S.C. § 3771, seeking the right to speak at the defendant’s sentencing. 2014 WL 5026739, at *1. In order to fit the definition of “crime victim” under that act, a party must demonstrate that he was “directly and proximately harmed as a result of the commission of a Federal offense.” 18 U.S.C. § 3771(e)(2). This is the same requirement for a claim of liability under R.I. Gen. Laws § 9-1-2. *Cortellesso*, 1997 WL 839911, at *7-9 (requiring a “direct relation” and “proximate causation” for a claim under R.I. Gen. Laws § 9-1-2).

limited scope of judicial review of all matters involving administrative proceedings. *Id.* § 42-35-15.

If a cause of action such as the one pressed here with respect to the HCA were allowed to proceed, any aggrieved party—or indeed as here, any aggrieved bystander—to an administrative proceeding could collaterally attack the regulator’s decision by alleging some misstatement in the administrative record. The case could proceed, as Plaintiffs intend here, without any participation by the regulator and without a full review of the administrative record. Such a claim could be based—like the one here—upon an alleged misrepresentation respecting just one aspect of one factor amongst hundreds that a regulator must consider and balance in making its decision. The concept of proximate cause exists to set limits on the scope of just this type of lawsuit and claimant.

B. Count XVII Must Be Dismissed Because R.I. Gen. Laws § 9-1-2 Is Preempted By Federal Law And Would Constitute An Impermissible End Run Around The Lack Of A Private Right Of Action Under The Internal Revenue Code

Count XVII asserts a claim under a state statute (R.I. Gen. Laws § 9-1-2) and calls for the imposition of civil liability based solely on an alleged violation of federal law (26 U.S.C. § 7206(2)). FAC ¶¶ 536-537. This argument, however, must fail, because the use of R.I. Gen. Laws § 9-1-2 to enforce the IRC impermissibly conflicts with federal law and is preempted. Additionally, R.I. Gen. Laws § 9-1-2 cannot create a private right of action under a federal statute that does not itself provide such a right.

1. *Rhode Island General Laws § 9-1-2 Is Preempted By Federal Law*

Without a clear intent by Congress to preempt state law, a presumption against preemption generally exists in cases involving a field traditionally governed by the states. *See Medtronic, Inc. v. Lohr*, 518 U.S. 470, 485 (1996). However, “[p]olicing fraud against federal

agencies is hardly ‘a field which the States have traditionally occupied’ such as to warrant a presumption against finding federal pre-emption of a state-law cause of action.” *Buckman Co. v. Plaintiffs’ Legal Comm.*, 531 U.S. 341, 347 (2001) (internal citation omitted). “To the contrary,” the U.S. Supreme Court has observed, “the relationship between a federal agency and the entity it regulates is inherently federal in character because the relationship originates from, is governed by, and terminates according to federal law.”⁴⁶ *Id.* Thus, there exists “no presumption against pre-emption” in such cases. *Id.* at 347-48. Therefore, the burden falls upon Plaintiffs to show that federal law does not preempt their attempt to use R.I. Gen. Laws § 9-1-2 to police fraud against a federal agency. *See Buckman*, 531 U.S. at 347. They cannot make such a showing.

In *Buckman*, the Supreme Court set forth the framework for determining whether a state law claim for fraud on a federal agency could stand, or whether it “conflict[ed] with, and [was] therefore impliedly pre-empted by, federal law.” 531 U.S. at 348. In that case, the plaintiffs were patients who purportedly sustained injuries resulting from the use of orthopedic bone screws. *Id.* at 343. The plaintiffs alleged that the defendant made fraudulent representations to the Food and Drug Administration (“FDA”) in order to obtain approval to market the screws. *Id.* After determining that no presumption against preemption existed for state law “fraud-on-the-FDA” claims, the Court examined several factors in determining that a conflict existed between the state and federal laws. *Id.* First, the Court stated that:

The conflict stems from the fact that the federal statutory scheme amply empowers the FDA to punish and deter fraud against the Administration, and that this authority is used by the Administration to achieve a somewhat delicate balance of statutory objectives. The balance sought by the Administration can be skewed by allowing fraud-on-the-FDA claims under state tort law.

⁴⁶ There are other areas of unique federal concern, in which the States are not permitted to act. For example, States may not punish perjury that occurred in federal courts. *Thomas v. Loney*, 134 U.S. 372, 375 (1890). Additionally, like perjury in a federal court, “a State has no legitimate interest in enforcing a federal scheme” against “fraud in a federal administrative process.” *Arizona v. United States*, 567 U.S. 387, 430 (2012) (Scalia, J., concurring in part and dissenting in part).

Id. at 348. The Court went on to say that:

State-law fraud-on-the-FDA claims inevitably conflict with the FDA’s responsibility to police fraud consistently with the Administration’s judgment and objectives. As a practical matter, complying with the FDA’s detailed regulatory regime in the shadow of 50 States’ tort regimes will dramatically increase the burdens facing potential applicants—burdens not contemplated by Congress Would-be applicants may be discouraged from seeking . . . approval of devices with potentially beneficial off-label uses for fear that such use might expose the manufacturer or its associates (such as petitioner) to unpredictable civil liability.

Id. at 350. The Court also reasoned that fraud-on-the-FDA claims would increase the administrative burdens on the FDA due to increased disclosures and submissions by applicants from fear of civil lawsuits by private citizens. *Id.* at 351. Thus, a conflict existed because of the additional burdens to both the regulator and the regulated as a result of state claims, along with the strong potential that these claims would disrupt the “delicate balance of statutory objectives” administered by the federal agency if regulated entities were subject to fifty inconsistent state tort regimes.⁴⁷ *Id.* at 350-51.

This claim is a state-law-fraud-on-the-IRS claim and *Buckman* applies. FAC ¶¶ 195-198. Allowing the claim to proceed here would have the detrimental effects of frustrating the administrative efficiencies associated with group rulings that the IRS has established under its statutory and regulatory authority. *See* IRS Publication 4573, Group Exemptions (“Group exemptions are an administrative convenience for both the IRS and organizations with many affiliated organizations.”). If these state law claims were permitted, non-profit entities (at least in Rhode Island) would be forced “to satisfy not only the standards imposed by that agency

⁴⁷ This Court has followed the *Buckman* decision in holding that a plaintiff’s claims for fraud on the FDA were preempted. *Koch v. I-Flow Corp.*, 715 F. Supp. 2d 297, 305 (D.R.I. 2010). Additionally, state law “fraud-on-the-agency” claims have been dismissed where the fraud was committed against other federal agencies. *See Nathan Kimmel, Inc. v. DowElanco*, 275 F.3d 1199, 1208 (9th Cir. 2002) (fraud-on-the-EPA); *Offshore Serv. Vessels, L.L.C. v. Surf Subsea, Inc.*, No. CIV.A. 12-1311, 2012 WL 5183557, at *3 (E.D. La. Oct. 17, 2012) (fraud-on-the-Coast Guard); *see also Morgan v. Brush Wellman, Inc.*, 165 F. Supp. 2d 704, 722 (E.D. Tenn. 2001) (applying *Buckman* to the Department of Energy).

under federal law, but also the potentially heterogeneous standards” propounded by Rhode Island in order to avoid liability for statements made to the IRS. *See Nathan Kimmel, Inc. v. DowElanco*, 275 F.3d 1199, 1207 (9th Cir. 2002).

Moreover, as was the case when the Ninth Circuit applied *Buckman* to the Environmental Protection Agency (“EPA”), “Congress has afforded the [IRS] substantial enforcement powers under [the IRC] that enable [the IRS] to make a measured response to suspected fraud against it.” *Nathan Kimmel*, 275 F.3d at 1205-06. In affirming the dismissal of a state law claim for fraud against the EPA, the Ninth Circuit went on to say that “[i]n particular,” it was “troubled that an applicant’s disclosures under [federal law], although not challenged by the EPA (the very agency empowered by Congress to enforce [that federal law]), may be judged illegal under state law.” *Id.* at 1207. This concern is no less troubling for the IRS in this case and especially true given that the IRC grants Plaintiffs no private right of action. *I-Remiel Azariah: Ibn Yahweh*, No. 12-3073-JDT-CGC, 2014 WL 1689297, at *8; *see Offshore Serv. Vessels, L.L.C. v. Surf Subsea, Inc.*, No. CIV.A. 12-1311, 2012 WL 5183557, at *13 (E.D. La. Oct. 17, 2012) (Where “the statutory enforcement provisions noticeably ‘do[] not provide a private right of action for damages’ . . . plaintiffs’ claims are an improper attempt to supplement the express remedies provided by federal law.”).

2. *Count XVII Seeks An Impermissible End Run
Around The Lack Of Private Right Of Action Under The Internal Revenue Code*

As stated above, Count XVII is an attempt by Plaintiffs to bring a private right of action to enforce a federal law that does not permit private enforcement. *Levy v. World Wrestling Entm’t, Inc.*, No. CIV.A.308-01289(PCD), 2009 WL 455258, at *2 (D. Conn. Feb. 23, 2009) (“[T]here is no private action to enforce the tax code.”). Where a federal statute provides for no private right of action, plaintiffs cannot utilize a state law to do that which the federal law

does not allow. *Astra USA, Inc. v. Santa Clara Cty., Cal.*, 563 U.S. 110, 117-19 (2011).

“Recognition of any private right of action for violating a federal statute . . . must ultimately rest on congressional intent to provide a private remedy.” *Id.* at 117 (quoting *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1102 (1991)). “The absence of a private right to enforce the statutory . . . obligations would be rendered meaningless if [plaintiffs] could overcome that obstacle by suing to enforce” the federal statute under state law. *Astra USA*, 563 U.S. at 118.

The dangerous implications of allowing state law to operate this way are manifest: “[r]ecognizing [a plaintiff’s] right to proceed in court could spawn a multitude of dispersed and uncoordinated lawsuits. . . . With [the federal agency] unable to hold the control rein, the risk of conflicting adjudications would be substantial.” *Id.* at 120. Therefore, such claims must be dismissed whether a creature of state statutory or common law. *Id.*; see *Grochowski v. Phoenix Constr.*, 318 F.3d 80, 86 (2d Cir. 2003) (where “no private right of action exists under the relevant [federal] statute, the plaintiffs’ efforts to bring their claims as state common-law claims are clearly an impermissible ‘end run’ around the [federal statute].”); see also *Cooper v. Charter Commc’ns Entm’ts I, LLC*, 760 F.3d 103, 110 n.6 (1st Cir. 2014) (holding similarly); *Brissenden v. Time Warner Cable of New York City*, 25 Misc. 3d 1084, 1091 (N.Y. Sup. Ct. 2009) (A “plaintiff cannot use [a state statute] to circumvent the lack of a private right of action under [a] federal statute.”).

C. Count XVIII Must Be Dismissed Because Plaintiffs Have Failed To Plead Sufficient Facts To Demonstrate A Violation of R.I. Gen. Laws § 11-41-4

Plaintiffs have failed to plead sufficient facts to support any element of the crime of obtaining property by false pretenses vis-à-vis the Diocesan Defendants, and therefore, there can be no liability under R.I. Gen. Laws § 9-1-2. See *Laccinole*, 2016 WL 868511, at *9 (“[T]o

plead a claim under § 9-1-2, [a plaintiff] must sufficiently plead an underlying criminal offense.”). A violation of R.I. Gen. Laws § 11-41-4 requires proof of four elements:

First, the defendant must obtain property from another person or entity. Second, the defendant must make a false representation. Third, the victim must actually rely on the false representation in surrendering the property. Finally, the statute requires proof of the defendant’s intent to cheat or defraud.

Nat’l Credit Union Admin. Bd. v. Regine, 795 F. Supp. 59, 70–71 (D.R.I. 1992). No facts have been alleged that could support any of these elements.

First, Plaintiffs have not alleged that the Diocesan Defendants obtained any property from Plaintiffs. As such, this claim fails on its face. *See 32 Am. Jur. 2d False Pretenses* § 1 (“False pretenses is the unlawful *acquisition* of property pursuant to a false representation.”) (emphasis added); *see also 35 C.J.S. False Pretenses* § 27 (“In order for the offense to arise, property must have been actually obtained Thus, where the accused does not obtain title to the property he or she is not guilty of the offense.”) (emphasis added).

Likewise, Plaintiffs have failed to allege facts to support the third element under R.I. Gen. Laws § 11-41-4, which requires actual reliance by a victim in surrendering property. Logic dictates that there can be no actual reliance on any representation in surrendering that which was never surrendered. *See Regine*, 795 F. Supp. at 70; *supra* at Parts II.C & II.E (discussing failure of the Amended Complaint to allege reliance).

Finally, the second and fourth elements require proof of a false representation and intent to defraud. *Id.* at 70-71. These elements must be plead with particularity under Fed. R. Civ. P. 9(b)’s heightened standard. *Hayduk*, 775 F.2d at 443-44; *see Brien*, 2012 R.I. Super. LEXIS 113, at *77-79, *127-28 (dismissing claims brought under R.I. Gen. Laws § 9-1-2 for alleged violations of R.I. Gen. Laws § 11-41-4 because the plaintiff failed “to state a claim compliant with the Rule 9(b) standard”). Each and every factual allegation concerning the

Diocesan Defendants' purported false representations and intent to defraud were discussed at length, *supra* at Part II. For the reasons described in that Part, those conclusory allegations fail to state a claim, and cannot support a cause of action under R.I. Gen. Laws §§ 9-1-2 and 11-41-1. Count XVIII must be dismissed.

V. COUNT XXI (RHODE ISLAND LAW, BREACH OF FIDUCIARY DUTY) MUST BE DISMISSED FOR FAILURE TO STATE A CLAIM

Plaintiffs' common law breach of fiduciary duty claim under Rhode Island law must be dismissed because, as with their original complaint, Plaintiffs still fail to allege sufficient facts to establish that the Diocesan Defendants are fiduciaries. Plaintiffs' allegations that the Diocesan Defendants are fiduciaries, rather, remain limited and conclusory in nature. FAC ¶¶ 552-553. Plaintiffs only make two direct allegations: (1) "Defendants SJHSRI, CCCB, Angell, Corporation Sole, Diocesan Administration, and Diocesan Service all owed Plaintiffs fiduciary duties;" and (2) "Defendants SJHSRI, CCCB, Angell, Corporation Sole, Diocesan Administration, and Diocesan Service all breached their fiduciary duties to Plaintiffs, causing damages." *Id.* These wholly conclusory allegations must be disregarded under *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (stating that "[t]hreadbare recitals of the elements of a cause of action, supported by mere conclusory statements, do not suffice" to defeat a Rule 12(b)(6) motion).

Plaintiffs have pled no factual allegations that would establish a fiduciary relationship between the Diocesan Defendants and the Plaintiffs or Plan participants. Under Rhode Island law, an essential element of a breach of fiduciary duty claim is "the existence of a fiduciary duty." *Chain Store Maint., Inc. v. Nat'l Glass & Gate Service, Inc.*, No. PC 01-3522, 2004 WL 877599, at *13 (R.I. Super. Ct. April 21, 2004); *see Prob. Court of City of Warwick ex rel. Lawton v. Bank of Am., N.A.*, 813 F. Supp. 2d 277, 301 (D.R.I. 2011) (stating that, "[t]o prevail on this claim, Plaintiffs must show that the Bank owed them a fiduciary duty"). "A

fiduciary duty arises when the facts show a special relationship of trust and confidence that requires a fiduciary to act in the other party's best interest, rather than in its own best interest.” *Fraioli v. Lemcke*, 328 F. Supp. 2d 250, 267 (D.R.I. 2004) (citing *Vanwest v. Modland Nat'l Life Ins. Co.*, 98-76, 2000 WL 343019293, at *3 (D.R.I. Mar. 27, 2000)). “Factors that demonstrate the existence of a fiduciary relationship include ‘the acting of one person for another; the having and exercising of influence over one person by another; the inequality of the parties; and the dependence of one person on another.’” *Chain Store*, 2004 WL 877599, at *13 (quotation omitted).

Plaintiffs do not allege *when* each or any of the Diocesan Defendants owed a fiduciary duty or *how* or *why* they each owed such a duty. Given the allegations in the Amended Complaint of the “diminished or nonexistent roles of Bishop Tobin and the Diocese” from 2009 onward, such allegations are especially important. FAC ¶ 87; *see id.* ¶ 203. Moreover, the Amended Complaint's assertion that the Diocesan Defendants and other parties “made or provided statements to Plan participants, on different occasions, in many different contexts, [and] over many years . . . that assured Plan Participants” concerning the security of the Plan, *id.* ¶ 259, and that such statements “created a culture of trust and reliance” do not change the equation. *Id.* ¶ 261. These conclusory statements are insufficient to establish a fiduciary relationship, and the Amended Complaint is otherwise devoid of any allegations concerning facts that would support the existence of such a relationship.⁴⁸ *See Santucci v. Citizens Bank of R.I.*, 799 A.2d 254, 255-58 (R.I. 2002) (affirming judgment disposing of breach of fiduciary duty claim where plaintiffs “did not set forth specific facts to support their assertion that [defendant] owed a

⁴⁸ Moreover, even if Plaintiffs sufficiently alleged facts establishing a fiduciary relationship, unless they can establish one *after 2009*, Plaintiffs claim for breach of fiduciary duty still fails as a matter of law because the assets of the Plan exceeded the present value of the accrued benefits up until the market crash in 2008. *See supra* at Part I.

fiduciary duty to [plaintiff]”). Count XXI should be dismissed.

VI. COUNT XXII (RHODE ISLAND LAW, AIDING AND ABETTING BREACHES OF FIDUCIARY DUTY) MUST BE DISMISSED FOR FAILURE TO STATE A CLAIM

The Rhode Island Supreme Court has yet to recognize “aiding and abetting breach of a fiduciary duty” as an independent tort. Assuming such a claim is cognizable in this jurisdiction however, the Amended Complaint does not allege sufficient facts to establish that the Diocesan Defendants aided and abetted a breach of a fiduciary duty. In considering aiding and abetting claims, Rhode Island’s superior courts have looked to Massachusetts law. *See e.g., Brien*, 2012 R.I. Super. LEXIS 113, at *45. Under Massachusetts law, “the elements of the tort of aiding and abetting a breach of fiduciary duty are: ‘(1) there must be a breach of fiduciary duty, (2) the defendant must know of the breach, and (3) the defendant must actively participate or substantially assist in or encourage the breach to the degree that he or she could not reasonably be held to have acted in good faith.’” *Id.* at *45-46 (quoting *Arcidi v. Nat’l Ass’n of Gov’t Emps., Inc.*, 856 N.E.2d 167, 174 (Mass. 2006)).

Here, Plaintiffs have not pled any facts sufficient to show that the Diocesan Defendants either knew that a co-defendant was breaching a fiduciary duty or actively participated, assisted, or encouraged a breach to such a degree that the Diocesan Defendants “could not reasonably be held to have acted in good faith.” *Id.* First, the Amended Complaint’s conclusory allegation that the Diocesan Defendants “knowingly aided, abetted, and participated in, breaches of fiduciary duty by [the other defendants],” FAC ¶ 555, does not suffice, *see Twombly*, 550 U.S. at 555, especially as this claim sounds in fraud and is subject to Rule 9(b)’s heightened pleading standard. *See Hayduk*, 775 F.2d at 441-43; *Brien*, 2012 R.I. Super. LEXIS 113, at *47-48 (applying Rule 9(b) to aiding and abetting claim sounding in fraud and dismissing claim). Rather, as set out *supra* at Part II.C.1.i and Exhibit 23, to the extent the Diocesan

Defendants had knowledge, it was that SJHSRI, RWH, CCCB and Prospect were trying to save the hospitals, preserve hospital jobs, *and* bolster the Plan with a \$14 million contribution.

Second, Plaintiffs' assertion that the Diocesan Defendants "participated" in other defendants' breaches of fiduciary duty does not establish the final element of the tort. FAC ¶ 555. The fact that the Diocesan Defendants were made aware of the terms of the 2014 Asset Sale, and expressed their support for it does not, without more, constitute active participation or substantial assistance or encouragement of a breach. *See Brien*, 2012 R.I. Super. LEXIS 113, at *48 (dismissing aiding and abetting claim and observing: "Simply being involved in a transaction that constitutes a breach by another does not automatically make that involved third party liable under a theory of aiding and abetting").

Moreover, the Amended Complaint does not plausibly allege that the Diocesan Defendants' conduct could not "reasonably be held to have [been] in good faith." *Id.* at *46. As discussed *supra* at Parts II.C-D & III.B, there was no fraud or conspiracy to hide the funding and church plan status of the Plan, the scope of the 2014 Asset Sale, and the continued Catholicity of the hospitals—that was publicly disclosed. Nor was there a fraud or conspiracy to list SJHSRI in the OCD—the listing was proper. *Supra* at Part II.F & III.A. In expressing his support for the 2014 Asset Sale to various third parties then, the Bishop emphasized the dire financial state of the Plan in the hopes of saving the floundering hospital system *and* the Plan. *Supra* at Part II.D and III.B. The Amended Complaint, therefore, does not allege facts plausibly establishing that the Diocesan Defendants' conduct was not equally consistent with a lawful purpose, *Stubbs*, 149 A.2d at 708-09, or precluding that it was in good faith, *Brien*, 2012 R.I. Super. LEXIS 113, at *45. Count XXII should be dismissed.

VII. THE AMENDED COMPLAINT STILL FAILS TO STATE A CLAIM UNDER ERISA

A. Count III Should Be Dismissed As An Inappropriate Request For Money Damages Not Cognizable Under 29 U.S.C. § 1132(a)(3)

The Diocesan Defendants explained in their original motion to dismiss that, assuming the Plan is an ERISA plan, Plaintiffs failed to state a plausible claim under 29 U.S.C. § 1132(a)(3) because the relief they seek (the payment of money to fund the Plan) is not within the scope of that provision. The Amended Complaint alleges no new facts to change that analysis.

1. Legal Standard

Section 1132(a)(3) authorizes lawsuits “(A) to enjoin any act or practice which violates any provision of [ERISA] or the terms of the plan, or (B) to obtain other appropriate equitable relief (i) to redress such violations or (ii) to enforce any provisions of [ERISA] or the terms of the plan.” The U.S. Supreme Court has explained that “the term ‘equitable relief’ in § [1132(a)(3)] is limited to ‘those categories of relief that were *typically* available in equity’ during the days of the divided bench (meaning, the period before 1938 when courts of law and equity were separate).” *Montanile v. Bd. of Trs. Of Nat’l Elevator Indus. Health Benefit Plan*, 136 S. Ct. 651, 657 (2016) (emphasis in original) (quoting *Mertens v. Hewitt Assocs.*, 508 U.S. 248, 256 (1993)). “[L]egal remedies—even legal remedies that a court of equity could sometimes award—are not ‘equitable relief’ under § [1132(a)(3)].” *Id.* at 661. Suits for money damages, therefore, are not cognizable. *See Mertens*, 508 U.S. at 255; *see also Great-W. Life & Annuity Ins. Co. v. Knudson*, 534 U.S. 204, 210 (2002) (holding suits “to impose personal liability” on defendant and “compel the defendant to pay a sum of money to the plaintiff” not proper under § 1132(a)(3)); *Drinkwater v. Metro. Life Ins. Co.*, 846 F.2d 821, 824 (1st Cir. 1988) (“Other appropriate equitable relief should be interpreted to mean what it says—declaratory or injunctive relief, not compensatory and punitive damages.”).

Rather, “[e]quitable remedies are, as a general rule, directed against some specific thing; they give or enforce a right to or over some particular thing . . . rather than a right to recover a sum of money generally out of the defendant’s assets.” *Montanile*, 136 S.Ct. at 658-59 (internal quotation marks and citation omitted); *see also Depot, Inc. v. Caring for Montanans, Inc.*, No. CV 16-74-M-DLC, 2017 WL 3687339, at *5 (D. Mont. Feb. 14, 2017) (“Under *Montanile* . . . a party cannot recover in equity unless the funds have been maintained in a segregated account”). A § 1132(a)(3) plaintiff, therefore, “must seek not to impose personal liability on the defendant, but to restore to the plaintiff particular funds or property in the defendant’s possession.” *Knudson*, 534 U.S. at 214. Where the defendant either spends funds on untraceable items or commingles funds with other monies—§ 1132(a)(3) **does not permit** the plaintiff to proceed against the defendant’s general assets. *See Montanile*, 136 S. Ct. at 655 (“We hold that, when a participant dissipates the whole settlement on nontraceable items, the [plaintiff] cannot bring a suit to attach the [defendant’s] general assets under § [1132(a)(3)] because the suit is not one for ‘appropriate equitable relief.’”); *Depot, Inc.*, 2017 WL 3687339, at *5 (observing that § 1132(a)(3) liability does not attach where funds have been spent or commingled).

2. Plaintiffs’ Allegations

Although Plaintiffs style Count III as seeking “equitable relief,” the facts as pled reveal that Plaintiffs request money damages to make up a funding deficiency, FAC ¶ 39, a remedy unavailable against the Diocesan Defendants. Specifically, Plaintiffs ask this Court to order the Diocesan Defendants:

- “to fund the Plan in accordance with ERISA’s funding requirements,” FAC (Count III, C);

- “make the Plan whole for all contributions that should have been made pursuant to ERISA funding standards, and for interest and investment income on such contributions,” *Id.* (Count III, D);
- “disgorge any profits accumulated as a result of their fiduciary breaches”; *Id.* (Count III, D);
- “order declaratory and injunctive relief as necessary and appropriate, including enjoining . . . Corporation Sole, Diocesan Administration, [and] Diocesan Service. . . from further violating the duties, responsibilities, and obligations imposed on them by ERISA, with respect to the Plan;” *Id.* (Count III, E).

On top of that, Plaintiffs ask the Court to award, declare, or otherwise provide:

“all relief under 29 U.S.C. § 1132(a), or any other applicable law, that the Court deems proper, and such appropriate relief as the Court may order, including an accounting, surcharge, disgorgement of profits, equitable lien, constructive trust, reformation of the Plan to conform to Defendants’ promises and assurances to participants and beneficiaries, reformation of the Plan to comply with ERISA including but not limited to ***the minimum funding provisions of ERISA, equitable estoppel to fund the Plan,*** or other remedy;”

Id. (Count III, F) (emphasis added).

3. *The Amended Complaint Still Fails To Allege An Entitlement To Equitable Relief*

Like the original complaint, the Amended Complaint does not allege facts to indicate that the requested relief is “appropriate equitable relief” under § 1132(a)(3). It alleges that the Plan has tens of millions of dollars in unfunded liability, FAC ¶¶ 325-326; it does *not* allege that the Diocesan Defendants currently possess or retain specific monies or property from the Plan or the alleged fiduciary breaches; nor do they allege that the Diocesan Defendants are ERISA fiduciaries.⁴⁹ FAC ¶¶ 463-469 & Wherefore Clause (identifying only SJHSRI and CCCB as ERISA fiduciaries).

⁴⁹A person is an ERISA fiduciary to the extent

(i) he exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management or disposition of its assets, (ii) he renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or has any authority or responsibility to do so, or (iii) he has discretionary authority or discretionary responsibility in the administration of such plan.

29 U.S.C. § 1002(21)(A). Plaintiffs do not allege that the Diocesan Defendants held such authority at the time of the purported fiduciary breaches. If anything, they allege the opposite: “Corporation Sole, Diocesan Administration,

U.S. Supreme Court precedent forecloses efforts to collect money damages by simply using equitable buzzwords. In *Knudson*, the Court refused a benefit plan insurer's efforts to seek "restitution" from a plan participant's settlement with a tortfeasor, where the settlement funds had gone to the participant's attorneys and a restricted trust. 534 U.S. at 208-09, 213-14. Because the participant never held the settlement funds, the Court ruled that the insurer was seeking legal, as opposed to equitable relief. The Court reasoned: "Almost invariably . . . suits seeking (whether by judgment, injunction, or declaration) to compel the defendant to pay a sum of money . . . are suits for 'money damages,' as that phrase has traditionally been applied, since they seek no more than compensation for loss resulting from the defendant's breach of legal duty." *Knudson*, 534 U.S. at 210.

Similarly, in *Mertens*, the Supreme Court rejected a § 1132(a)(3) claim against a non-fiduciary to make up a funding deficiency, where the non-fiduciary allegedly assisted a breach of fiduciary duty. 508 U.S. at 253, 261-63. The Court reasoned that the plaintiffs did not "seek a remedy traditionally viewed as equitable, such as an injunction or restitution." *Mertens*, 508 U.S. at 255. Instead, the Court observed that "[a]lthough they often dance around the word, what petitioners in fact seek is nothing other than compensatory *damages*—monetary relief for all losses their plan sustained as a result of the alleged breach of fiduciary duties." *Id.* (emphasis in original). Such relief, however, was not cognizable under § 1132(a)(3). *Id.* at 257.

Lower courts have heeded the Supreme Court's holdings and do not tolerate semantic subterfuge as a means of expanding the relief available under § 1132(a)(3) to reach money damages. *See, e.g., Todisco v. Verizon Commc 'ns, Inc.*, 497 F.3d 95, 99-100 (1st Cir.

and Diocesan Service share responsibility for the 2014 Asset Sale and the retention of the Plan by an insolvent SJHSRI, not because they controlled SJHSRI (*which they did not*), but because they participated" in an alleged conspiracy with SJSHRI. FAC ¶ 203 (emphasis added).

2007) (finding that equitable estoppel cannot be a basis to provide plaintiff with benefits due under the terms of a plan under § 1132(a)(3), as it smacks of legal relief); *Laurent v. Pricewaterhouse Coopers LP*, 06-CV-2280 (JPO), 2017 WL 3142067 at *9 (S.D.N.Y. Jul. 24, 2017) (holding that claim for surcharge⁵⁰ was at bottom seeking monetary compensation for loss resulting from breach of duty and is barred as outside of the relief authorized by § 1132(a)(3)).

Plaintiffs' § 1132(a)(3) claim fails for the same reasons as those in *Knudson* and *Mertens*. See *Knudson*, 534 U.S. at 214, 221; *Mertens*, 508 U.S. at 255. Like the claims in those cases, the Amended Complaint's request for an order to "fund the Plan" consistent with ERISA is detached from any specific property purportedly held by the Diocesan Defendants and instead represents a claim for money damages. See *Knudson*, 534 U.S. at 214, 221; *Mertens*, 508 U.S. at 255.

The Amended Complaint's reference to the receipt of wholly separate loan proceeds allegedly received by the Diocesan Defendants from the 2014 Asset Sale does not change the analysis. FAC ¶ 209. Plaintiffs do not allege that the Diocesan Defendants still possess these particular funds in segregated accounts or that they are traceable to a particular asset. See *Depot Inc.*, 2017 WL 3687339, at *5. The law is clear. The Amended Complaint fails to allege any facts or circumstances permitting equitable relief. See *Montanile*, 136 S.Ct. at 658-59. Accordingly, this Court should dismiss Count III.

B. Plaintiffs Still Fail To State A Claim For ERISA Equitable Estoppel

The First Circuit has not officially resolved whether equitable estoppel is available under ERISA. *Guerra-Delgado v. Popular, Inc.*, 774 F.3d 776, 782 (1st Cir. 2014); *Tetrault v. Reliance Standard Life Ins. Co.*, 769 F.3d 49, 58 (1st Cir. 2014). To the extent that

⁵⁰ Surcharge, moreover, is not available for the additional reason that Plaintiffs do not allege that the Diocesan Defendants were ERISA fiduciaries. *Depot, Inc.*, 2017 WL 3687339, at *4-5; see *supra* note 49.

equitable estoppel is a viable ERISA remedy in the First Circuit, however Plaintiffs fail to fit their § 1132(a)(3) claim within its limited bounds.

Assuming equitable estoppel is available at all under § 1132(a)(3), the First Circuit has held that estoppel cannot modify an ERISA plan, but is only available where the representation at issue interprets an ambiguous plan provision. *Guerra-Delgado*, 774 F.3d at 782 (“We have in the past assumed that any such claim under ERISA is necessarily limited to statements that *interpret* the plan and cannot extend to statements that would *modify* the plan.” (emphasis in original)). “Two reasons,” the *Guerra-Delgado* Court explained, “support this limitation.” *Id.* “First, because an ERISA plan must be ‘established and maintained pursuant to a written instrument,’ a plan cannot be modified orally.” *Id.* (internal citations and quotation marks omitted). As such, “it would be inherently unreasonable to rely on an oral statement purporting to modify the plan.” *Id.* “Second,” the court added, “ERISA plans must ‘provide a procedure for amending [the] plan,’ and modifications made in contravention of the plan’s stated procedure violate that requirement.” *Id.* (brackets in original) (internal quotation marks and citations omitted). “It would be unreasonable,” therefore, “to rely on an informal statement that departed from that procedure.” *Id.*

The Amended Complaint does not fit within these narrow parameters. Plaintiffs do not identify ambiguous plan provision(s) or make any effort to connect representations or omissions with such provisions. Rather, they expressly seek to use equitable estoppel to write out exculpatory provisions and avoid clear funding obligation disclaimers in various iterations of the Plan. FAC ¶¶ 218-222. This is nothing less than an attempt to use estoppel to modify the Plan. First Circuit precedent precludes such a result. *See Livick v. The Gillette Co.*, 524 F.3d 24, 31 (1st Cir. 2008) (rejecting estoppel claim and noting as “we have previously explained, a plan

beneficiary might reasonably rely on an informal statement interpreting an *ambiguous* plan provision; if the provision is clear, however, an informal statement in conflict with it is in effect purporting to *modify* the plan term, rendering any reliance on it inherently unreasonable.”). Thus, assuming the Plan is an ERISA plan, Plaintiffs fail to state a claim for equitable estoppel under § 1132(a)(3). *Guerra-Delgado*, 774 F.3d at 782; *Livick*, 524 F.3d at 31. This Court, therefore, should dismiss Count III to the extent it seeks equitable estoppel.

CONCLUSION

For the foregoing reasons, the Court should grant the Diocesan Defendants’
Motion to Dismiss.

Respectfully Submitted,

ROMAN CATHOLIC BISHOP OF
PROVIDENCE, A CORPORATION SOLE,
DIOCESAN ADMINISTRATION
CORPORATION and DIOCESAN SERVICE
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CERTIFICATE OF SERVICE

I hereby certify that on the 4th day of December 2018, the foregoing document has been filed electronically through the Rhode Island ECF system, is available for viewing and downloading, and will be sent electronically to the counsel who are registered participants identified on the Notice of Electronic Filing.

/s/ Howard Merten

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EXHIBIT 1

**Actuarial Report
as of July 1, 2004, for the
Plan Year Ended June 30, 2005, and
for the St. Joseph Health Services
of Rhode Island Retirement Plan**

October 2005

Employee Benefits Consulting

St. Joseph Health Services of Rhode Island Retirement Plan

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St. Joseph Health Services of Rhode Island Retirement Plan

Part I. Summary of Results

A. Funding Levels

	07/01/2004	07/01/2003	Page
1. Contribution Amounts as of End of Year			
a. Minimum	\$ 0	\$ 0	17
As % of Payroll	0%	0%	
b. Recommended	\$ 0	\$ 0	17
As % of Payroll	0%	0%	
2. Actual Contribution	N/A	\$ 0	10
3. Normal Cost	\$ 2,315,593	\$ 2,224,769	16
As % of Payroll	3.5%	3.4%	
4. Market Value of Assets	\$ 89,475,173	\$ 80,687,937	8
5. Valuation Assets	\$ 95,454,328	\$ 94,225,670	9
6. Accrued Liability	\$ 82,563,037	\$ 75,632,790	16
7. Unfunded Accrued Liability	\$ (12,891,291)	\$ (18,592,880)	16

St. Joseph Health Services of Rhode Island Retirement Plan

Part I. Summary of Results

A. Funding Levels

	07/01/2004	07/01/2003	Page
1. Contribution Amounts as of End of Year			
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St. Joseph Health Services of Rhode Island Retirement Plan

B. Analysis of Scheduled Employer Contributions

No contribution is recommended under the Hospital's funding policy for the plan year beginning July 1, 2004.

C. Benefit Security

	07/01/2004	07/01/2003	Page
1. Market Value of Assets	\$ 89,475,173	\$ 80,687,937	8
2. Present Value of Accrued Benefits ¹	66,950,823	60,221,708	18
3. Excess of [1] over [2]	\$ 22,524,350	\$ 20,466,229	
4. Ratio of [1] to [2]	133.6%	134.0%	
5. Assumed Discount Rate (used in [2])	7.75%	8.0%	

D. Valuation Data

	07/01/2004	07/01/2003	Page
1. Active Employees Submitted	1,701	1,690	13
2. Number of Employees Costed			
a. Active Employees	1,701	1,690	13
b. Retirees and Beneficiaries	545	508	14
c. Vested Terminations Transfers and Disabled	<u>744</u>	<u>749</u>	13
d. Total Employees Costed	2,990	2,947	
3. Payroll of Costed Employees	\$66,168,929	\$65,035,574	
Percent Increase	1.7%	14.3%	
4. Average Payroll of Costed Employees	\$38,900	\$38,483	
Percent Increase	1.1%	0.4%	

¹ The present value of accrued benefits is an estimate of the plan's liabilities, calculated assuming that accruals cease as of the valuation date and the plan is not terminated so that liabilities are determined using the plan's actuarial valuation assumptions.

St. Joseph Health Services of Rhode Island Retirement Plan

Part II. Actuarial Commentary

The recommended funding level used by the Hospital is determined in a manner consistent with the original minimum funding standards of ERISA. The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to current liability calculations. The recommended contribution for the 2004 plan year is \$0.

A primary actuarial objective of the Projected Unit Credit Cost Method is to choose actuarial assumptions so as to minimize net actuarial gains and losses over several years. For the past five years, the record of gains and losses has been as follows:

Valuation Date	Actuarial Gain (Loss) in Prior Plan Years		
	Asset Gain (Loss)	Liability Gain (Loss)	Total
07-01-2004	\$ (3,187,752)	\$ (354,490)	\$ (3,542,242)
07-01-2003	\$ (2,588,758)	\$ 204,331	\$ (2,384,427)
07-01-2002	\$ 385,927	\$ (499,691)	\$ (113,764)
07-01-2001	\$ 4,136,928	\$ (1,780,190)	\$ 2,356,738
07-01-2000	\$ 7,037,762	\$ (2,392,264)	\$ 4,645,498

For the July 1, 2004 valuation, liability losses due primarily to more early retirements than expected was mostly offset by gains due to lower than expected salary increases. This net loss compounded with asset valuation return less than expected.

There were two changes to the actuarial assumptions: (1) the interest rate was lowered to 7.75% from 8.00%; and (2) the mortality table was updated to the RP2000 Table from the GAM 83 Table. Those changes increased the liability by \$1,244,027 and the normal cost by \$74,151.

The following illustration compares the major actuarial assumptions to aggregate measures of actual plan experience for the last plan year:

	<u>Assumed</u>	<u>Actual</u>				
		<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Investment return, market value basis	N/A	14.9%	2.7%	(5.9%)	(1.9%)	12.3%
Investment return, asset valuation basis	8.0%	4.6%	5.1%	8.4%	13.8%	18.5%
Pension compensation increase per year on a comparable basis	4.0%	3.0%	5.1%	6.9%	6.9%	4.7%

St. Joseph Health Services of Rhode Island Retirement Plan

Part III. Actuarial Certification

This report presents the results of the Actuarial Valuation for the St. Joseph Health Services of Rhode Island Retirement Plan as of July 1, 2004 for development of the recommended contribution as a church plan, disclosures under Statement of Financial Accounting Standards No. 35 (FAS 35) for the 2004/2005 plan year.

This report has been prepared using generally accepted actuarial practices and methods. The actuarial assumptions used in the calculations are individually reasonable and reasonable in aggregate.

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

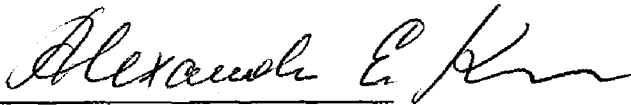
Actuarial computations under FAS 35 are for the purpose of disclosures in the Plan's financial statements. The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations for purposes other than meeting Employer financial accounting requirements or disclosures in the Plan's financial statements may be different from these results. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination.

This report is intended for the sole use of St. Joseph Health Services of Rhode Island. It is intended only to supply information for St. Joseph Health Services of Rhode Island to comply with the stated purposes of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purposes puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including St. Joseph Health Services of Rhode Island, should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon Consulting.

The actuary whose signature appears below is a Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. They are available to answer any questions with regard to the matters enumerated in this report.

Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of Aon's work.

Aon Consulting, Inc.



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Employee Benefits Consulting

St. Joseph Health Services of Rhode Island Retirement Plan

Part IV. Valuation Method and Assumptions

A. Valuation Method

The method of valuation used for pension benefits is called the Projected Unit Credit Method. Under this method, actuarial gains and losses are reflected immediately through a change in the unfunded accrued liability. These gains and losses are amortized as a level dollar amount over the number of years necessary to comply with procedures for calculating minimum and maximum contributions.

Current liability is determined as the present value of all benefits accrued related to age, service, compensation, death or disability which are reasonably and reliably predictable.

B. Valuation of Assets

Valuation assets are determined by using a 5 year moving average asset valuation method. The valuation assets may not exceed 120% of market value, nor be less than 80%. All assets are placed in a trust fund with Bank of America as Trustee. The financial information used in this valuation was not audited by Aon Consulting.

C. Employees Included in the Calculations

All active employees who have met the plan's eligibility requirements as of the valuation date are included in the calculations. Former employees or their survivors who are entitled to an immediate or deferred benefit under the provisions of the plan are also included.

D. Actuarial Assumptions

- | | |
|--|--|
| 1. Mortality: | RP – 2000 Mortality Table - Separate male and female rates. |
| 2. Disability: | None. |
| 3. Termination: | Select and ultimate rates were used. The rates are illustrated in the tables on the following pages. |
| 4. Salary progression: | 4% compounded annually. |
| 5. Interest rate used for determining: | |
| a. Preretirement | 7.75% compounded annually. |
| b. Postretirement | 7.75% compounded annually. |
| 6. Expenses: | None. |

St. Joseph Health Services of Rhode Island Retirement Plan

7. Retirement age: Beginning at fifty-five, the following rates are assumed:

Age	Probability of Retirement
55	2.0%
56-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

8. Social Security Taxable Wage Base increases: 4.0% compounded annually.
9. The following are examples of the probability that a participant will die or terminate within the year:
The termination rates below are ultimate rates after 10 years of service.

Age	<u>Mortality</u>		<u>Termination</u>	
	Male	Female	Male	Female
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

St. Joseph Health Services of Rhode Island Retirement Plan

In addition to the above rates, the following rates based on service are included for participants with 10 or fewer years of service.

Service	Rate
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

E. Changes in Actuarial Assumptions or Methods

The interest rate used to determine pre- and post-retirement liabilities was lowered to 7.75% from 8.00%.

The mortality tables used to determine pre-and post-retirement liabilities were changed to the gender-distinct RP-2000 Mortality Table from the gender-distinct GAM 83 Mortality Table.

F. Other Considerations

1. Participant salaries are limited to the IRC Section 401(a)(17) limit that was in effect as of the beginning of the plan year. Projected benefits are limited to the IRC Section 415(b) limit that was in effect as of the beginning of the plan year.
2. For the purpose of valuing death benefits, 100% of the participants are assumed to be married. Wives are assumed to be three years younger than their husbands.
3. Employees are assumed to work the same number of hours in all future years that they worked in the computation period preceding the valuation date.
4. Although we believe these to be accurate and complete, employee data supplied to us by the Employer and financial information supplied to us by the Trustee have not been audited by us.
5. We rely on the Employer to inform us of any former participants who have been rehired and lost prior service because of the length of their break in service. These employees may have participation requirements different from other new employees.

St. Joseph Health Services of Rhode Island Retirement Plan

Part V. Financial Statements

A. Statement of Income & Disbursements of the Trust Fund for the Plan Year Ending 06/30/2004

1.	Fund Balance at Beginning of Year (market value, accrual basis)	\$	80,687,937
2.	Income		
a.	Contributions received or receivable from employer for plan year ending June 30, 2004	\$	0
b.	Earnings on investments		12,614,649
c.	Total Income	\$	12,614,649
3.	Disbursements		
a.	Benefit payments directly to participants or their beneficiaries	\$	2,994,186
b.	Administrative expenses		833,227
c.	Total Disbursements	\$	<u>3,827,413</u>
4.	Net Income (Disbursements)	\$	<u>8,787,236</u>
5.	Fund Balance at End of Year	\$	<u>89,475,173</u>

St. Joseph Health Services of Rhode Island Retirement Plan

B. Development of Actuarial Value of Assets

1. Actuarial value as of 07/01/2003	\$	94,225,670
2. Market value as of 07/01/2003	\$	80,687,937
3. Employer contributions during the year	\$	0
4. Benefit payments from 07/01/2003 to 06/30/2004	\$	2,994,186
5. Expected interest at 8.0% through 06/30/2004		
a. On [1]	\$	7,538,054
b. On [3]		0
c. On [4]		127,458
d. Net expected interest ([a] + [b] - [c])	\$	7,410,596
6. Expected market value as of 06/30/2004 ([2] + [3] - [4] + [5d])	\$	85,104,347
7. Actual market value as of 06/30/2004	\$	89,475,173
8. Market value gain (loss) from 07/01/2003 to 06/30/2004 ([7] - [6])	\$	4,370,826
9. Recognition of actuarial value gain (loss) amounts		

Plan Year Ending	Original Gain (Loss)	06/30/2004 Balance	Amount to Recognize on 07/01/2004
a. 06/30/2000	4,848,730	969,746	969,746
b. 06/30/2001	(8,008,613)	(3,203,445)	(1,601,722)
c. 06/30/2002	(12,078,648)	(7,247,188)	(2,415,730)
d. 06/30/2003	(5,071,056)	(4,056,845)	(1,014,211)
e. 06/30/2004	4,370,826	4,370,826	<u>874,165</u>
f. Total			(\$3,187,752)

10. Actuarial value as of 07/01/2004([1] + [3] - [4] + [5d] + [9f])	\$	95,454,328
11. Actuarial value as a percentage of market value		106.68%

C. Contributions for the Prior Plan Year

No contributions for the prior plan year are assumed to be made.

D. Contributions for the Current Plan Year

No contributions for the current plan year are assumed to have previously been made for purposes of this report.

Employee Benefits Consulting

St. Joseph Health Services of Rhode Island Retirement Plan

Part VI. Summary of Principal Plan Provisions

The following summary describes plan provisions assumed in calculating the cost of your pension plan.

A. General Information

1. Original Effective Date: July 1, 1965
2. Effective Date of Last Amendment: July 1, 2001
3. Plan Year: July 1 to June 30
4. Employer Fiscal Year: October 1 to September 30
5. Employer ID Number: 05-0484597

B. Eligibility

All employees, who work more than 1,000 hours a year, are eligible to participate in the Plan on the first day of the month following the completion of one year of service.

"Employee" does not include temporary employees, persons employed on a part-time, retainer, or on a contract basis.

C. Service

Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.

D. Normal Retirement Date

Normal retirement date is the later of the first day of the month coincident with or next following the employee's attainment of age sixty-five and the fifth anniversary of his plan participation.

E. Normal Retirement Benefit

The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

St. Joseph Health Services of Rhode Island Retirement Plan

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

if an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

- (a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.
- (b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service.

F. Delayed Retirement

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

G. Final Average Earnings

The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

"Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime or any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$205,000 for 2004).

H. Accrued Benefit

The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years of credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but, no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

I. Early Retirement Benefit

Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

St. Joseph Health Services of Rhode Island Retirement Plan

J. Death Benefit

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

K. Optional Methods of Settlement

The normal form of annuity for a participant is a monthly annuity payable for life.

In addition, a participant may elect other optional forms of payment such as a Ten Years Certain and Life Benefit annuity or a Joint and Survivor Benefit annuity payable for life with a reduced benefit to be continued for the lifetime of his beneficiary after his death.

All optional methods of settlement are actuarially equivalent to the normal form of annuity.

L. Amendment or Termination of Plan

The Employer reserves the right to amend or terminate the Plan at any time. If the plan is terminated, the plan assets will be distributed among the plan participants based upon a priority allocation procedure and the Employer shall be liable for any unfunded vested benefits to the extent required by law. Any funds remaining after satisfaction of all liabilities shall be returned as permissible to the Employer.

St. Joseph Health Services of Rhode Island Retirement Plan

Part VII. Supporting Data

A. Reconciliation of Plan Participants

1. Active Participants

Active Participants as of July 1, 2003	1,690
Data Corrections	0
To Terminated Vested Status	(32)
Non-Vested Terminations	(132)
Rehire	36
Transfer In from Per Diem	13
Transfer Out to Per Diem	(9)
To Retired Status	(21)
Cashed Out	(1)
New Participants	157
Net Change	11
 Active Participants as of July 1, 2004	 1,701

2. Terminated Vested Participants, Disableds and Per Diem

Terminated Vested Participants, Disableds and Per Diem as of July 1, 2003	749
Data Corrections	(6)
Return to Active Status	(16)
To Retired Status	(23)
From Active Status	41
Deceased	(1)
Net Change	(5)
 Terminated Vested Participants, Disableds and Per Diem as of July 1, 2004	 744

3. Retirees and Beneficiaries

Retirees and Beneficiaries as of July 1, 2003	508
Data Corrections	4
Deceased	(11)
From Active Status	21
From Terminated Vested Status	23
Cashed Out	(1)
Return to Active Status	(2)
New Beneficiary	3
Net Change	37
 Retirees and Beneficiaries as of July 1, 2004	 545

St. Joseph Health Services of Rhode Island Retirement Plan

B. Summary Statistics on Costed Employees

1. Active Employees:

	Number of Employees	Average Age at Hire	Average Past Service	Average Attained Age
07/01/2004	1,701	32.5	13.6	46.1
07/01/2003	1,690	32.2	13.3	45.5

2. Vested Terminations, Deferred Disableds and Per Diem:

	Number of Employees	Average Attained Age	Average Annual Benefit (\$)
07/01/2004	744	48.5	2,705
07/01/2003	749	47.9	2,686

3. Retirees and Beneficiaries:

	Number of Employees	Average Attained Age	Average Annual Benefit (\$)
07/01/2004	545	71.5	5,257
07/01/2003	508	71.6	4,791

St. Joseph Health Services of Rhode Island Retirement Plan

C. Schedule of Data for Active Costed Participants

Number and Average Salary ² of Participants with Years of Credited Service											
Age	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 and Up	Total
15 - 19	9	7	-	-	-	-	-	-	-	-	16
20 - 24	16	54	6	-	-	-	-	-	-	-	76
25 - 29	14	55	7	1	-	-	-	-	-	-	77
30 - 34	17	66	28	10	3	-	-	1	-	-	125
35 - 39	19	88	28	23	30	2	-	-	-	-	190
40 - 44	12	68	33	27	34	34	11	-	-	-	219
45 - 49	20	65	36	33	36	53	56	11	-	-	310
50 - 54	9	62	30	22	25	33	37	80	10	-	308
55 - 59	4	42	16	17	18	23	27	30	33	-	210
60 - 64	3	16	6	9	16	23	17	13	15	6	124
65 - 69	3	2	2	2	5	4	3	2	1	5	29
70 +	-	4	2	3	2	1	1	1	2	1	17
All Ages	126	529	194	147	169	173	152	138	61	12	1,701

Average Age: 46.12

Average Service: 13.62

² Salaries are limited by the IRC section 401(a)(17) limits.

St. Joseph Health Services of Rhode Island Retirement Plan

Part VIII. Appendices

A. Development of Unfunded Actuarial Liability

1.	Unfunded accrued liability as of July 1, 2003	\$	(18,592,880)
2.	Increases in the obligation in [1]		
a.	Normal cost due July 1, 2003	\$	2,224,769
b.	Interest at 8.0% on unfunded accrued liability and normal cost for one year		(1,309,449)
c.	Change in actuarial assumptions		<u>1,244,027</u>
d.	Total increases	\$	2,159,347
3.	Decreases in the obligation in [1]		
a.	Employer contributions for year	\$	0
b.	Interest at 8.0% on Employer contributions from date paid to June 30, 2004		0
c.	Actuarial (gains)/losses		<u>3,542,242</u>
d.	Total decreases	\$	<u>3,542,242</u>
4.	Unfunded accrued liability as of July 1, 2004	\$	(12,891,291) ³
5.	Valuation assets as of July 1, 2004	\$	95,454,328
6.	Accrued liability as of July 1, 2004	\$	82,563,037

B. Statement of Normal Cost and Accrued Liability

Valuation Date	July 1, 2004	July 1, 2003
1. Normal cost as of the valuation date	\$ 2,315,593	\$ 2,224,769
2. Accrued liability as of the valuation date		
a. For costed active Participants	\$ 49,771,820	\$ 46,809,034
b. For retired employees and beneficiaries	25,688,839	21,683,215
c. For vested terminations, deferred disableds and transfers	<u>7,102,378</u>	<u>7,140,532</u>
d. Total accrued liability	\$ 82,563,037	\$ 75,632,790

³ The Unfunded accrued liability is not less than zero for funding purposes. The value shown here is for the purpose of calculating the actuarial experience gain or loss.

St. Joseph Health Services of Rhode Island Retirement Plan

C. Recommended Contributions

	07/01/2004	07/01/2003
1. Recommended Minimum Contribution		
a. Normal Cost	\$ 2,315,593	\$ 2,224,769
b. Amortization Charges	0	0
c. Amortization Credits	0	0
d. Interest	179,458	177,982
e. Subtotal	\$ 2,495,051	\$ 2,402,751
f. Actuarial funding level		
i. Accrued liability	\$ 82,563,037	\$ 75,632,790
ii. Normal cost	2,315,543	2,224,769
iii. Lesser of Market Value and Actuarial Value of Assets	\$ 89,475,173	\$ 80,687,937
iv. Projected end of year funding level	\$ (4,952,829)	\$ (3,056,808)
g. Recommended Minimum	\$ 0	\$ 0
2. Recommended Maximum		
a. Normal Cost	\$ 2,315,593	\$ 2,224,769
b. 10 Year Amortization of Unfunded Actuarial Liability	0	0
c. Interest	179,458	177,982
d. Subtotal	\$ 2,495,051	\$ 2,402,751
e. Recommended Maximum [minimum of (2d) and (1g), not less than 0]	\$ 0	\$ 0

St. Joseph Health Services of Rhode Island Retirement Plan

D. Plan Accounting (FASB No. 35)

All of the information presented in this section is prepared in accordance with the requirements of FASB No. 35. The information is appropriate for inclusion in the plan's financial statements. It is not appropriate for disclosure in the Employer's financial statements or for other purposes. We are not aware of any relationship between Aon Consulting and the Employer or the plan that would impair or appear to impair our objectivity.

1. Basis of Calculations

Unless otherwise noted below, the information in this section is based upon the same actuarial assumptions, plan provisions, and employee data that are described in Parts IV, VI, and VIII of this report, respectively. Plan assets are valued at their fair market value.

a. Actuarial assumptions: Same as Part IV, except:

Salary scale: None

b. Plan provisions: Same as Part VI.

c. Employee data: Same as Part VIII.

2. Present Value of Accumulated Plan Benefits as of July 1, 2004

	Number of Participants		Present Value
a. Vested benefits for			
(1) Retired employees and beneficiaries	545	\$	25,688,839
(2) Terminated, transferred and disabled employees with deferred vested benefits	744		7,102,378
(3) Fully vested employees	<u>1,057</u>		<u>31,857,889</u>
(4) Total vested	2,346	\$	64,649,106
b. Nonvested benefits	<u>644</u>		<u>2,301,717</u>
c. Total present value of accumulated plan benefits	2,990	\$	69,950,823
d. Net assets available for benefits (market value, accrual basis) as of the valuation date		\$	89,475,173
e. Unfunded present value of accumulated plan benefits = excess of [c] over [d]		\$	(22,524,350)
f. Unfunded present value of vested accumulated plan benefits = excess of [a] over [d]		\$	(24,826,067)

St. Joseph Health Services of Rhode Island Retirement Plan

3. Change in Present Value of Accumulated Plan Benefits

a.	Present value of accumulated plan benefits as of July 1, 2003	\$	60,221,708
b.	Increase attributable to		
	(1) Benefits accumulated and (gain)/loss	\$	4,232,580
	(2) Benefits paid	(2,994,186)	
	(3) Plan amendment	0	
	(4) Change in actuarial assumptions	800,442	
	(5) Interest	<u>4,690,279</u>	
	(6) Total	\$	6,729,115
c.	Present value of accumulated plan benefits as of July 1, 2004	\$	66,950,823

4. Changes in the Past Year

The mortality table and interest rate were changed as detailed in the assumptions section of this report.

The above information is prepared in accordance with the requirements of FASB No. 35, based on assumptions selected for that purpose.

EXHIBIT 2

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2005

For the Plan Year Beginning July 1, 2005

and Ending June 30, 2006

Prepared By:

**The Angell Pension Group, Inc.
10 Hemingway Drive
East Providence, RI 02915
401-438-9250**

November 2006

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2005 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2005 and ending June 30, 2006. The purpose of the report is to:

Illustrate the current actuarial position of the plan.

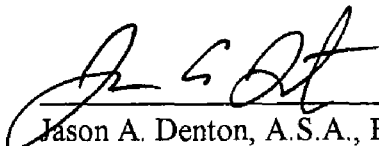
Provide a summary of participant census and benefit detail.

Present information which will assist the plan sponsor in determining the appropriate contribution for the plan year.

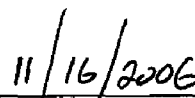
Outline the actuarial assumptions and methods used.

Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

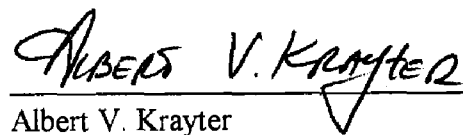
This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations. We have not independently verified, nor do we make any representations as to, the accuracy of such information.



Jason A. Denton, A.S.A., E.A.
Director of Actuarial Services



Date



Albert V. Krayter
Manager, Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2006

Recommended Contribution: \$ 0

Summary of Valuation Results:

<i>Participants</i>		<u>2005</u>	<u>2004</u>
Active		1,487	1,701
Terminated vested		824	744
Retirees in pay status		<u>562</u>	<u>545</u>
Total		2,873	2,990
 <i>Normal Cost</i>			
Dollar amount	\$	1,876,993	\$ 2,315,593
Covered payroll		58,851,238	66,168,929
As a percentage of payroll		3.2%	3.5%
 <i>Recommended Contribution</i>			
Dollar amount	\$	0	\$ 0
As a percentage of payroll		0%	0%
 <i>Assets</i>			
Market Value	\$	94,892,973	\$ 89,475,173
Actuarial Value		94,773,936	95,454,328
Net rate of return on market value		10.1%	14.9%
Net rate of return on actuarial value		3.0%	4.6%

Plan Assets as of July 1, 2005

Bank of America	\$ 94,892,973
Total Value of Plan Assets:	\$ 94,892,973

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 94,892,973
Plus: Receivable Contributions	0
Plus: Adjustment to Actuarial Value	(119,037)
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 94,773,936

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Statement of Financial Accounting Standards No. 35 (FAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates and will be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2005

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	1487	\$ 32,912,195	\$ 1,635,239	\$ 34,547,434
Vested Terminations/Inactives:	824	10,442,287	0	10,442,287
Disabled Lives:	0	0	0	0
Retired Lives:	562	26,831,257	0	26,831,257
Other Lives:	0	0	0	0
Totals:	2873	\$ 70,185,739	\$ 1,635,239	\$ 71,820,978

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 66,950,823
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	3,309,050
Increase for interest due to the decrease in the discount period	5,042,541
Benefits paid	(3,481,436)
Net increase (decrease):	\$ 4,870,155
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 71,820,978

III. SUMMARY OF PLAN PROVISIONS

Plan Effective Date: July 1, 1965

Eligibility Requirements: Age: None
Service: One Year

Year of Service: 12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.

Year of Service for Benefit Accrual: Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.

Plan Entry Date: An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.

Normal Retirement Date: The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.

Compensation: "Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$210,000 for 2005).

Average Compensation: The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

Normal Retirement Benefit: The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service.

Normal Form of Benefit: Life annuity

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Early Retirement Benefit: Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit:

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit:

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

Vesting:

Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-range experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return: 7.75% per annum

Post-Retirement Investment Return: 7.75% per annum

Pre-Retirement Mortality: RP-2000 (Male/Female)

Post-Retirement Mortality: RP-2000 (Male/Female)

Withdrawal Rate: Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are included for participants with 10 or fewer years of service:

<u>Service</u>	<u>Rate</u>
1	10%
2	9%
3	8%

4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

Disability Rate: None

Salary Scale: 4.00% per annum

Taxable Wage Base: 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses: None

Assumed Retirement Age: Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% participants assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level: The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1.	Present Value of Benefits	\$	N/A
2.	Actuarial Value of Assets		N/A
3.	Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4.	Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5.	Accumulated Reconciliation Account (412)		N/A
6.	Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7.	Present Value of Future Compensation		N/A
8.	Current Compensation		N/A
9.	Normal Cost [(6) / (7) x (8)]		1,876,993
10.	Expense Load / Term Cost		0
11.	Total Normal Cost [(9) + (10)]	\$	1,876,993

APPENDIX B Development of Contributions

1. Recommended Minimum Contribution	July 1, 2005	July 1, 2004
a. Normal Cost	\$ 1,876,993	\$ 2,315,593
b. Amortization Charges	0	0
c. Amortization Credits	0	0
d. Interest	145,467	179,458
e. Subtotal	2,022,460	2,495,051
f. Actuarial funding level		
i. Accrued liability	89,429,128	82,563,037
ii. Normal cost	1,876,993	2,315,543
iii. Lesser of Market Value and Actuarial Value of Assets	94,773,936	89,475,173
iv. Projected end of year funding level	(3,736,571)	(4,952,829)
g. Recommended Minimum	0	0
2. Recommended Maximum		
a. Normal Cost	1,876,993	2,315,593
b. 10 Year Amortization of Unfunded Actuarial Liability	0	0
c. Interest	145,467	179,458
d. Subtotal	2,022,460	2,495,051
e. Recommended Maximum (minimum of (2d) and (1g), not less than 0)	0	0

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2004	\$	95,454,328	
2.	Market value as of July 1, 2004		89,475,173	
3.	Employer contribution during the year		0	
4.	Benefit payments from July 1, 2004 through June 30, 2005		3,410,100	
5.	Expected interest at 7.75% through June 30, 2005			
a.	On (1)		7,397,710	
b.	On (3)		0	
c.	On (4)		143,153	
d.	Net expected interest [(a) + (b) + (c)]		7,254,557	
6.	Expected market value as of June 30, 2005 [(2) + (3) - (4) + (5d)]		96,729,730	
7.	Actual market value as of June 30, 2005		94,892,973	
8.	Market value gain (loss) from July 1, 2004 to June 30, 2005 [(7) - (6)]		(1,836,757)	
9.	Recognition of actuarial value gain (loss) amounts			
	<u>Plan Year</u> <u>Ending</u>	<u>Original</u> <u>Gain (Loss)</u>	<u>June 30, 2005</u> <u>Balance</u>	<u>Amount to</u> <u>Recognize on</u> <u>July 1, 2005</u>
a.	June 30, 2001	\$ (8,008,613)	(1,601,722)	\$ (1,601,722)
b.	June 30, 2002	(12,078,648)	(4,831,458)	(2,415,730)
c.	June 30, 2003	(5,071,056)	(3,042,634)	(1,014,211)
d.	June 30, 2004	4,370,826	3,496,661	874,165
e.	June 30, 2005	(1,836,757)	(1,836,757)	(367,351)
f.	Total:			\$ (4,524,849)
10.	Actuarial value as of July 1, 2005 [(1) + (3) - (4) + (5d) + (9f)]		\$ 94,773,936	
11.	Actuarial value as a percentage of market value		\$ 99.87%	

EXHIBIT 3

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2006

For the Plan Year Beginning July 1, 2006

and Ending June 30, 2007

Prepared By:

**The Angell Pension Group, Inc.
10 Hemingway Drive
East Providence, RI 02915
401-438-9250**

June 2007

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COST DEVELOPMENT

APPENDIX A	Development of Normal Cost	12
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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2006 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2006 and ending June 30, 2007. The purpose of the report is to:

Illustrate the current actuarial position of the plan.

Provide a summary of participant census and benefit detail.

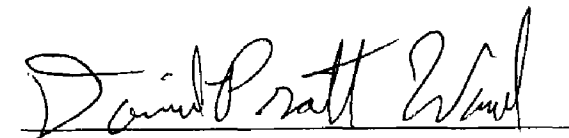
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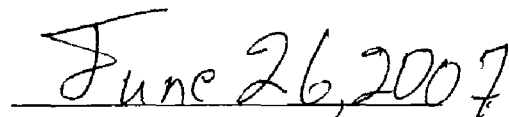
Outline the actuarial assumptions and methods used.

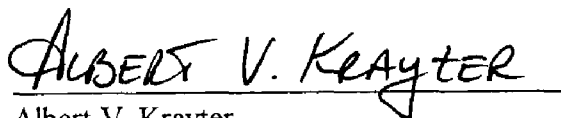
Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

This valuation takes into consideration a substantial asset gain realized during the period from July 1, 2005 to June 30, 2006. Given that smoothing asset method is being used, this gain is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent from drastic market fluctuations. Also, this valuation reflects the change in the investment return assumption from 7.75% to 8.00%.

This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.


David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Consulting Actuary


Date


Albert V. Krayter
Manager, Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2007

Minimum Contribution:	\$	0
Recommended Maximum Contribution:	\$	2,052,351

Summary of Valuation Results:

•	<i>Participants</i>	<u>2006</u>	<u>2005</u>
	Active	1,614	1,487
	Terminated vested	797	824
	Retirees in pay status	<u>610</u>	<u>562</u>
	Total	3,021	2,873
•	<i>Normal Cost</i>		
	Dollar amount	\$ 1,900,325	\$ 1,876,993
	Covered payroll	63,561,412	58,851,238
	As a percentage of payroll	3.0%	3.2%
•	<i>Minimum Contribution</i>		
	Dollar amount	\$ 0	\$ 0
	As a percentage of payroll	0%	0%
•	<i>Assets</i>		
	Market Value	\$ 102,323,479	\$ 94,892,973
	Actuarial Value	97,717,152	94,773,936
	Net rate of return on market value	11.7%	10.1%
	Net rate of return on actuarial value	6.9%	3.0%

Plan Assets as of July 1, 2006

Bank of America	\$ 102,323,479
Total Value of Plan Assets:	\$ 102,323,479

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 102,323,479
Plus: Receivable Contributions	0
Plus: Adjustment to Actuarial Value	(4,606,327)
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 97,717,152

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Statement of Financial Accounting Standards No. 35 (FAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates and will generally be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2006

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	1614	\$ 34,574,991	\$ 1,563,674	\$ 36,138,665
Vested Terminations/Inactives:	797	8,935,681	0	8,935,681
Disabled Lives:	0	0	0	0
Retired Lives:	610	31,026,031	0	31,026,031
Other Lives:	0	0	0	0
Totals:	3,021	\$ 74,536,703	\$ 1,563,674	\$ 76,100,377

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 71,820,978
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	(2,272,002)
Benefits accumulated	4,612,859
Increase for interest due to the decrease in the discount period	5,419,978
Benefits paid	(3,481,436)
Net increase (decrease):	\$ 4,279,399
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 76,100,377

III. SUMMARY OF PLAN PROVISIONS

Plan Effective Date: July 1, 1965

Eligibility Requirements: Age: None
Service: One Year

Year of Service: 12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.

Year of Service for Benefit Accrual: Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.

Plan Entry Date: An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.

Normal Retirement Date: The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.

Compensation: "Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$220,000 for 2006).

Average Compensation: The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

Normal Retirement Benefit: The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service.

Normal Form of Benefit: Life annuity

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Early Retirement Benefit : Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at

this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit: A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit: In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

Vesting: Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-range experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return: 8.00% per annum

Post-Retirement Investment Return: 8.00% per annum

Pre-Retirement Mortality: RP-2000 (Male/Female)

Post-Retirement Mortality: RP-2000 (Male/Female)

Withdrawal Rate: Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service:

<u>Service</u>	<u>Termination Rate</u>
1	10%
2	9%
3	8%

4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

Disability Rate: None

Salary Scale: 4.00% per annum

Taxable Wage

Base: 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses: None

Assumed Retirement Age: Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% participants assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level: The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1.	Present Value of Benefits	\$	N/A
2.	Actuarial Value of Assets		N/A
3.	Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4.	Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5.	Accumulated Reconciliation Account (412)		N/A
6.	Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7.	Present Value of Future Compensation		N/A
8.	Current Compensation		N/A
9.	Normal Cost [(6) / (7) x (8)]		1,900,325
10.	Expense Load / Term Cost		0
11.	Total Normal Cost [(9) + (10)]	\$	1,900,325

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2006	July 1, 2005
a. Normal Cost	\$ 1,900,325	\$ 1,876,993
b. Amortization Charges	0	0
c. Amortization Credits	0	0
d. Interest	152,026	145,467
e. Subtotal	2,052,351	2,022,460
f. Actuarial funding level		
i. Accrued liability	92,839,687	89,429,128
ii. Normal cost	1,900,325	1,876,993
iii. Lesser of Market Value and Actuarial Value of Assets	97,717,152	94,773,936
iv. Projected end of year funding level	(3,215,311)	(3,736,571)
g. Minimum Contribution	0	0
2. Maximum Recommended Contribution		
a. Normal Cost	1,900,325	1,876,993
b. 10 Year Amortization of Unfunded Actuarial Liability	0	0
c. Interest	152,026	145,467
d. Subtotal	2,052,351	2,022,460
e. Maximum Recommended Contribution (maximum of (2d) and (1g), not less than 0)	2,052,351	2,022,460

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2005*	\$	95,455,955	
2.	Market value as of July 1, 2005		94,892,973	
3.	Employer contribution during the year		0	
4.	Benefit payments from July 1, 2005 through June 30, 2006		3,481,436	
5.	Expected interest at 7.75% through June 30, 2006			
a.	On (1)		7,397,837	
b.	On (3)		0	
c.	On (4)		146,148	
d.	Net expected interest [(a) + (b) - (c)]		7,251,689	
6.	Expected market value as of June 30, 2006 [(2) + (3) - (4) + (5d)]		98,663,226	
7.	Actual market value as of June 30, 2006		102,323,479	
8.	Market value gain (loss) from July 1, 2005 to June 30, 2006 [(7) - (6)]		3,660,253	
9.	Recognition of actuarial value gain (loss) amounts			
	<u>Plan Year</u> <u>Ending</u>	<u>Original</u> <u>Gain (Loss)</u>	<u>June 30, 2006</u> <u>Balance</u>	<u>Amount to</u> <u>Recognize on</u> <u>July 1, 2006</u>
a.	June 30, 2002	\$ (12,078,648)	(2,415,730)	\$ (2,415,730)
b.	June 30, 2003	(5,071,056)	(2,028,422)	(1,014,211)
c.	June 30, 2004	4,370,826	2,622,496	874,165
d.	June 30, 2005*	1,573,342	1,258,674	314,669
e.	June 30, 2006	3,660,253	3,660,253	732,051
f.	Total:			\$ (1,509,056)
10.	Actuarial value as of July 1, 2006 [(1) + (3) - (4) + (5d) + (9f):		\$ 97,717,152	
11.	Actuarial value as a percentage of market value		95.50%	

* Revised to reflect reconciliation for last year

EXHIBIT 4

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2007

For the Plan Year Beginning July 1, 2007

and Ending June 30, 2008

Prepared By:

**The Angell Pension Group, Inc.
10 Hemingway Drive
East Providence, RI 02915
401-438-9250**

November 2008

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2007 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2007 and ending June 30, 2008. The purpose of the report is to:

Illustrate the current actuarial position of the plan.

Provide a summary of participant census and benefit detail.

Present information which will assist the plan sponsor in determining the appropriate contribution for the plan year.

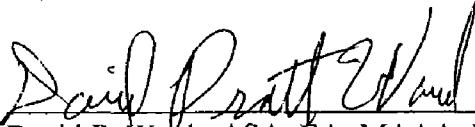
Outline the actuarial assumptions and methods used.

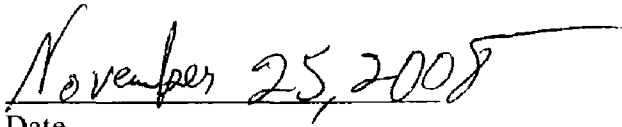
Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

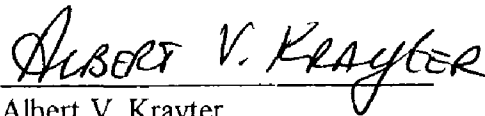
This valuation takes into consideration a substantial asset gain realized during the period from July 1, 2006 to June 30, 2007. Given that smoothing asset method is being used, this gain is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent the plan from experiencing drastic market fluctuations. Also, this valuation reflects the notification from the client about their intent to contribute \$1,500,000 to the Plan by September 30, 2008, which was paid on September 29, 2008.

This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.

I meet the qualification Standard of American Academy of Actuaries based upon my educating experience and continuing education.


David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Director of Actuarial Services, and
Consulting Actuary


Date


Albert V. Krayter
Manager, Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2008

Minimum Contribution:	\$	0
Recommended Maximum Contribution:	\$	2,151,319

Summary of Valuation Results:

•	<i>Participants</i>	<u>2007</u>	<u>2006</u>
	Active	1,503	1,614
	Terminated vested	833	797
	Retirees in pay status	652	610
	Other	<u>58</u>	<u>0</u>
	Total	3,046	3,021
•	<i>Normal Cost</i>		
	Dollar amount	\$ 1,991,962	\$ 1,900,325
	Covered payroll	64,645,380	63,561,412
	As a percentage of payroll	3.1%	3.0%
•	<i>Minimum Contribution</i>		
	Dollar amount	\$ 0	\$ 0
	As a percentage of payroll	0%	0%
•	<i>Assets</i>		
	Market Value (including \$1,500,000)	\$ 116,218,822	\$ 102,323,479
	Actuarial Value (including \$1,500,000)	105,088,736	97,717,152
	Net rate of return on market value	16.8%	11.7%
	Net rate of return on actuarial value	10.8%	6.9%

Plan Assets as of July 1, 2007

Bank of America	\$ 114,718,822
Total Value of Plan Assets:	\$ 114,718,822

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 114,718,822
Plus: Receivable Contributions	1,500,000
Plus: Adjustment to Actuarial Value	(11,130,086)
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 105,088,736

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Statement of Financial Accounting Standards No. 35 (FAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates and will generally be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2007

	Number of Lives	Vested Benefits	Non-Vested Benefits	Total Present Value
Active Lives:	1,503	\$ 34,625,493	\$ 1,613,610	\$ 36,239,103
Vested Terminations/Inactives:	833	10,890,179	0	10,890,179
Disabled Lives:	0	0	0	0
Retired Lives:	652	35,100,217	0	35,100,217
Other Lives:	58	0	183,893	183,893
Totals:	3,046	\$ 80,615,889	\$ 1,797,503	\$ 82,413,392

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 76,100,377
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	4,935,054
Increase for interest due to the decrease in the discount period	5,892,404
Benefits paid	(4,514,443)
Net increase (decrease):	\$ 6,313,015
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 82,413,392

III. SUMMARY OF PLAN PROVISIONS

Plan Effective Date: July 1, 1965

Eligibility Requirements: Age: None
Service: One Year

Year of Service: 12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.

Year of Service for Benefit Accrual: Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.

Plan Entry Date: An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.

Normal Retirement Date: The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.

Compensation: "Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$225,000 for 2007)

Average Compensation: The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

Normal Retirement Benefit: The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service.

Normal Form of Benefit: Life annuity

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Early Retirement Benefit : Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this

early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit: A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit: In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

Vesting: Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-range experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return: 8.00% per annum

Post-Retirement Investment Return: 8.00% per annum

Pre-Retirement Mortality: RP-2000 (Male/Female)

Post-Retirement Mortality: RP-2000 (Male/Female)

Withdrawal Rate: Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service:

<u>Service</u>	<u>Termination Rate</u>
1	10%
2	9%
3	8%

4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

Disability Rate: None

Salary Scale: 4.00% per annum

Taxable Wage

Base: 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses: None

Assumed Retirement Age: Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% participants assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level: The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1.	Present Value of Benefits	\$	N/A
2.	Actuarial Value of Assets		N/A
3.	Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4.	Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5.	Accumulated Reconciliation Account (412)		N/A
6.	Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7.	Present Value of Future Compensation		N/A
8.	Current Compensation		N/A
9.	Normal Cost [(6) / (7) x (8)]		1,991,962
10.	Expense Load / Term Cost		0
11.	Total Normal Cost [(9) + (10)]	\$	1,991,962

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2007	July 1, 2006
a. Normal Cost	\$ 1,991,962	\$ 1,900,325
b. Amortization Charges	0	0
c. Amortization Credits	0	0
d. Interest	159,357	152,026
e. Subtotal	2,151,319	2,052,351
f. Actuarial funding level		
i. Accrued liability	98,931,457	92,839,687
ii. Normal cost	1,991,962	1,900,325
iii. Lesser of Market Value and Actuarial Value of Assets	105,088,736	97,717,152
iv. Projected end of year funding level	(4,165,317)	(3,215,311)
g. Minimum Contribution	0	0
 2. Maximum Recommended Contribution		
a. Normal Cost	1,991,962	1,900,325
b. 10 Year Amortization of Unfunded Actuarial Liability	0	0
c. Interest	159,357	152,026
d. Subtotal	2,151,319	2,052,351
e. Maximum Recommended Contribution (maximum of (2d) and (1g), not less than 0)	2,151,319	2,052,351

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2006	\$	97,717,152	
2.	Market value as of July 1, 2006		102,323,479	
3.	Employer contribution during the year		0	
4.	Benefit payments from July 1, 2006 through June 30, 2007		4,514,443	
5.	Expected interest at 8.00% through June 30, 2007			
a.	On (1)		7,817,372	
b.	On (3)		0	
c.	On (4)		195,626	
d.	Net expected interest [(a) + (b) - (c)]		7,621,746	
6.	Expected market value as of June 30, 2007 [(2) + (3) - (4) + (5d)]		105,430,782	
7.	Actual market value as of June 30, 2007		114,718,822	
8.	Market value gain (loss) from July 1, 2006 to June 30, 2007 [(7) - (6)]		9,288,040	
9.	Recognition of actuarial value gain (loss) amounts			
	<u>Plan Year</u> <u>Ending</u>	<u>Original</u> <u>Gain (Loss)</u>	<u>June 30, 2007</u> <u>Balance</u>	<u>Amount to</u> <u>Recognize on</u> <u>July 1, 2007</u>
a.	June 30, 2003	\$ (5,071,056)	(1,014,211)	\$ (1,014,211)
b.	June 30, 2004	4,370,826	1,748,331	874,165
c.	June 30, 2005	1,573,342	944,006	314,668
d.	June 30, 2006	3,660,253	2,928,202	732,051
e.	June 30, 2007	9,288,040	9,288,040	1,857,608
f.	Total:			\$ 2,764,281
10.	Actuarial value as of July 1, 2007 [(1) + (3) - (4) + (5d) + (9f)]:		\$ 103,588,736	
11.	Actuarial value as a percentage of market value		90.30%	
12.	Employer Contribution Receivable		\$ 1,500,000	
13.	Actuarial value as of July 1, 2007 including Employer Contribution Receivable		\$ 105,088,736	

EXHIBIT 5

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2009

For the Plan Year Beginning July 1, 2009

and Ending June 30, 2010

Prepared By:

**The Angell Pension Group, Inc.
10 Hemingway Drive
East Providence, RI 02915
401-438-9250**

December 2009

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2009 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2009 and ending June 30, 2010. The purpose of the report is to

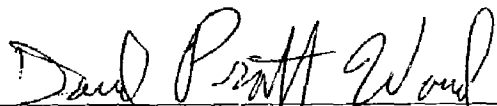
- Illustrate the current actuarial position of the plan.
- Provide a summary of participant census and benefit detail
- Present information which will assist the plan sponsor in determining the appropriate contribution for the plan year
- Outline the actuarial assumptions and methods used.
- Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

This valuation takes into consideration a substantial asset loss realized during the period from July 1, 2008 to June 30, 2009. Given that smoothing asset method is being used, this loss is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent the plan from experiencing the full impact of recent market fluctuations. It is our understanding that there will be no contributions deposited to the plan for the plan year ending June 30, 2009.

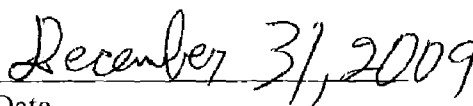
This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.

A limitation was added to the smoothing method in determining the actuarial value of plan assets so that the value is no less than 80% nor greater than 120% of the fair market value of plan assets. This limitation continues to allow smoothing but restricts its impact so that the actuarial value of assets remains reasonably close to the fair market value.

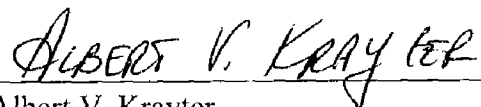
I meet the qualification Standard of the American Academy of Actuaries to render the actuarial opinions included in this report, based upon my education, experience and continuing education.



David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Director of Actuarial Services, and
Consulting Actuary



Date



Albert V. Krayter
Manager, Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2010

Minimum Contribution:	\$1,444,178
Recommended Maximum Contribution:	\$1,624,311
Contribution to reach 100% funding level projected to the end of the plan year:	\$21,314,085

Summary of Valuation Results:

•	<i>Participants</i>	<u>2009</u>	<u>2008</u>
	Active	1,252	1,395
	Terminated vested	856	864
	Retirees in pay status	759	713
	Other (including per diem employees)	<u>147</u>	<u>81</u>
	Total	3,014	3,053
•	<i>Normal Cost</i>		
	Dollar amount	\$ 1,091,106	\$ 1,961,151
	Covered payroll	57,474,582	63,654,607
	As a percentage of payroll	1.9%	3.1%
•	<i>Minimum Contribution</i>		
	Dollar amount	\$ 1,444,178	\$ 0
	As a percentage of payroll	2.5%	0%
•	<i>Assets</i>		
	Market Value	\$ 78,260,116	\$ 104,417,252
	Actuarial Value	93,912,139	109,144,403
	Net rate of return on market value	(-20.8%)	(-7.4%)
	Net rate of return on actuarial value	(-9.6%)	7.1%

Plan Assets as of July 1, 2009

Bank of America	\$ 78,260,116
Total Value of Plan Assets:	\$ 78,260,116

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 78,260,116
Plus. Receivable Contributions	0
Plus. Adjustment to Actuarial Value	15,652,023
Less: Benefits Payable	0
Less Advance Contributions	0
Less Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 93,912,139

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Statement of Financial Accounting Standards No. 35 (FAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates, or other IRS designated bond rates, and will generally be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2009

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	1,252	\$ 35,521,597	\$ 1,837,825	\$ 37,359,422
Vested Terminations/Inactives	856	11,581,136	0	11,581,136
Disabled Lives:	0	0	0	0
Retired Lives	759	44,027,875	0	44,027,875
Other (incl. per diem employees)	147	1,802,337	0	1,802,337
Totals:	3,014	\$92,932,945	\$ 1,837,825	\$ 94,770,770

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 88,272,495
Increase (decrease) during the year attributable to.	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	4,611,649
Increase for interest due to the decrease in the discount period	6,846,856
Benefits paid	(4,960,230)
Net increase (decrease).	\$ 6,498,275
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 94,770,770

III. SUMMARY OF PLAN PROVISIONS

<i>Plan Effective Date</i>	July 1, 1965
<i>Eligibility Requirements</i>	Age. None Service. One Year Exclusions Any Employees hired after October 1, 2007 will not be able to participate in this Plan. Benefit Accruals for Non-Union participants were frozen on September 30, 2009
<i>Year of Service</i>	12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service
<i>Year of Service for Benefit Accrual</i>	Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used. Benefit Accruals for Non-Union participants were frozen on September 30, 2009
<i>Plan Entry Date</i>	An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.
<i>Normal Retirement Date</i>	The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.
<i>Compensation.</i>	"Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$245,000 for 2009).
<i>Average Compensation.</i>	The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.
<i>Normal Retirement Benefit</i>	The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is.

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit. 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service

Benefit Accruals for Non-Union participants were frozen on September 30, 2009

Normal Form of Benefit

Life annuity

Accrued Benefit

The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Early Retirement Benefit

Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates 5/9% each month.
- Additional months after first 60 months prior to normal retirement date 5/18% each month.
- If the participant has accumulated eighty-five points, (as of September 30, 2009 for Non-Union Participants) computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five

Vesting

Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the overall cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations among these methods.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed. The resulting value is limited to be no less than 80% nor greater than 120% of the fair market value of plan assets. Even when the limitation applies the underlying "five-year" smoothing method will be maintained.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-term experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return. 8.00% per annum

Post-Retirement Investment Return. 8.00% per annum

Pre-Retirement Mortality RP-2000 (Male/Female)

Post-Retirement Mortality RP-2000 (Male/Female)

Withdrawal Rate. Select and ultimate rates of withdrawal are as follows

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service.

Termination

<u>Service</u>	<u>Rate</u>
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

V. ACTUARIAL ASSUMPTIONS (CONT'D)

Disability Rate. None

Salary Scale 4.00% per annum

Taxable Wage Base. 4.00% per annum

Consumer Price Index. 3.00% per annum

Expenses None

Assumed Retirement Age. Beginning at age fifty-five, the following rates are assumed.

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status 100% participants assumed to be married, wives are assumed to be three years younger than their husbands.

Recommended Funding Level The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended, if asset surplus is greater than the Normal Cost. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations or Pension Protection Act of 2006 modifications.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1	Present Value of Benefits	\$	N/A
2.	Actuarial Value of Assets		N/A
3	Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4	Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5	Accumulated Reconciliation Account (412)		N/A
6	Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7.	Present Value of Future Compensation		N/A
8	Current Compensation		N/A
9.	Normal Cost [(6) / (7) x (8)]		1,091,106
10	Expense Load / Term Cost		0
11.	Total Normal Cost [(9) + (10)]	\$	1,091,106

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2009	July 1, 2008
a. Actuarial funding level		
i. Accrued liability	96,904,274	104,548,674
ii. Actuarial Value of Assets	93,912,139	109,144,403
iii. Unfunded Actuarial Accrued Liability (UAAL) ((1.a.i. - 1.a.ii.), max 0)	2,992,135	0
b. 30 Year Amortization of UAAL	246,096	0
c. Normal cost	1,091,106	1,961,151
d. Interest (0.08 x (1.b + 1 c))	106,976	156,892
e. Minimum Contribution [(1 b. + 1 c. + 1 d.), if 1 b > 0]	1,444,178	0
2. Maximum Recommended Contribution		
a. Normal Cost	1,091,106	1,961,151
b. 10 Year Amortization of UAAL	412,886	0
c. Interest (0.08 x (2.a. + 2.b))	120,319	156,892
d. Subtotal	1,624,311	2,118,043
e. Maximum Recommended Contribution (greater of (2d) and (1e), not less than 0)	1,624,311	2,118,043

3. Contribution to reach 100% funding level projected to the end of the plan year

	July 1, 2009	July 1, 2008
a. Actuarial Funding Level		
i. Lesser of Market Value and Actuarial Value of Assets	\$ 78,260,116	\$ 104,417,252
ii. Projected beginning of year funding level (1 c.+ 1.a.i. - 3.a.i.)	19,735,264	2,092,573
iii. Projected end of year funding level (3.a.ii.x 1.08)	21,314,085	2,259,925
b Recommended contribution to reach 100% funding at the end of the plan year	21,314,085	2,259,925

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2008 (Without 80 - 120% limitations)	\$	107,644,403
2	Market value as of July 1, 2008		102,917,252
3.	Employer contribution made on September 28, 2008		1,500,000
4.	Benefit payments from July 1, 2008 through June 30, 2009		4,960,230
5	Expected interest at 8.00% through June 30, 2009		
	a. On (1)		8,611,552
	b. On (3)		90,000
	c On (4)		214,943
	d. Net expected interest [(a) + (b) - (c)]		8,486,609
6.	Expected market value as of June 30, 2009 [(2) + (3) - (4) + (5d)]		107,943,631
7.	Actual market value as of June 30, 2009		78,260,116
8	Market value gain (loss) from July 1, 2008 to June 30, 2009 [(7) - (6)]		(29,683,515)
9	Recognition of actuarial value gain (loss) amounts		
	<u>Plan Year Ending</u>	<u>Original Gain (Loss)</u>	<u>June 30, 2009 Balance</u>
			<u>Amount to Recognize on July 1, 2009</u>
a.	June 30, 2005	\$ 1,573,342	314,670
b.	June 30, 2006	3,660,253	1,464,100
c.	June 30, 2007	9,288,040	5,572,824
d.	June 30, 2008	(15,098,430)	(12,078,744)
e.	June 30, 2009	(29,683,515)	(29,683,515)
f.	Total:		\$ (6,052,060)
10	Actuarial value as of July 1, 2009 [(1) + (3) - (4) + (5d) + (9f)]	\$	106,618,722
11	Actuarial value as a percentage of market value		136.24%
12.	Employer Contribution Receivable	\$	0
13.	Actuarial value as of July 1, 2009 including Employer Contribution Receivable	\$	106,618,722
14	Actuarial value as of July 1, 2009 including Employer Contribution Receivable, limited to at least 80% and maximum of 120% of market value as of July 1, 2009	\$	93,912,139

APPENDIX D - Age and Service Distribution of Active Participants**Age and Service Distribution of Active Participants**

<u>AGE</u>	<u>SERVICE</u>									TOTAL
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
0-19	14	-	-	-	-	-	-	-	-	14
20-24	33	10	-	-	-	-	-	-	-	43
25-29	43	19	6	-	-	-	-	-	-	68
30-34	37	21	8	1	-	-	-	-	-	67
35-39	49	45	13	18	5	-	-	-	-	130
40-44	47	35	20	17	27	5	-	-	-	151
45-49	55	42	21	20	30	51	20	1	-	240
50-54	38	26	21	22	31	33	48	27	1	247
55-59	29	24	13	11	15	20	16	42	18	188
60-64	12	9	9	3	10	13	11	4	9	80
65-69	5	-	3	1	1	5	4	1	2	22
70-74	-	-	-	1	-	-	-	-	1	2
75-79	-	-	-	-	-	-	-	-	-	0
80-84	-	-	-	-	-	-	-	-	-	0
85+	-	-	-	-	-	-	-	-	-	0
TOTAL	362	231	114	94	119	127	99	75	31	1,252

EXHIBIT 6

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2010

For the Plan Year Beginning July 1, 2010

and Ending June 30, 2011

Prepared By:

**The Angell Pension Group, Inc.
88 Boyd Avenue
East Providence, RI 02914
401-438-9250**

August 2011

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2010 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2010 and ending June 30, 2011. The purpose of the report is to

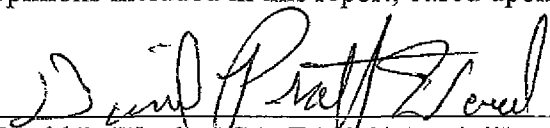
- Illustrate the current actuarial position of the plan.
- Provide a summary of participant census and benefit detail.
- Present information which will assist the plan sponsor in determining the appropriate contribution for the plan year.
- Outline the actuarial assumptions and methods used.
- Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

This valuation takes into consideration a substantial asset loss realized during the period from July 1, 2008 to June 30, 2009. Given that smoothing asset method is being used, this loss is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent the plan from experiencing the full impact of recent market fluctuations. It is our understanding that there were no contributions deposited to the plan for the plan year ending June 30, 2010.

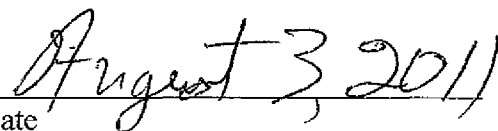
This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.

The method for determining the actuarial value of plan assets includes a limitation so that the value is no less than 80% nor greater than 120% of the fair market value of plan assets. This limitation continues to allow smoothing but restricts its impact so that the actuarial value of assets remains reasonably close to the fair market value.

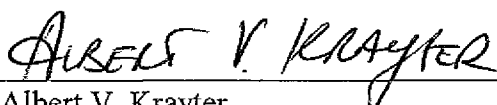
I meet the qualification Standard of the American Academy of Actuaries to render the actuarial opinions included in this report, based upon my education, experience and continuing education.



David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Director of Actuarial Services, and
Consulting Actuary



Date



Albert V. Krayter
Manager, Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2011

Minimum Contribution:	\$1,433,706
Recommended Contribution:	\$1,626,074
Contribution to reach 100% funding level projected to the end of the plan year	\$22,426,204

Summary of Valuation Results:

Participants

	<u>2010</u>	<u>2009</u>
Active	1,178	1,252
Terminated vested	896	856
Retirees in pay status	807	759
Other (including per diem employees)	<u>80</u>	<u>147</u>
Total	2,961	3,014

Normal Cost

Dollar amount	\$ 1,064,696	\$ 1,091,106
Covered payroll	56,584,351	57,474,582
As a percentage of payroll	1.9%	1.9%

Minimum Contribution

Dollar amount	\$ 1,433,706	\$ 1,444,178
As a percentage of payroll	2.5%	2.5%

Assets

Market Value	\$ 82,524,766	\$ 78,260,116
Actuarial Value	99,029,719	93,912,139
Net rate of return on market value	13.0%	(-20.8%)
Net rate of return on actuarial value (as limited by 80 – 120% limitations)	11.7%	(-9.6%)

Plan Assets as of July 1, 2010

Bank of America	\$ 82,524,766
Total Value of Plan Assets:	\$ 82,524,766

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 82,524,766
Plus: Receivable Contributions	0
Plus: Adjustment to Actuarial Value	16,504,953
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 99,029,719

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Accounting Standard Codification Topic 960 ("ASC960", previously known as SFAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates, or other IRS designated bond rates, and will generally be higher than the figures shown below

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2010

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	1,178	\$ 35,465,066	\$ 1,449,749	\$ 36,914,815
Vested Terminations/Inactives:	896	12,965,585	0	12,965,585
Disabled Lives:	0	0	0	0
Retired Lives:	807	48,192,654	0	48,192,654
Other (incl. per diem employees):	80	1,224,205	0	1,224,205
Totals:	2,961	\$ 97,847,510	\$ 1,449,749	\$ 99,297,259

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 94,770,770
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	2,710,854
Increase for interest due to the decrease in the discount period	7,342,178
Benefits paid	(5,526,543)
Net increase (decrease):	\$ 4,526,489
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 99,297,259

III. SUMMARY OF PLAN PROVISIONS

<i>Plan Effective Date</i>	July 1, 1965
<i>Eligibility Requirements</i>	Age: None Service: One Year Exclusions: Any Employees hired after October 1, 2007 will not be able to participate in this Plan, other than UNAP employees hired on or before October 1, 2008. Benefit Accruals for Non-Union participants were frozen on September 30, 2009
<i>Year of Service.</i>	12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.
<i>Year of Service for Benefit Accrual.</i>	Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used. Benefit Accruals for Non-Union participants were frozen on September 30, 2009
<i>Plan Entry Date.</i>	An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.
<i>Normal Retirement Date</i>	The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.
<i>Compensation.</i>	"Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$245,000 for 2010).
<i>Average Compensation.</i>	The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.
<i>Normal Retirement Benefit:</i>	The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

- 1 Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Normal Form of Benefit: Life annuity

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Benefit Accruals for Non-Union participants were frozen on September 30, 2009

Early Retirement Benefit: Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months after first 60 months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, (as of September 30, 2009 for Non-Union Participants) computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit:

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit:

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

Vesting:

Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the overall cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations among these methods.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 301 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed. The resulting value is limited to be no less than 80% nor greater than 120% of the fair market value of plan assets. Even when the limitation applies the underlying "five-year" smoothing method will be maintained.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-term experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return. 8.00% per annum

Post-Retirement Investment Return. 8.00% per annum

Pre-Retirement Mortality. RP-2000 (Male/Female)

Post-Retirement Mortality. RP-2000 (Male/Female)

Withdrawal Rate. Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service:

<u>Termination</u>	<u>Rate</u>
<u>Service</u>	
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

V. ACTUARIAL ASSUMPTIONS (CONT'D)

Disability Rate. None

Salary Scale. 4.00% per annum

Taxable Wage Base. 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses. None

Assumed Retirement Age. Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% participants assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level. The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended, if asset surplus is greater than the Normal Cost. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations or Pension Protection Act of 2006 modifications.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1	Present Value of Benefits	\$	N/A
2.	Actuarial Value of Assets		N/A
3.	Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4	Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5.	Accumulated Reconciliation Account (412)		N/A
6.	Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7	Present Value of Future Compensation		N/A
8.	Current Compensation		N/A
9.	Normal Cost [(6) / (7) x (8)]		1,064,696
10	Expense Load / Term Cost		0
11.	Total Normal Cost [(9) + (10)]	\$	1,064,696

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2010	July 1, 2009
a. Actuarial funding level		
i. Accrued liability	102,225,074	96,904,274
ii. Actuarial Value of Assets	99,029,719	93,912,139
iii. Unfunded Actuarial Accrued Liability (UAAL) ((1.a.i. - 1.a.ii.), max 0)	3,195,355	2,992,135
b. 30 Year Amortization of UAAL	262,810	246,096
c. Normal cost	1,064,696	1,091,106
d. Interest (0.08 x (1.b. + 1.c.))	106,200	106,976
e. Minimum Contribution [(1.b. + 1.c. + 1.d.), if 1.b > 0]	1,433,706	1,444,178
2. Recommended Contribution		
a. Normal Cost	1,064,696	1,091,106
b. 10 Year Amortization of UAAL	440,928	412,886
c. Interest (0.08 x (2.a. + 2.b.))	120,450	120,319
d. Subtotal	1,626,074	1,624,311
e. Recommended Contribution (greater of (2d) and (1e), not less than 0)	1,626,074	1,624,311

3. Contribution to reach 100% funding level projected to the end of the plan year

	July 1, 2010	July 1, 2009
a. Actuarial Funding Level		
i. Lesser of Market Value and Actuarial Value of Assets	\$ 82,524,766	\$ 78,260,116
ii. Projected beginning of year funding level (1.a.i. + 1.c. - 3.a.i.)	20,765,004	19,735,264
iii. Projected end of year funding level (3.a.ii.x 1.08)	22,426,204	21,314,085
b. Contribution to reach 100% funding level projected to the end of the plan year	22,426,204	21,314,085

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1	Actuarial value as of July 1, 2009 (Without 80 - 120% limitations)	\$	106,618,722
2.	Market value as of July 1, 2009		78,260,116
3	Employer contribution made during the Plan Year		0
4.	Benefit payments from July 1, 2009 through June 30, 2010		5,526,543
5.	Expected interest at 8.00% through June 30, 2010		
	a. On (1)		8,529,498
	b. On (3)		0
	c. On (4)		239,484
	d. Net expected interest [(a) + (b) - (c)]		8,290,014
6.	Expected market value as of June 30, 2010 [(2) + (3) - (4) + (5d)]		81,023,587
7.	Actual market value as of June 30, 2010		82,524,766
8	Market value gain (loss) from July 1, 2009 to June 30, 2010 [(7) - (6)]		1,501,179
9	Recognition of actuarial value gain (loss) amounts		
	<u>Plan Year</u> <u>Ending</u>	<u>Original</u> <u>Gain (Loss)</u>	<u>June 30, 2010</u> <u>Balance</u>
			<u>Amount to</u> <u>Recognize on</u> <u>July 1, 2010</u>
a.	June 30, 2006	\$ 3,660,253	732,049
b.	June 30, 2007	9,288,040	3,715,216
c.	June 30, 2008	(15,098,430)	(9,059,058)
d.	June 30, 2009	(29,683,515)	(23,746,812)
e.	June 30, 2010	1,501,179	1,501,179
f.		Total:	\$ (6,066,496)
10.	Actuarial value as of July 1, 2010 [(1) + (3) - (4) + (5d) + (9f)]		\$103,315,699
11	Actuarial value as a percentage of market value		125 19%
12.	Employer Contribution Receivable	\$	0
13.	Actuarial value as of July 1, 2010 including Employer Contribution Receivable		\$103,315,699
14	Actuarial value as of July 1, 2010 including Employer Contribution Receivable, limited to at least 80% and maximum of 120% of market value as of July 1, 2010	\$	99,029,719

APPENDIX D - Participant Data

A. Age and Service Distribution of Active Participants

<i>Age</i>	<i>Service</i>									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 +	
0-19	1	-	-	-	-	-	-	-	-	1
20-24	15	8	-	-	-	-	-	-	-	23
25-29	28	19	6	-	-	-	-	-	-	53
30-34	21	28	6	-	-	-	-	-	-	55
35-39	33	35	14	8	4	-	-	-	-	94
40-44	30	49	18	15	16	2	-	-	-	130
45-49	32	44	17	20	38	24	7	-	-	182
50-54	35	41	18	12	34	41	45	9	-	235
55-59	30	24	17	15	26	28	27	45	7	219
60-64	12	14	18	7	11	16	12	20	27	137
65-69	2	10	1	3	1	5	6	5	4	37
70-74	-	-	2	2	1	2	1	2	1	11
75-79	-	-	-	-	-	-	-	-	1	1
80-84	-	-	-	-	-	-	-	-	-	0
85+	-	-	-	-	-	-	-	-	-	0
Total	239	272	117	82	131	118	98	81	40	1,178

B. Reconciliation of Participant Data

	Actives	Inactives Per-diem	Terminated with Vested Benefits	Retirees & Beneficiaries	Total
Total as of July 1, 2009	1,252	147	856	759	3,014
New Entrants	7	0	0	0	7
Rehires	0	0	0	0	0
Terminated Vested	(37)	(38)	39	0	(36)
Terminated Nonvested	(42)	(26)	0	0	(68)
Active Deaths	0	0	0	0	0
Terminated Vested Deaths	0	0	0	0	0
New Retirees	(26)	(8)	(31)	67	2
New Beneficiaries	0	0	0	2	2
Retiree/Beneficiary Deaths	0	0	0	(21)	(21)
Inactive Per-diem	(6)	6	38	0	38
Lump Sum Payment	0	(1)	(6)		(7)
Data Adjustments	30	0	0	0	30
Total as of July 1, 2010	1,178	80	896	807	2,961

EXHIBIT 7

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2011

For the Plan Year Beginning July 1, 2011

and Ending June 30, 2012

Prepared By:

**The Angell Pension Group, Inc.
88 Boyd Avenue
East Providence, RI 02914
401-438-9250**

August 2012

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2011 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2011 and ending June 30, 2012. The purpose of the report is to:

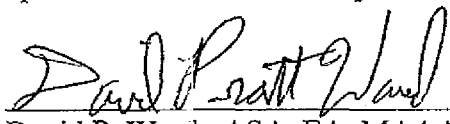
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- Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

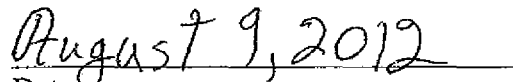
This valuation takes into consideration a substantial asset loss realized during the period from July 1, 2008 to June 30, 2009. Given that smoothing asset method is being used, this loss is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent the plan from experiencing the full impact of recent market fluctuations. It is our understanding that there were no contributions deposited to the plan for the plan year ending June 30, 2011.

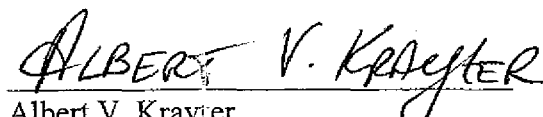
This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.

The method for determining the actuarial value of plan assets includes a limitation so that the value is no less than 80% nor greater than 120% of the fair market value of plan assets. This limitation continues to allow smoothing but restricts its impact so that the actuarial value of assets remains reasonably close to the fair market value.

I meet the qualification Standard of the American Academy of Actuaries to render the actuarial opinions included in this report, based upon my education, experience and continuing education.


David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Director of Actuarial Services, and
Consulting Actuary


Date


Albert V. Krayter
Director of Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2012

Minimum Contribution:	\$1,480,468
Recommended Contribution:	\$1,793,075
Contribution to reach 100% funding level projected to the end of the plan year:	\$13,690,720

Summary of Valuation Results:

Participants

	<u>2011</u>	<u>2010</u>
Active	1,054	1,178
Terminated vested	926	896
Retirees in pay status	853	807
Other (including per diem employees)	<u>50</u>	<u>80</u>
Total	2,883	2,961

Normal Cost

Dollar amount	\$	943,723		\$ 1,064,696
Covered payroll		50,286,586		56,584,351
As a percentage of payroll		1.9%		1.9%

Minimum Contribution

Dollar amount	\$	1,480,468	\$	1,433,706
As a percentage of payroll		2.9%		2.5%

Assets

Market Value	\$	94,016,429	\$	82,524,766
Actuarial Value		100,556,671		99,029,719
Net rate of return on market value		21.8%		13.0%
Net rate of return on actuarial value (as limited by 80 – 120% limitations)		7.7%		11.7%

Plan Assets as of July 1, 2011

Bank of America	\$ 94,016,429
Total Value of Plan Assets:	\$ 94,016,429

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 94,016,429
Plus: Receivable Contributions	0
Plus: Adjustment to Actuarial Value	6,540,242
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 100,556,671

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Accounting Standard Codification Topic 960 ("ASC960", previously known as SFAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates, or other IRS designated bond rates, and will generally be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2011

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	1,054	\$ 34,011,185	\$ 1,104,640	\$ 35,115,825
Vested Terminations/Inactives:	926	14,866,922	0	14,866,922
Disabled Lives:	0	0	0	0
Retired Lives:	853	52,640,978	0	52,640,978
Other (incl. per diem employees):	50	604,932	0	604,932
Totals:	2,883	\$ 102,124,017	\$ 1,104,640	\$103,228,657

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 99,297,259
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	2,076,393
Increase for interest due to the decrease in the discount period	7,690,892
Benefits paid	(5,835,887)
Net increase (decrease):	\$ 3,931,398
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 103,228,657

III. SUMMARY OF PLAN PROVISIONS

Plan Effective Date: July 1, 1965

Eligibility Requirements: Age: None
Service: One Year
Exclusions: Any Employees hired after October 1, 2007 will not be able to participate in this Plan, other than UNAP employees hired on or before October 1, 2008.

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Year of Service: 12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.

Year of Service for Benefit Accrual: Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Plan Entry Date: An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.

Normal Retirement Date: The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.

Compensation: "Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$245,000 for 2011).

Average Compensation: The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

Normal Retirement Benefit: The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Normal Form of Benefit: Life annuity

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Early Retirement Benefit: Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months after first 60 months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, (as of September 30, 2009 for Non-Union Participants) computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit:

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit:

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

Vesting:

Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the overall cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations among these methods.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed. The resulting value is limited to be no less than 80% nor greater than 120% of the fair market value of plan assets. Even when the limitation applies the underlying "five-year" smoothing method will be maintained.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-term experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return: 8.00% per annum

Post-Retirement Investment Return: 8.00% per annum

Pre-Retirement Mortality: RP-2000 (Male/Female)

Post-Retirement Mortality: RP-2000 (Male/Female)

Mortality Improvement: None

Withdrawal Rate: Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service:

<u>Termination</u>	
<u>Service</u>	<u>Rate</u>
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

V. ACTUARIAL ASSUMPTIONS (CONT'D)

Disability Rate: None

Salary Scale: 4.00% per annum

Taxable Wage Base: 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses: None

Assumed Retirement Age: Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% participants assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level: The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended, if asset surplus is greater than the Normal Cost. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations or Pension Protection Act of 2006 modifications.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1. Present Value of Benefits	\$	N/A
2. Actuarial Value of Assets		N/A
3. Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4. Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5. Accumulated Reconciliation Account (412)		N/A
6. Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7. Present Value of Future Compensation		N/A
8. Current Compensation		N/A
9. Normal Cost [(6) / (7) x (8)]		943,723
10. Expense Load / Term Cost		0
11. Total Normal Cost [(9) + (10)]	\$	943,723

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2011	July 1, 2010
a. Actuarial funding level		
i. Accrued liability	105,749,299	102,225,074
ii. Actuarial Value of Assets	100,556,671	99,029,719
iii. Unfunded Actuarial Accrued Liability (UAAL) ((1.a.i. - 1.a.ii.), max 0)	5,192,628	3,195,355
b. 30 Year Amortization of UAAL	427,081	262,810
c. Normal cost	943,723	1,064,696
d. Interest (0.08 x (1.b. + 1.c.))	109,664	106,200
e. Minimum Contribution [(1.b. + 1.c. + 1.d.), if 1.b. > 0]	1,480,468	1,433,706
2. Recommended Contribution		
a. Normal Cost	943,723	1,064,696
b. 10 Year Amortization of UAAL	716,532	440,928
c. Interest (0.08 x (2.a. + 2.b.))	132,820	120,450
d. Subtotal	1,793,075	1,626,074
e. Recommended Contribution (greater of (2d) and (1e), not less than 0)	1,793,075	1,626,074

3. Contribution to reach 100% funding level projected to the end of the plan year

	July 1, 2011	July 1, 2010
a. Actuarial Funding Level		
i. Lesser of Market Value and Actuarial Value of Assets	\$ 94,016,429	\$ 82,524,766
ii. Projected beginning of year funding shortfall (1.a.i. + 1.c. - 3.a.i.)	12,676,593	20,765,004
iii. Projected end of year funding shortfall (3.a.ii.x 1.08)	13,690,720	22,426,204
b. Contribution to reach 100% funding level projected to the end of the plan year	13,690,720	22,426,204

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2010 (Without 80 - 120% limitations)	\$	103,315,699
2.	Market value as of July 1, 2010		82,524,766
3.	Employer contribution made during the Plan Year		0
4.	Benefit payments from July 1, 2010 through June 30, 2011		5,835,887
5.	Expected interest at 8.00% through June 30, 2011		
a.	On (1)		8,265,256
b.	On (3)		0
c.	On (4)		252,888
d.	Net expected interest [(a) + (b) - (c)]		8,012,368
6.	Expected market value as of June 30, 2011 [(2) + (3) - (4) + (5d)]		84,701,247
7.	Actual market value as of June 30, 2011		94,016,429
8.	Market value gain (loss) from July 1, 2010 to June 30, 2011 [(7) - (6)]		9,315,182
9.	Recognition of actuarial value gain (loss) amounts		
	<u>Plan Year Ending</u>	<u>Original Gain (Loss)</u>	<u>June 30, 2011 Balance</u>
			<u>Amount to Recognize on July 1, 2011</u>
a.	June 30, 2007	\$ 9,288,040	1,857,608
b.	June 30, 2008	(15,098,430)	(6,039,372)
c.	June 30, 2009	(29,683,515)	(17,810,109)
d.	June 30, 2010	1,501,179	1,200,943
e.	June 30, 2011	9,315,182	9,315,182
f.		Total:	\$ (4,935,509)
10.	Actuarial value as of July 1, 2011 [(1) + (3) - (4) + (5d) + (9f)]:		\$100,556,671
11.	Actuarial value as a percentage of market value		106.96%
12.	Employer Contribution Receivable	\$	0
13.	Actuarial value as of July 1, 2011 including Employer Contribution Receivable		\$100,556,671
14.	Actuarial value as of July 1, 2011 including Employer Contribution Receivable, limited to at least 80% and maximum of 120% of market value as of July 1, 2011		\$100,556,671

A. Age and Service Distribution of Active Participants

<u>Age</u>	<u>Service</u>									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
0-19	-	-	-	-	-	-	-	-	-	0
20-24	6	9	-	-	-	-	-	-	-	15
25-29	12	22	6	-	-	-	-	-	-	40
30-34	8	32	8	-	-	-	-	-	-	48
35-39	19	30	14	6	2	-	-	-	-	71
40-44	10	48	24	15	14	2	-	-	-	113
45-49	12	45	23	18	40	10	10	-	-	158
50-54	11	52	24	15	20	35	48	13	-	218
55-59	16	27	18	14	27	30	28	35	11	206
60-64	6	19	17	6	10	9	11	18	36	132
65-69	1	10	3	3	2	7	7	4	4	41
70-74	1	-	2	2	1	2	1	1	2	12
75-79	-	-	-	-	-	-	-	-	-	0
80-84	-	-	-	-	-	-	-	-	-	0
85+	-	-	-	-	-	-	-	-	-	0
Total	102	294	139	79	116	95	105	71	53	1,054

B. Reconciliation of Participant Data

	Actives	Inactives Per-diem	Terminated with Vested Benefits	Retirees & Beneficiaries	Total
Total as of July 1, 2010	1,178	80	896	807	2,961
New Entrants	7	(7)	0	0	0
Rehires	1	0	0	(1)	0
Terminated Vested	(59)	(11)	70	0	0
Terminated Nonvested	(38)	(15)	0	0	(53)
Active Deaths	0	0	0	0	0
Terminated Vested Deaths	0	0	0	0	0
New Retirees	(27)	(3)	(38)	68	0
New Beneficiaries	0	0	0	2	2
Retiree/Beneficiary Deaths	(2)	0	0	(23)	(25)
Inactive Per-diem	(6)	6	0	0	0
Lump Sum Payment	0	0	(2)		(2)
Data Adjustments	0	0	0	0	0
Total as of July 1, 2011	1,054	50	926	853	2,883

EXHIBIT 8

**St. Joseph Health Services of Rhode Island
Retirement Plan**

Actuarial Valuation as of July 1, 2012

For the Plan Year Beginning July 1, 2012

and Ending June 30, 2013

Prepared By:

**The Angell Pension Group, Inc.
88 Boyd Avenue
East Providence, RI 02914
401-438-9250**

July 2013

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I. INTRODUCTION

This report presents the results of the actuarial valuation as of July 1, 2012 of the St. Joseph Health Services of Rhode Island Retirement Plan. The report is prepared for the plan year beginning July 1, 2012 and ending June 30, 2013. The purpose of the report is to:

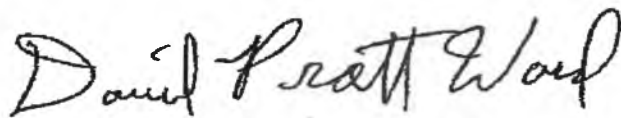
- Illustrate the current actuarial position of the plan.
- Provide a summary of participant census and benefit detail.
- Present information which will assist the plan sponsor in determining the appropriate contribution for the plan year.
- Outline the actuarial assumptions and methods used.
- Summarize the results of our review of compliance with appropriate non-discrimination and/or top heavy requirements.

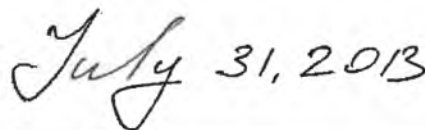
This valuation takes into consideration a substantial asset loss realized during the period from July 1, 2008 to June 30, 2009. Given that smoothing asset method is being used, this loss is being amortized over five years. Continued use of the "five-year" smoothing of gains and losses will spread gains and losses and prevent the plan from experiencing the full impact of recent market fluctuations. It is our understanding that there were no contributions deposited to the plan for the plan year ending June 30, 2012.

This valuation was prepared on the basis of information submitted to The Angell Pension Group, Inc. in the form of payroll and asset data, as well as ancillary material pertaining to the plan and the plan sponsor, and was prepared in accordance with current federal statutes and regulations, and consistent with current actuarial standards of practice. We have not independently verified, nor do we make any representations as to, the accuracy of such information.

The method for determining the actuarial value of plan assets includes a limitation so that the value is no less than 80% nor greater than 120% of the fair market value of plan assets. This limitation continues to allow smoothing but restricts its impact so that the actuarial value of assets remains reasonably close to the fair market value.

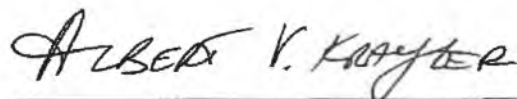
I meet the qualification Standard of the American Academy of Actuaries to render the actuarial opinions included in this report, based upon my education, experience and continuing education.





David P. Ward, ASA, EA, MAAA, MSPPA, FCA
Director of Actuarial Services, and
Consulting Actuary

Date



Albert V. Krayter
Director of Defined Benefit Department

II. VALUATION RESULTS

Contributions for Plan Year Ending June 30, 2013

Minimum Contribution:	\$2,144,292
Recommended Contribution:	\$3,056,708
Contribution to reach 100% funding level projected to the end of the plan year:	\$25,081,206

Summary of Valuation Results:

Participants

	<u>2012</u>	<u>2011</u>
Active	830	1,054
Terminated vested	1,060	926
Retirees in pay status	898	853
Other (including per diem employees)	<u>40</u>	<u>50</u>
Total	2,828	2,883

Normal Cost

Dollar amount	\$	738,922	\$	943,723
Covered payroll		40,671,409		50,286,586
As a percentage of payroll		1.8%		1.9%

Minimum Contribution

Dollar amount	\$	2,144,292	\$	1,480,468
As a percentage of payroll		5.3%		2.9%

Assets

Market Value	\$	85,872,858	\$	94,016,429
Actuarial Value		93,201,405		100,556,671
Net rate of return on market value		-1.9%		21.8%
Net rate of return on actuarial value (as limited by 80 – 120% limitations)		-0.9%		7.7%

Plan Assets as of July 1, 2012

Bank of America	\$ 85,872,858
Total Value of Plan Assets:	\$ 85,872,858

Actuarial Value of Plan Assets

Total Market Value of Plan Assets	\$ 85,872,858
Plus: Receivable Contributions	0
Plus: Adjustment to Actuarial Value	7,328,547
Less: Benefits Payable	0
Less: Advance Contributions	0
Less: Interest on Advance Contributions	N/A
Actuarial Value of Plan Assets	\$ 93,201,405

Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated plan benefits is a measurement of plan liabilities attributable to credited service and/or compensation as of a certain point in time. The information provided below can be used to satisfy Accounting Standard Codification Topic 960 ("ASC960", previously known as SFAS 35). It can also be used to gauge funding progress relative to plan assets.

The liability figures presented below are based upon actuarial assumptions which reflect the long term nature of an ongoing plan. The present values shown **do not** represent the liabilities that would be incurred to purchase annuity contracts or to pay single sums in the event of the termination of this Plan. The cost to purchase annuity contracts is dependent upon insurance company rates. The cost to pay single sums would necessitate a comparison with 30 year Treasury interest rates, or other IRS designated bond rates, and will generally be higher than the figures shown below.

The information in this section is based on the same actuarial assumptions as outlined in Section V of this report except that no salary scale assumption has been applied.

Present Values as of July 1, 2012

	Number of <u>Lives</u>	Vested <u>Benefits</u>	Non-Vested <u>Benefits</u>	Total Present <u>Value</u>
Active Lives:	830	\$ 30,052,327	\$ 790,584	\$ 30,842,911
Vested Terminations/Inactives:	1,060	17,863,647	0	17,863,647
Disabled Lives:	0	0	0	0
Retired Lives:	898	57,573,087	0	57,573,087
Other (incl. per diem employees):	40	288,920	0	288,920
Totals:	2,828	\$ 105,777,981	\$ 790,584	\$106,568,565

Statement of Change in Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of the prior valuation date	\$ 103,228,657
Increase (decrease) during the year attributable to:	
Plan amendment	\$ 0
Change in actuarial assumptions	0
Benefits accumulated	1,792,944
Increase for interest due to the decrease in the discount period	7,979,547
Benefits paid	(6,432,583)
Net increase (decrease):	\$ 3,339,908
Actuarial present value of accumulated plan benefits as of the current valuation date	\$ 106,568,565

III. SUMMARY OF PLAN PROVISIONS

- Plan Effective Date:* July 1, 1965
- Eligibility Requirements:* Age: None
Service: One Year
Exclusions: Any Employees hired after October 1, 2007 will not be able to participate in this Plan, other than UNAP employees hired on or before October 1, 2008.
- Benefit Accruals for Non-Union participants were frozen on September 30, 2009.
- Benefit Accruals for Federation of Nurses and Health Professionals ("FNHP") participants were frozen on September 30, 2011.
- Year of Service:* 12-consecutive-month computation period commencing on the employee's date of hire in which an employee is credited with 1,000 or more hours of service.
- Year of Service for Benefit Accrual:* Service shall equal total plan years of service with the Employer. Prior to July 1, 2001, a year of service was credited for each plan year in which an employee was an active participant in the plan and was paid for at least 1,000 hours. On July 1, 2001 the plan was amended to use elapsed time to determine service through July 1, 2001. Thereafter, the 1,000 hour rule will continue to be used.
- Benefit Accruals for Non-Union participants were frozen on September 30, 2009.
- Benefit Accruals for Federation of Nurses and Health Professionals ("FNHP") participants were frozen on September 30, 2011.
- Plan Entry Date:* An eligible employee will enter the plan on the first of the month following completion of the eligibility requirements.
- Normal Form of Benefit:* Life annuity
- Normal Retirement Date:* The first day of the month coincident with or next following the later of age 65 or the fifth anniversary of the participant's participation.
- Compensation:* "Annual Earnings" means the basic rate of compensation, excluding bonus payments, call time, overtime and any irregular payments. In no event shall compensation for any year exceed the IRC limit on annual compensation includable in a defined benefit plan (\$250,000 for 2012).

III. SUMMARY OF PLAN PROVISIONS (CONT'D)

Average Compensation: The average of the five highest consecutive Annual Earnings during the ten years immediately preceding employee's termination of employment.

Normal Retirement Benefit: The amount of annual normal retirement benefit to be paid in monthly installments for life, based on credited service to normal retirement date, is:

1. Fifty percent of Final Average Earnings, less
2. Fifty percent of the Social Security Benefit

The above difference shall be multiplied by the ratio of the participant's credited service not in excess of 30 years over 30 years.

The annual retirement benefit can not be less than \$48.00 multiplied by years of credited service, to a maximum of 30 years.

If an employee was a member on June 30, 1977, his benefit should not be less than the sum of (a) and (b) below:

(a) Future Service Benefit: 0.75% of Annual Earnings up to \$4,800 plus 1.5% of Annual Earnings in excess of \$4,800, for each year of future service.

(b) Past Service Benefit: 0.75% of Annual Earnings for each year of past service

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Benefit Accruals for Federation of Nurses and Health Professionals ("FNHP") participants were frozen on September 30, 2011.

Accrued Benefit: The accrued benefit at any time prior to a participant's normal retirement date shall be the projected normal retirement benefit based on credited service projected to normal retirement and Final Average Earnings as of the accrual date multiplied by a fraction. The numerator of this fraction is the number of years credited service on the accrual date and the denominator is the projected number of years of credited service at the later of age 60 or 30 years of service, but no later than normal retirement date. This fraction cannot exceed one. The plan was amended as of July 1, 2001 to change age 65 to age 60, for this purpose.

III. SUMMARY OF PLAN PROVISIONS (CONT'D)

Benefit Accruals for Non-Union participants were frozen on September 30, 2009.

Benefit Accruals for Federation of Nurses and Health Professionals ("FNHP") participants were frozen on September 30, 2011.

Early Retirement Benefit:

Upon the completion of five years of continuous service and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his early retirement date equal to the benefit accrued at normal retirement date reduced by the following:

- First 60 months between early and normal retirement dates: 5/9% each month.
- Additional months after first 60 months prior to normal retirement date: 5/18% each month.
- If the participant has accumulated eighty-five points, (as of September 30, 2009 for Non-Union Participants) computed as the sum of age and continuous service at termination (years and complete months), and has attained the age of fifty-five he may receive an unreduced monthly benefit for life beginning at this early retirement date equal to his benefit accrued at termination.

Late Retirement Benefit:

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement his accrued benefit calculated using service as of his actual retirement date.

Death Benefit:

In the event of the death of an active married participant who completed five years of service whose benefit payments have not commenced, it will be assumed that the participant had separated from service on the date of death, survived to the earliest retirement age, began receiving a joint and one-half survivor benefit based on the participant's vested accrued benefit, and died on the day after the earliest retirement date.

A spouse may elect a life annuity, a lump sum, or a reduced benefit payable anytime from when the participant would have reached age fifty-five.

III. SUMMARY OF PLAN PROVISIONS (CONT'D)

Vesting: Based on Years of Vesting Service, subject to the following schedule

<u>Years of Service</u>	<u>Vested Percentage</u>
Less than 5 years	0%
5 Years or more	100%

Notwithstanding the above vesting schedule, a participant will become 100% vested upon reaching Normal Retirement Date.

IV. ACTUARIAL METHODS

Actuarial Cost Method

The ultimate cost of a pension plan cannot be determined until the last participant is paid and all obligations are discharged. An Actuarial Cost Method, rather than determining the cost of a pension plan, assigns the overall cost to a period of time. The Employee Retirement Income Security Act of 1974 (ERISA) specifies several acceptable cost methods. IRS regulations allow some variations among these methods.

Costs have been computed in accordance with the Accrued Benefit (Unit Credit) method, as described below.

The Normal Cost is the sum of individual normal costs for each participant who has not reached the assumed retirement age. The normal cost for a participant is determined as the actuarial present value of the projected benefit allocated to the current plan year.

In addition, there is a second cost component in which the payment, in the first plan year, is determined as an amortization of the unfunded accrued liability. The accrued liability is defined as the actuarial present value of the portion of the projected benefit that is allocated to prior plan years. This calculation is done for each participant, and then summed to get a total accrued liability. The unfunded accrued liability is the difference between the total accrued liability and the actuarial value of plan assets.

Under the Accrued Benefit (Unit Credit) Method, any change in the accrued liability resulting from experience gains or losses is calculated each plan year and separately amortized in accordance with minimum funding rules. In addition, changes in plan provisions or actuarial assumptions that result in an increase or decrease in the accrued liability will be separately amortized.

The method is the same method described in Section 3.01 of Internal Revenue Procedure 2000-40.

Asset Valuation Method

The actuarial value of the plan assets used in determining plan costs is equal to the "five-year" smoothing of gains and losses method. Under this method, asset gains and losses are recognized at the rate of 20% per year. As a result, the impact of appreciation or depreciation on valuation assets is smoothed. The resulting value is limited to be no less than 80% nor greater than 120% of the fair market value of plan assets. Even when the limitation applies the underlying "five-year" smoothing method will be maintained.

Changes In Actuarial Methods

No changes in actuarial methods have occurred since the prior plan year.

V. ACTUARIAL ASSUMPTIONS

Assumptions Used For The Current Plan Year

Actuarial assumptions are estimates as to the occurrence of future events affecting the costs of the plan such as mortality rates, withdrawal rates, changes in compensation level, retirement ages, rates of investment earnings, expenses, etc. The assumptions have been chosen to anticipate the long-term experience of the plan. The enrolled actuary will certify to the reasonableness of these assumptions, as required by ERISA.

Pre-Retirement Investment Return: 8.00% per annum

Post-Retirement Investment Return: 8.00% per annum

Pre-Retirement Mortality: RP-2000 (Male/Female)

Post-Retirement Mortality: RP-2000 (Male/Female)

Mortality Improvement: None

Withdrawal Rate: Select and ultimate rates of withdrawal are as follows:

<u>Age</u>	<u>Mortality</u>		<u>Termination</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
25	0.000366	0.000207	0.066	0.099
30	0.000444	0.000264	0.050	0.077
35	0.000773	0.000475	0.034	0.054
40	0.001079	0.000706	0.018	0.032
45	0.001508	0.001124	0.012	0.021
50	0.002138	0.001676	0.006	0.011
55	0.003624	0.002717	0.000	0.000

In addition to the above rates, the following rates based on service are added to the termination rates for participants with 10 or fewer years of service:

<u>Termination</u>	<u>Rate</u>
<u>Service</u>	
1	10%
2	9%
3	8%
4	7%
5	6%
6	5%
7	4%
8	3%
9	2%
10	1%

V. ACTUARIAL ASSUMPTIONS (CONT'D)

Disability Rate: None

Salary Scale: 4.00% per annum

Taxable Wage Base: 4.00% per annum

Consumer Price Index: 3.00% per annum

Expenses: None

Assumed Retirement Age: Beginning at age fifty-five, the following rates are assumed:

<u>Age</u>	<u>Probability of Retirement</u>
55	2.0%
55-59	0.8%
60-61	3.0%
62	15.0%
63	7.5%
64	10.0%
65	75.0%
66	80.0%
67	91.0%
68	100.0%

Marital Status: 100% of participants are assumed to be married; wives are assumed to be three years younger than their husbands.

Recommended Funding Level: The recommended contribution is based on the Plan's Normal Cost plus an amortization of the Plan's unfunded liability. If the plan is projected to have no unfunded liability at the end of the Plan Year then no contribution is recommended, if the asset surplus is greater than the Normal Cost. While the Plan is a church plan, and is not subject to the funding requirements of ERISA, the current funding policy follows the ERISA guidelines without regard to the current liability calculations or Pension Protection Act of 2006 modifications.

APPENDIX A Development of Normal Cost

The Normal Cost is the portion of plan benefit costs which is allocated to the current plan year by the Actuarial Cost Method being used. The following represents the development of the Normal Cost under the chosen Actuarial Cost Method, unless the method determines the normal cost on an individual participant basis.

1. Present Value of Benefits	\$	N/A
2. Actuarial Value of Assets		N/A
3. Unamortized Balance of Amortization Bases (412)/ Unfunded Liability (404)		N/A
4. Funding Standard Account Credit Balance (412)/ Prior year's carry forward (404)		N/A
5. Accumulated Reconciliation Account (412)		N/A
6. Present Value of Future Normal Cost [(1) - (2) - (3) + (4) + (5)]		N/A
7. Present Value of Future Compensation		N/A
8. Current Compensation		N/A
9. Normal Cost [(6) / (7) x (8)]		738,922
10. Expense Load / Term Cost		0
11. Total Normal Cost [(9) + (10)]	\$	738,922

APPENDIX B Development of Contributions

1. Minimum Contribution	July 1, 2012	July 1, 2011
a. Actuarial funding level		
i. Accrued liability	108,357,275	105,749,299
ii. Actuarial Value of Assets	93,201,405	100,556,671
iii. Unfunded Actuarial Accrued Liability (UAAL) ((1.a.i. - 1.a.ii.), max 0)	15,155,870	5,192,628
b. 30 Year Amortization of UAAL	1,246,534	427,081
c. Normal cost	738,922	943,723
d. Interest (0.08 x (1.b. + 1.c.))	158,836	109,664
e. Minimum Contribution [(1.b. + 1.c. + 1.d.), if 1.b. > 0]	2,144,292	1,480,468
2. Recommended Contribution		
a. Normal Cost	738,922	943,723
b. 10 Year Amortization of UAAL	2,091,363	716,532
c. Interest (0.08 x (2.a. + 2.b.))	226,423	132,820
d. Subtotal	3,056,708	1,793,075
e. Recommended Contribution (greater of (2d) and (1e), not less than 0)	3,056,708	1,793,075

3. Contribution to reach 100% funding level projected to the end of the plan year

	July 1, 2012	July 1, 2011
a. Actuarial Funding Level		
i. Lesser of Market Value and Actuarial Value of Assets	\$ 85,872,858	\$ 94,016,429
ii. Projected beginning of year funding shortfall (1.a.i. + 1.c. - 3.a.i.)	23,223,339	12,676,593
iii. Projected end of year funding shortfall (3.a.ii.x 1.08)	25,081,206	13,690,720
b. Contribution to reach 100% funding level projected to the end of the plan year	25,081,206	13,690,720

APPENDIX C Development of Actuarial Value of Assets

Development of Actuarial Value of Assets

1.	Actuarial value as of July 1, 2011 (Without 80 - 120% limitations)	\$	100,556,671	
2.	Market value as of July 1, 2011		94,016,429	
3.	Employer contribution made during the Plan Year		0	
4.	Benefit payments from July 1, 2011 through June 30, 2012		6,432,583	
5.	Expected interest at 8.00% through June 30, 2012			
a.	On (1)		8,044,534	
b.	On (3)		0	
c.	On (4)		278,745	
d.	Net expected interest [(a) + (b) - (c)]		7,765,789	
6.	Expected market value as of June 30, 2012 [(2) + (3) - (4) + (5d)]		95,349,635	
7.	Actual market value as of June 30, 2012		85,872,858	
8.	Market value gain (loss) from July 1, 2011 to June 30, 2012 [(7) - (6)]		(9,476,777)	
9.	Recognition of actuarial value gain (loss) amounts			
	<u>Plan Year</u> <u>Ending</u>	<u>Original</u> <u>Gain (Loss)</u>	<u>June 30, 2012</u> <u>Balance</u>	
			<u>Amount to</u> <u>Recognize on</u> <u>July 1, 2012</u>	
a.	June 30, 2008	\$ (15,098,430)	(3,019,686)	(3,019,686)
b.	June 30, 2009	(29,683,515)	(11,873,406)	(5,936,703)
c.	June 30, 2010	1,501,179	900,707	300,236
d.	June 30, 2011	9,315,182	7,452,146	1,863,036
e.	June 30, 2012	(9,476,777)	(9,476,777)	(1,895,355)
f.			Total:	\$ (8,688,472)
10.	Actuarial value as of July 1, 2012 [(1) + (3) - (4) + (5d) + (9f)]:	\$	93,201,405	
11.	Actuarial value as a percentage of market value		108.53%	
12.	Employer Contribution Receivable	\$	0	
13.	Actuarial value as of July 1, 2012 including Employer Contribution Receivable	\$	93,201,405	
14.	Actuarial value as of July 1, 2012 including Employer Contribution Receivable, limited to at least 80% and maximum of 120% of market value as of July 1, 2012	\$	93,201,405	

APPENDIX D - Participant Data**A. Reconciliation of Participant Data**

	Actives	Inactives Per-diem	Terminated with Vested Benefits	Retirees & Beneficiaries	Total
Total as of July 1, 2011	1,054	50	926	853	2,883
New Entrants	0	0	0	0	0
Rehires	2	2	0	0	4
Terminated Vested	(151)	(10)	161	0	0
Terminated Nonvested	(24)	(14)	0	0	(38)
Active Deaths	0	0	0	0	0
Terminated Vested Deaths	0	0	(1)	0	(1)
New Retirees	(37)	(2)	(27)	66	0
New Beneficiaries	0	0	0	0	0
Retiree/Beneficiary Deaths	0	0	0	(22)	(22)
Inactive Per-diem	(17)	17	0	0	0
Per-diem returned to Actives	3	(3)	0	0	0
Lump Sum Payment	0	0	0	0	0
Data Adjustments	0	0	1	1	2
Total as of July 1, 2012	830	40	1,060	898	2,828

Notes:

As of July 1, 2012, the benefits accruing under the Plan are only for the Participants who are the members of the UNAP. There were 830 active participants of which 200 (24.1%) continue to accrue additional benefits given that they are members of the UNAP.

This is non-electing Church Plan that is not subject to 411(d)(3) of the Internal Revenue Code. Therefore, the partial termination rules of that section do not apply. We have reviewed the reduction in the active population as a result of Employer initiated terminations and concluded that the reduction does not result in a partial termination of the plan as of July 1, 2012.

APPENDIX D - Participant Data (Continued)**B. Age and Service Distribution of Active Participants**

<u>Age</u>	<u>Service</u>									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 +	
0-19	-	-	-	-	-	-	-	-	-	0
20-24	1	2	-	-	-	-	-	-	-	3
25-29	4	11	2	-	-	-	-	-	-	17
30-34	1	29	10	-	-	-	-	-	-	40
35-39	5	24	14	7	-	-	-	-	-	50
40-44	3	32	18	15	12	2	-	-	-	82
45-49	6	36	24	10	20	18	2	-	-	116
50-54	2	41	22	17	23	26	42	7	-	180
55-59	7	24	19	18	19	22	29	36	7	181
60-64	2	22	13	7	10	8	13	13	35	123
65-69	-	3	3	5	1	1	5	2	4	24
70-74	-	3	1	1	1	2	2	3	1	14
75-79	-	-	-	-	-	-	-	-	-	0
80-84	-	-	-	-	-	-	-	-	-	0
85+	-	-	-	-	-	-	-	-	-	0
Total	31	227	126	80	86	79	93	61	47	830

EXHIBIT 9

**St. Joseph Hospital Services of Rhode Island Retirement Plan
Historical Actuarial Information 7/1/2003 – 6/30/2013**

	7/1/2012	7/1/2011	7/1/2010	7/1/2009	7/1/2008	7/1/2007	7/1/2006	7/1/2005	7/1/2004	7/1/2003
Minimum Contribution	\$2,144,292	\$1,480,468	\$1,433,706	\$1,444,178	\$0	\$0	\$0	\$0	\$0	\$0
Recommended Maximum Contribution	\$3,056,708	\$1,793,075	\$1,626,074	\$1,624,311	\$2,118,043	\$2,151,319	\$2,052,351	\$0	\$0	\$0
Market Value of Assets	\$85,872,858	\$94,016,429	\$82,524,766	\$78,260,116	\$104,417,252	\$114,718,822	\$102,323,479	\$94,892,973	\$89,475,173	\$80,687,937
Present Value of Accrued Benefits (PVAB)	\$106,568,565	\$103,228,652	\$99,297,259	\$94,770,770	\$88,272,495	\$82,413,392	\$76,100,377	\$71,820,978	\$66,950,823	\$60,221,708
Assets minus PVAB	(20,695,707)	(9,212,223)	(16,772,493)	(16,510,654)	\$16,144,757	\$32,305,430	\$26,223,102	\$23,071,995	\$22,524,350	\$20,466,229
Annual Return on Assets	-1.9%	21.8%	13.0%	-20.8%	-7.4%	16.8%	11.7%	10.1%	14.9%	N/A
Assets/PVAB (%)	80.6%	91.1%	83.1%	82.6%	118.3%	139.2%	134.5%	132.1%	133.6%	1.34%

EXHIBIT 10

Change in Effective Control Application

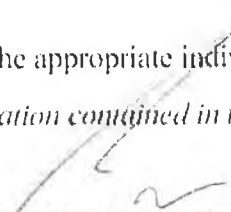
Version 11.23.12

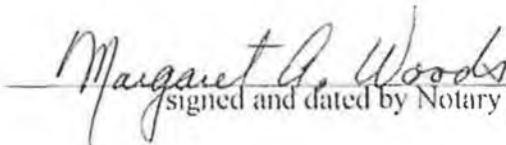
Name of Applicants: Prospect Medical Holdings, Inc.
Name of Facilities: Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, Elmhurst Extended Care
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000.00 for Roger Williams Medical Center, \$20,000 for St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, and \$20,000 for Elmhurst Extended Care

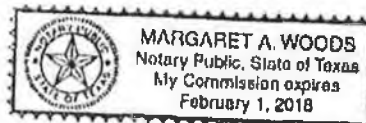
All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14



Change in Effective Control Application

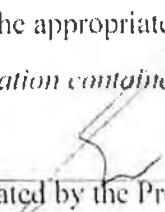
Version 11.23.12

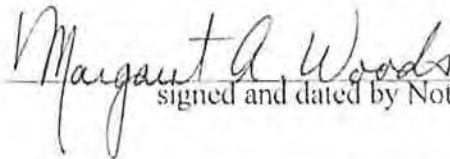
Name of Applicants: Prospect East Holdings, Inc.
Name of Facilities: Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, Elmhurst Extended Care
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000.00 for Roger Williams Medical Center, \$20,000 for St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, and \$20,000 for Elmhurst Extended Care

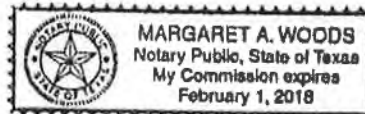
All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14



Change in Effective Control Application

Version 11.23.12

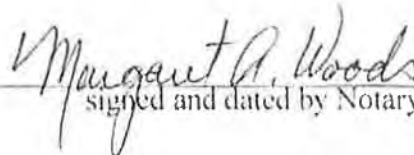
Name of Applicants: Prospect CharterCARE, LLC
Name of Facilities: Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, Elmhurst Extended Care
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000.00 for Roger Williams Medical Center, \$20,000 for St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital, and \$20,000 for Elmhurst Extended Care

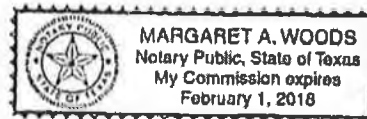
All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14



Change in Effective Control Application

Version 11.23.12


Name of Applicants: Prospect CharterCARE RWMC, LLC
Name of Facilities: Roger Williams Medical Center
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000.00 for Roger Williams Medical Center

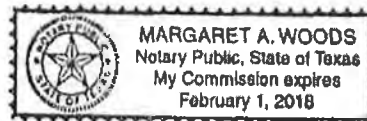
All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14



Change in Effective Control Application

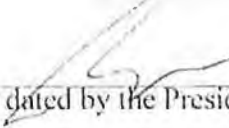
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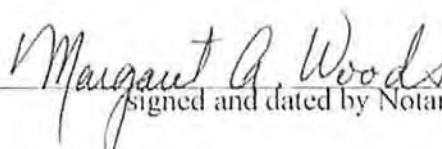
Name of Applicants: Prospect CharterCARE SJHSRI, LLC
Name of Facilities: St. Joseph Health Services of Rhode Island
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000 for St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital

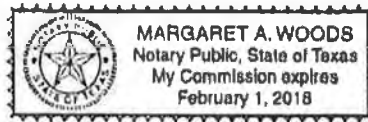
All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true."


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14



Change in Effective Control Application

Version 11.23.12

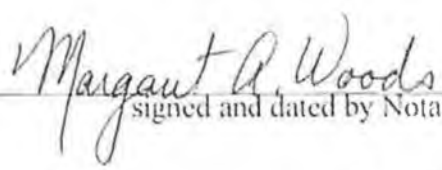
Name of Applicants: Prospect CharterCARE Elmhurst, LLC
Name of Facilities: Elmhurst Extended Care
Date Application Submitted: Initial Application: October 18, 2013 Supplemental Application: January 8, 2014
Amount of Fee: \$20,000 for Elmhurst Extended Care

All questions concerning this application should be directed to the Office of Health Systems Development at (401) 222-2788

Please have the appropriate individual attest to the following:

"I hereby certify that the information contained in this application is complete, accurate and true"


signed and dated by the President or Chief Executive Officer 1/7/14


signed and dated by Notary Public 1/7/14

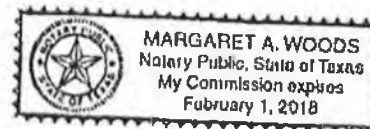


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1. Please provide an executive summary describing the nature and scope of the proposal. Additionally, please include the following: (1) identification of all parties, (2) description of the applicant and its licensure track record, (3) the type of transaction proposed including description of the transaction and relevant costs, (4) summary of all transfer documents, and (5) summary of the organizational structure of the applicant and its affiliates.

Response:

Executive Summary of the Proposed Transaction

Prospect Medical Holdings, Inc. (“PMH”) and CharterCARE Health Partners (“CCHP”) have proposed a post-closing structure in which those two entities will form a partnership (Prospect CharterCARE, LLC) to own and operate all of the health care entities associated with CCHP including, without limitation, the two acute-care, community hospitals that currently operate as Roger Williams Medical Center and Our Lady of Fatima Hospital.

The partnership is a unique model that allows CCHP to retain a significant stake in the ongoing ownership and governance of Prospect CharterCARE, LLC, so as to ensure the continuance of the community mission coupled with access to the substantial capital and management resources necessary to address the challenges of today’s healthcare industry.

PMH is a healthcare services company that owns and operates hospitals and manages the provision of healthcare services for managed care enrollees through its network of specialists and primary care physicians. PMH is the parent entity of eight (8), acute care and behavioral hospitals located in California and Texas. In total, PMH owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics. Through PMH’s medical group segment, PMH owns and/or manages the provision of physician services to approximately 180,000 enrollees of Healthcare Management Organizations (“HMOs”) in southern California through a network of approximately 1,100 primary care and 2,200 specialty physicians. As a pioneer in “at risk” contracting, PMH is at risk for the medical services provided to 151,700 enrollees and is at risk for both medical and hospital services for 11,150 of these enrollees. Furthermore, the PMH hospitals in Los Angeles have signed contracts to assume and manage the risk for hospital services for an additional 35,800 Medicaid enrollees.

The entities with ownership interest in PMH are holding companies with no operational role, governance, or financial contribution. The ownership of PMH is as follows:

Ivy Intermediate Holding Inc. (“IIH”), a Delaware corporation, owns 100% of the stock of PMH. IIH is a holding company for such stock ownership. It has no other assets, liabilities or operations. Ivy Holdings Inc. (“IH”), a Delaware corporation, owns 100% of the stock of IIH. IH is a holding company for such stock ownership. It has no other assets, liabilities or operations.

The investment in the holding companies identified at IIH and IH above is as follows:

The affiliated investment funds of Leonard Green & Partners, L.P. (“LGP”) own approximately 61.3% of the common stock of IH. The affiliated funds are Green Equity Investors V, L.P., Green Equity Investors Side V, L.P. and Ivy LGP Co-Invest LLC.

Additionally, current and former employees of PMH and its subsidiaries own the remaining shares of IH stock. Samuel Lee (20.2%) is the Chief Executive Officer (CEO) of PMH and the Chairman of its Board of Directors. David Topper (14.9%) is the President and former co-founder (with Mr. Lee) of Alta Hospitals System, LLC, which is PMH’s subsidiary that owns its California hospital operations. Jeerreddi Prasad, M.D. (1.2%) is the President and former co-founder of ProMed Health Care Administrators, a medical group management services organization wholly-owned by PMH. Michael Heather (1.6%) is a former Chief Financial Officer (CFO) of PMH.

CCHP operates a healthcare system in the City of Providence and the Town of North Providence which includes Roger Williams Medical Center and St. Joseph's Health System of Rhode Island.

Roger Williams Medical Center ("RWMC") is a 220-bed acute care, community hospital located in Providence, Rhode Island. St. Joseph Health Services of Rhode Island ("SJHSRI"), operates Our Lady of Fatima Hospital ("Fatima Hospital"), which is a 278-bed acute care, community hospital located in North Providence, Rhode Island (Fatima Hospital and RWMC are defined herein as the "Existing Hospitals").

In 2008 and 2009, the RWMC and SJHSRI systems were losing in excess of \$8M a year from operations alone. In an effort to stem those losses, those independent systems agreed to affiliate through the creation of CCHP. The purpose of the affiliation was to realize approximately \$15M in savings over 5 years utilizing efficiencies created by the combined hospital systems as well as to preserve and expand healthcare services to the Existing Hospitals' communities. In 2009, the affiliation was approved by the Rhode Island Department of Health and the Rhode Island Attorney General. If the CCHP affiliation had not been approved, the Roger Williams and Fatima Hospital systems would have had difficulty operating independently.

As a result of the CCHP affiliation, significant operational efficiencies have been achieved. Based on operating revenue alone, the combined CCHP hospital systems have reduced operating losses to approximately \$3M per year. Although a significant improvement, these losses cannot be sustained. Furthermore, although sufficient capital expenditures have been made to the facilities, the physical plants at the Existing Hospitals are aging and need upgrading.

Of additional concern are pension costs (this same issue is impacting hospitals throughout the country). If pension losses are taken into consideration, the CCHP system will, over the long term, incur significant losses. Furthermore, CCHP's laudable efforts to drastically reduce the loss do not address the need for access to capital.

The potential result of continued losses would be devastating to the local economy. The CCHP system contributes \$524M per year into Rhode Island's economy, employs approximately 3,000 people, and provides over \$25M in free medical care every year to those who could not otherwise afford such care.

In an effort to ensure the continued viability of the Existing Hospitals, In December of 2011, CCHP issued a Request for Proposals (the "RFP") seeking a partner. In August of 2012, PMH submitted a response to the RFP. The parties then undertook negotiations relative to PMH's proposal. In March of 2013, after a joint meeting of the boards of CCHP and the Existing Hospitals, and an analysis of a number of different options, CCHP chose PMH's proposal. In March of 2013, a Letter of Intent was executed by and between PMH and CCHP.

On September 24, 2013, the parties executed an Asset Purchase Agreement ("APA").

Through the proposed transaction PMH will purchase an 85% interest in the Existing Hospitals and CCHP will retain a 15% interest in the Existing Hospitals. Furthermore, CCHP will appoint 50% of the membership of the governing board and PMH will appoint 50% of the membership of the governing board. This is referred to by the Transacting Parties as the "50/50 Board".

After the purchase the parties will jointly own Prospect CharterCARE, LLC which will own and operate the entities that will hold the licensure for RWMC and Fatima Hospital. This model will allow the Existing Hospitals to retain their local community mission and leadership, while at the same time gain access to capital and resources (and in particular, expertise in population management through risk contracts) that PMH can provide.

After the transaction, for tax purposes, Prospect CharterCARE, LLC will be classified as a for profit entity. However, since the Existing Hospitals currently lose a significant amount of money each year, the proposed transaction is not viable if Prospect CharterCARE, LLC cannot arrive at agreements with entities at the state, city and town levels regarding stabilization/exemptions from certain taxes.

With regards to the specific items of information requested in Question 1, the Applicants respond as follows:

(1) Parties

(a) Acquirees:

The acquirees are comprised of the following structure:

- Roger Williams Medical Center, defined above as RWMC, is a 220-bed acute care, community hospital located in Providence, Rhode Island. RWMC is a wholly-owned subsidiary of CCHP.
- St. Joseph Health Services of Rhode Island, defined above as SJHSRI, of which CCHP is the sole Class A Member, and the Bishop of Providence is the sole Class B Member. SJHSRI operates Fatima Hospital, which is a 278-bed acute care, community hospital located in North Providence, Rhode Island and the Center for Health and Human Services clinics in South Providence and Pawtucket.
- Elmhurst Extended Care Facilities, Inc. (“EEC”) is a licensed, non-profit nursing home located at 50 Maude Street in Providence, Rhode Island which is wholly owned by CCHP.
- The Existing Hospitals were converted to the current CCHP structure per decision issued by the Rhode Island Department of Health and the Rhode Island Attorney General’s Office in July, 2009.

Therefore, the parties with regard to the acquirees are as follows:

- CCHP
- SJHSRI (Fatima Hospital)
- RWMC
- EEC

(b) Acquiror:

The Acquiror, pre-closing is an organizational structure existing under a parent entity, Prospect Medical Holdings, Inc., defined above as PMH.

Post-closing, PMH will wholly own Prospect East Holdings, Inc. Prospect East Holdings, Inc. will hold PMH’s 85% ownership in Prospect CharterCARE, LLC. The remaining 15% ownership in Prospect CharterCARE, LLC will be held by CCHP. However, the governing board of Prospect CharterCARE, LLC will be a 50/50 Board.

In turn, Prospect CharterCARE, LLC will be managed by Prospect East Hospital Advisory Services, LLC, an entity wholly owned by PMH.

Prospect CharterCARE, LLC will own the following entities that will hold the licensure for the facilities themselves: (i) Prospect CharterCARE RWMC, LLC (“Newco RWMC”), (ii) Prospect CharterCARE SJHSRI, LLC (“Newco Fatima”) (collectively, “Newco Hospitals”) and (iii) Prospect CharterCARE Elmhurst (“Newco Elmhurst”) (the Newco Hospitals and Newco Elmhurst are collectively referenced herein as the “Licensed Entities”).

Accordingly, the parties with regard to the Acquiror are as follows:

- PMH, a Delaware corporation with a principal place of business in Los Angeles, California. PMH’s role with regard to the below listed entities is primarily financial in that, as detailed below, it will be the source of the \$45M dollar purchase price as well as the \$50M Long-Term Funding Commitment as defined below. In addition, from an operations perspective, the Chief Financial Officer of Prospect CharterCARE will have dotted line reporting responsibility to the Chief Financial Officer of PMH. Other

than the items listed above, PMH will not have an operational, governance, or financial role with the below listed entities.

- Prospect East Holdings, Inc. (“Prospect East”) a Delaware corporation and a wholly-owned subsidiary of PMH, which will hold PMH’s interest in Prospect CharterCARE, LLC, post-closing.
- Prospect East Hospital Advisory Services, LLC (“Prospect Advisory”), a Delaware limited liability company, which is a sister entity of Prospect East and a wholly owned subsidiary of PMH. Prospect Advisory will manage the day-to-day operations of Prospect CharterCARE, LLC, post-closing. The details of Prospect Advisory’s management role are set forth below.
- Prospect CharterCARE, LLC, a Rhode Island limited liability company, will be the entity that will own the entities that hold licensure for the Licensed Entities, post-closing. Prospect CharterCARE, LLC will be owned 85% by Prospect East and 15% by CCHP.
- Prospect CharterCARE RWMC, LLC (“Newco RWMC”), a Rhode Island Limited Liability Company, which will hold the licensure for Roger Williams Medical Center post-closing. Newco RWMC will be wholly owned by Prospect CharterCARE, LLC.
- Prospect CharterCARE SJHSRI, LLC (“Newco Fatima”), a Rhode Island Limited Liability Company, which will hold the licensure for Our Lady of Fatima Hospital post-closing. Newco Fatima will be wholly owned by Prospect CharterCARE, LLC.
- Prospect CharterCARE Elmhurst, LLC (“Newco Elmhurst”), a Rhode Island Limited Liability Company, which will hold the licensure for Elmhurst post-closing. Newco Elmhurst will be wholly owned by Prospect CharterCARE, LLC.

(c) Prospect Advisory’s Management Services, Management Fee and Experience:

Prospect Advisory’s Management Services

Prospect Advisory will provide the following management services to Prospect CharterCARE and its associated healthcare facilities:

1. Management Oversight

Prospect Advisory will supervise and manage the day to day business affairs and operations of Prospect CharterCARE and its associated healthcare facilities.

2. Chief Executive Officer of the Facilities

Ken Belcher will be the CEO of the Licensed Entities and will perform all functions and duties associated with such office. Senior management of Prospect Advisory will work closely with Mr. Belcher.

3. Business Developments/Strategy

Prospect Advisory, with the assistance of Prospect CharterCARE’s management, will assist in the development of short, medium and long term plans, objectives and goals for Prospect CharterCARE and shall present the plans, objectives and goals to Prospect CharterCARE for review and approval. Upon such approval, Prospect Advisory will cause Prospect CharterCARE to be operated in compliance with such plans, objectives and goals.

4. Operations

Prospect Advisory will work with Prospect CharterCARE to develop policies and operating procedures for Prospect CharterCARE and each of its facilities.

- a. Expenditures and Contracts. Prospect Advisory will work with Prospect CharterCARE management to develop policies and operating procedures for Prospect CharterCARE and each of its facilities.
- b. Capital Expenditure Management. Prospect Advisory will assist Prospect CharterCARE with capital expenditure evaluation and procurement.
- c. Supply Chain Management. Prospect Advisory will provide Prospect CharterCARE access to participate in one or more of Prospect Advisory's volume purchasing programs and systems as appropriate.
- d. Reimbursement. Prospect Advisory will from time-to-time and as appropriate provide third party reimbursement strategies and consultation on strategy and compliance with all applicable reimbursement rules.
- e. Audit. Prospect Advisory will as appropriate and in its discretion conduct periodic audits of Prospect CharterCARE and shall report the results thereof to Prospect CharterCARE. In conjunction with the audit, Prospect Advisory will provide recommendations to help ensure financial data integrity, reduce expenses, capture additional revenues, and improve cash flow.
- f. Legal. Prospect Advisory will provide access to its staff attorneys to assist Prospect CharterCARE with operational issues as necessary.
- g. Compliance Programs. Prospect Advisory will work with Prospect CharterCARE management to develop, implement and maintain a compliance program that is committed to promoting, preventing, detecting and resolving instances of conduct that do not conform to federal or state laws.
- h. Treasury. Prospect Advisory may at its discretion and as appropriate review cash account and bank fees for cost savings opportunities, recommend cash receipt and disbursement processes to improve efficiencies, identify and assess risk and reward profiles associated with incremental investment activities and assist management to identify and select treasury and finance systems and systems implementation.
- i. Financial/Accounting. Prospect Advisory will assist Prospect CharterCARE management in establishing, maintaining, and supervising Prospect CharterCARE's accounting systems and supervise the preparation of monthly and annual statements of income and loss.
- j. Revenue Cycle Management. Prospect Advisory will oversee the business operations of Prospect CharterCARE. Upon Prospect CharterCARE's request, Prospect Advisory will provide additional, specialized services to focus on specific areas of revenue cycle.

5. Human Resources

Prospect Advisory will provide advice and recommendations to Prospect CharterCARE's human resource functions. In that regard, Prospect Advisory will:

- a. Develop strategies with respect to Prospect CharterCARE's unions, CBA negotiations, and other labor relations matters.
- b. Develop and administer employee benefit plans and conditions of employment for Prospect CharterCARE.
- c. Provide assistance with personnel, including without limitation the recruitment and retention of physicians, executive management and other medical and non-medical personnel.
- d. Provide assistance in the development and administration of human resource and payroll policies.

6. Insurance

Prospect Advisory will have the responsibility and authority to enter into appropriate insurance contracts.

7. Public Affairs

Prospect Advisory will assist Prospect CharterCARE with local and national media relations.

Management Fee

Prospect Advisory will be compensated through a management fee. The management fee will be equal to 2% of net revenues and will be paid on a monthly basis.

Experience

The individuals with the primary supervisory role at Prospect Advisory will be Thomas Reardon and Barbara Groux. They bring a varied healthcare background to the disposal of Prospect CharterCARE as a healthcare attorney, a healthcare executive, and successful turnaround and restructuring officers. Additionally, they have also successfully performed in all aspects of the acquisition and management of financially distressed, acute care hospitals. Further, they have had the opportunity to serve in such capacities while newly acquired hospitals were merged into larger hospital systems. Additionally, Prospect Advisory will have the experience and knowledge of the employees of PMH at its disposal which includes the successful management of eight (8) hospitals in California and Texas.

(2) Description of the applicants

The applicants are as follows:

- (a) Prospect CharterCARE, LLC;
- (b) Prospect CharterCARE RWMC, LLC;
- (c) Prospect CharterCARE SJHSRI, LLC; and
- (d) Prospect CharterCARE Elmhurst, LLC.

(3) Type of Transaction and Costs of the Transaction

PMH and CCHP are proposing to form a partnership to own and operate RWMC, Fatima Hospital, and EEC, as well as the other assets of the CCHP network. The Proposed Partnership will be owned 85% by PMH (a for-profit entity) and 15% by CCHP (a not for profit entity). However, the governing board of the Proposed Partnership will be a 50/50 Board. The purchase price offered by PMH for 85% of the Proposed Partnership is \$45M. Additionally, PMH has committed to future capital contributions of \$50M ("Long-Term Funding Commitment"). The Long-Term Funding Commitment is in addition to a routine capital investment of at least \$10M per year to be reinvested by Prospect CharterCARE, LLC.

The specific uses of the Long-Term Funding Commitment will be determined post-closing after appropriate studies and analyses are undertaken. Though, under the APA, the Long-Term Funding Commitment may be utilized to address (i) the development and implementation of physician engagement strategies, and (ii) projects related to facilities and equipment, including but not limited to:

- expansion of the cancer center at RWMC,
- expansion of the emergency department at RWMC,
- renovation/reconfiguration of the emergency department at Fatima,
- renovation of the operating rooms at RWMC,
- conversion of all patient rooms to private rooms at both Hospitals,
- renovation and expansion of the ambulatory care center at Fatima,
- new windows at both Hospitals,
- a new generator at Fatima,
- a facelift for the facades at both Hospitals, and
- access for the handicapped at the front entrances of both Hospitals.

The specific capital projects to be funded will be determined by Prospect CharterCARE, LLC's Board of Directors which will be a 50/50 Board as detailed above.

(4) Summary of all Transfer Documents

Asset Purchase Agreement:

The APA provides for the proposed transaction.

Amended and Restated Operating Agreement: This will be the operating agreement for Prospect CharterCARE, LLC.

Transfer and Assignment of Membership Interest: Prospect East will transfer and assign a 15% membership interest in Prospect CharterCARE, LLC to CCHP.

Interim Management Agreement: This agreement identifies advisory services that PMH will provide to CCHP prior to closing.

Management Services Agreement: This Agreement will be executed between Prospect CharterCARE, LLC and Prospect Advisory regarding Prospect Advisory's management of Prospect CharterCARE, LLC.

Quitclaim Deed: This will be executed by Sellers with respect to the Purchased Assets that consist of real property.

Bills of Sale: One or more bills of sale will be executed as necessary for the transfer of Purchased Assets that consist of personal property.

Landlord Estoppels: This will be an estoppel from all landlords of leased real property.

Tenant Estoppel Certificates: This will be estoppel certificates from all tenants.

Leasehold Assignment and Assumption Agreements: These agreements will be executed regarding all leases to be assumed by Prospect CharterCARE, LLC.

(5) Summary of the Organizational Structure of the Applicant and their Affiliates

For a summary of the organizational structure of PMH and CCHP, please see responses 1(a)-(b) above, as well as the organizational charts at **Exhibits 15A-1 through 15B**.

PMH

With regard to PMH's affiliates, PMH is the parent entity of eight (8), acute care and behavioral hospitals located in California and Texas. PMH's "hospital affiliates" are as follows:

- Alta Hospital Systems, LLC, a California limited liability company, which is a wholly owned subsidiary of PMH, whose purpose is to act as a holding company for Alta Hollywood Hospitals, Inc. and Alta Las Angeles Hospital, Inc.
- Alta Hollywood Hospitals, Inc., a California corporation, which is a wholly-owned subsidiary of Alta Hospital Systems, LLC, whose purpose is to act as the operating company for Hollywood Community Hospital, Hollywood Community Hospital at Brotman Medical Center and Van Nuys Community Hospital.
- Alta Los Angeles Hospital, Inc., a California corporation, which is a wholly-owned subsidiary of Alta Hospital Systems, LLC, whose purpose is to act as the operating company for Los Angeles Community Hospital and Norwalk Community Hospital.
- Prospect Hospital Holdings, LLC, a Texas limited liability company, which is a wholly owned subsidiary of Prospect Medical Holdings, Inc., whose purpose is to act as a holding company for the Nix entities detailed below.

- Nix Hospital System, LLC, a Texas limited liability company, which is a wholly-owned subsidiary of Prospect Hospital Holdings, LLC, whose purpose is to act as the operating company for Nix Health Care System and Nix Specialty Health Center.
- Nix Heath Services Corporation, a 501(a) Texas non-profit corporation, which is a wholly-owned subsidiary of Nix Hospital System, LLC, whose purpose is to operate and hold the medical foundation for the Nix Hospital System, LLC.
- Nix Community General Hospital, LLC, a Texas limited liability company, which is a wholly-owned subsidiary of Prospect Hospital Holdings, LLC, whose purpose is to act as the operating company for Nix Community General Hospital.
- Nix Services, LLC, a Texas limited liability company, which is a wholly-owned by Prospect Hospital Holdings, LLC, whose purpose is to operate a billing business for Prospect Hospital Holding, LLC's subsidiaries.
- Nix Spe, LLC, a Texas limited liability company, which is wholly-owned by Prospect Hospital Holdings, LLC, whose purpose is to own the real property used in the operation of PMH's "Nix" facilities.

As for non-hospital affiliates, PMH owns and operates specialty and primary care clinics and maintains a medical group segment. The PMH non-hospital affiliates are as follows:

- Prospect Medical Systems, Inc. ("PMSC"), a Delaware Corporation, which is a wholly owned subsidiary of PMH. PMSC manages the physician organizations detailed below that offer medical services to individuals enrolled in managed care programs offered by health maintenance organizations.
- ProMed Health Care Administrators, a California Corporation, which is wholly owned by PMSC. ProMed Health Care Administrators manages the physician organizations detailed below that offer medical services to individuals enrolled in managed care programs offered by health maintenance organizations.
- PHP Holdings Inc., a Delaware Corporation, which is a wholly-owned subsidiary of PMH, whose purpose is to act as a holding company for Prospect Health Plan, Inc.
- Prospect Health Plan, Inc., a Delaware Corporation, which is a wholly-owned subsidiary of PHP Holdings Inc., whose purpose is to hold certain licenses necessary for the use of "global risk" capitation arrangements in California.
- Prospect Medical Group, Inc. ("PMG"), is a California professional medical corporation. PMG is the holding company for the affiliate physician organizations detailed below.
- Prospect Health Source Medical Group, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- Prospect Professional Care Medical Group, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- Geniuses HealthCare of Southern California, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- Prospect NWOC Medical Group, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- StarCare Medical Group, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- AMVI/Prospect Medical Group ("AMVI"), is a California professional medical corporation, and is an affiliate physician organization. It is a 50/50 joint venture between AMVI Healthcare Network, Inc. and PMG.

- Nuestra Family Medical Group, Inc., is a California professional medical corporation, and is an affiliate physician organization. It is 62% owned by PMG.
- Upland Medical Group, is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.
- Pomona Valley Medical Group, Inc., is a California professional medical corporation, a wholly owned subsidiary of PMG, and is an affiliate physician organization.

Licensure

A complete list of pending or adjudicated complaints, investigations and violations within the last three years against PMH and its subsidiaries are fully detailed in response to inquiry numbers 20, 21, and 22. In summary, nothing detailed in the response to inquiry numbers 20, 21, and 22 have impacted the licensure of PMH or its subsidiaries. All such licenses are currently in good standing. As required by Appendix B of the within Application, notices have been sent to the appropriate licensing entities in California and Texas requesting comment.

CCHP

CCHP does not have an interest in any other hospitals, but for the parties identified herein.

CCHP has an interest in the following non-hospital affiliates:

- Elmhurst Extended Care Facilities, Inc. (“Elmhurst”), a nursing facility located at 50 Maude Street in Providence, Rhode Island. A separate Change in Effective Control application will be filed for Elmhurst.
- Roger Williams Realty Corporation, an entity that holds and manages real estate assets for the benefit of CCHP, owns and leases land and buildings to Elmhurst, and leases clinical and research space to RWMC. It is currently a not-for-profit organization.
- RWGH Physician’s Office Building, Inc. (“POB”), an entity that owns and operates a physician office building located adjacent to RWMC’s main campus for the benefit of CharterCARE’s employed physicians. POB is currently a not-for-profit organization.
- Roger Williams Medical Associates, Inc., an entity established to arrange for the provision of medical services to patients of both RWMC and SJHSRI and individuals in the communities serviced by RWMC and SJHSRI.
- Roger Williams PHO, Inc., a physician health organization formed for the purpose of negotiating managed care contracts.
- Elmhurst Health Associates, Inc., an entity that holds the licenses for RWMC’s outreach laboratories. It is a for-profit organization.
- Our Lady of Fatima Ancillary Services, Inc., an entity that holds licensure for the SJHSRI outreach laboratories and provides imaging services to area physicians and medical practices. Our Lady of Fatima Ancillary Services is a for-profit organization.
- The Center for Health and Human Services, provides outpatient health care clinical services in two clinic locations, South Providence and Pawtucket.
- SJH Energy, LLC, a single member LLC established to purchase wholesale energy to support the operation needs of CCHP and affiliates.

- Rosebank Corporation, an entity that holds and manages real estate assets for the benefit of CCHP. Rosebank owns several parking lots on the main campus of RWMC and several other properties adjacent to the main campus. Rosebank is a for-profit organization.
- CharterCARE Health Partners Foundation is a not-for-profit corporation whose mission is to raise funds for the benefit of CCHP and its affiliates. On August 22, 2011, the Saint Joseph Foundation changed its name to CharterCARE Health Partners Foundation, removed itself from the Official Catholic Directory, and became a subsidiary of CCHP.

2. Name and address of the applicants:

Name: Prospect CharterCARE, LLC	Telephone: (401) 456-2001
Address: 825 Chalkstone Avenue, Providence, RI 02908	Zip Code: 02908

Name: Prospect CharterCARE RWMC, LLC	Telephone: (401) 456-2000
Address: 825 Chalkstone Avenue, Providence	Zip Code: 02908

Name: Prospect CharterCARE SJHSRI, LLC	Telephone: (401) 456-3000
Address: 200 High Service Avenue, North Providence	

Name: Prospect CharterCARE Elmhurst, LLC	Telephone: (401) 456-2600
Address: 50 Maude Street, Providence	Zip Code: 02908

Name: Prospect East Holdings, Inc.	Telephone: (310) 943-4500
Address: 10400 Santa Monica Blvd., Suite 400 , Los Angeles, CA	Zip Code: 90025

Name: Prospect Medical Holdings, Inc.	Telephone: (310) 943-4500
Address: 10400 Santa Monica Blvd., Suite 400 , Los Angeles, CA	Zip Code: 90025

3. Name and address of facilities (if different from applicant):

N/A

4. Information of the President or Chief Executive Officer of the applicant:

Prospect CharterCARE LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, Prospect CharterCARE, Elmhurst, LLC:

Name: Samuel S. Lee, CEO*	Telephone: (310) 943-4500
Address: Prospect Medical Holdings, Inc., 10400 Santa Monica Blvd., Suite 400	

Los Angeles, CA 90025	
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Prospect Medical Holdings, Inc.:

Name: Samuel S. Lee, CEO	Telephone: (310) 943-4500
Address: Prospect Medical Holdings, Inc., 10400 Santa Monica Blvd., Suite 400 Los Angeles, CA 90025	
E-mail: sam.lee@prospectmedical.com	Fax : (310) 943-4501

Prospect East Holdings, Inc.:

Name: Thomas Reardon, President	Telephone: (617) 686-3730
Address: 166 Argilla Road, Ipswich, MA 01938	
E-mail: Thomas.Reardon@prospectmedical.com	Fax : (978) 356-2056

* The CEO and officers for Prospect CharterCARE, LLC, Newco RWMC and Newco Fatima was appointed at the time of formation of the entities. It is anticipated that the CEO and officers will change post-closing.

5. Information for the person to contact regarding this proposal:

Name: W. Mark Russo	Telephone: (401) 455-1000
Address: Ferrucci Russo, 55 Pine Street, 4 th Floor, Providence, RI	
Zip Code: 02903	
E-Mail: mrusso@frlawri.com	Fax: 401-455-7778

6. A. **EXISTING ENTITY:**

License category: Hospital	
Name of Facility: Roger Williams Medical Center	License #: HOS00108
Address: 825 Chalkstone Avenue, Providence	Telephone: (401) 456-2000
Type of Ownership: <input type="checkbox"/> Individual <input type="checkbox"/> Partnership <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Co.	
Tax Status: <input type="checkbox"/> For Profit <input checked="" type="checkbox"/> Non-Profit	
License category: Hospital	

Name of Facility: St. Joseph Health Services of Rhode Island, Our Lady of Fatima Hospital	
License #:	HOS00110
Address: 200 High Service Avenue, North Providence	Telephone: (401) 456-3000
Type of Ownership: ___ Individual ___ Partnership <u> x </u> Corporation ___ Limited Liability Co.	
Tax Status: ___ For Profit <u> x </u> Non-Profit	

License category: Nursing Facility	
Name of Facility: Elmhurst Extended Care	License #: LTC 00663
Address: 50 Maude Street, Providence, RI	Telephone: (401)456-2600
Type of Ownership: ___ Individual ___ Partnership <u> X </u> Corporation ___ Limited Liability Co.	
Tax Status: ___ For Profit <u> x </u> Non-Profit	

B. PROPOSED ENTITY:

License category: Hospital	
Name of Facility: Prospect CharterCARE RWMC, LLC	License #:
Address: 825 Chalkstone Avenue, Providence	Telephone: (401) 456-2000
Type of Ownership: ___ Individual ___ Partnership ___ Corporation <u> x </u> Limited Liability Co.	
Tax Status: <u> x </u> For Profit ___ Non-Profit	

License category: Hospital	
Name of Facility: Prospect CharterCARE SJHSRI, LLC	
200 High Service Avenue, North Providence	Telephone: (401) 456-3000
Type of Ownership: ___ Individual ___ Partnership ___ Corporation <u> x </u> Limited Liability Co.	
Tax Status: <u> x </u> For Profit ___ Non-Profit	

License category: Nursing Facility	
Name of Facility: Prospect CharterCARE Elmhurst, LLC	License #: LTC 00663
Address: 50 Maude Street, Providence, RI	Telephone: (401)456-2600
Type of Ownership: ___ Individual ___ Partnership ___ Corporation <u> X </u> Limited Liability Co.	
Tax Status: <u> X </u> For Profit ___ Non-Profit	

7. Does this proposal involve a nursing facility? Yes X No ___

- If response to Question 7 is 'Yes', please complete Appendix C.

8. Will the facility be operated under management agreement with an outside party? Yes X No ___

- If response to Question 8 is "Yes", please provide copies of that agreement.

Response:

As detailed in question 1 above, Prospect CharterCARE, LLC will be managed by Prospect Advisory, which is a wholly-owned subsidiary of PMH. A copy of the Prospect Advisory-Prospect CharterCARE, LLC Management Agreement is enclosed at Exhibit H to the APA at **Exhibit 14**.

9. Will the proposal involve the facility/ies providing healthcare services under contract with an outside party? Yes ___ No X

- If response to Question 9 is "Yes", please identify and describe those services to be contracted out.

10. Estimate the date (month and year) for the proposed transfer of ownership, if approved:

Response:

May of 2014

11. Please provide a concise description of the services currently offered by the licensed entity and identify any services that will be added, terminated, expanded, or reduced and state the reasons therefore:

Response:

RWMC and Fatima:

RWMC is an acute care and research hospital. It is affiliated with the Boston University School of Medicine. RWMC is licensed for 220 beds. Fatima is an acute care hospital and operates consistent with the healing mission of the Catholic Church. Fatima is licensed for 278 beds. The services currently offered at the Existing Hospitals are as follows:

- Medical/Surgical Services and Intensive/Coronary Care Unit
- Inpatient and Outpatient Rehabilitation Services, including Sub-acute and Skilled Nursing facility
- Ambulatory Care Services
- Emergency Services
- Inpatient and Outpatient Psychiatric/Mental Health/Addiction Medicine Services
- Diagnostic Imaging and Interventional/Radiology Services, including diagnostic cardiac catheterization
- Laboratory/Pathology
- Inpatient and Outpatient Cancer Services including Blood and Marrow Transplantation/Surgical and Radiation Oncology
- Sleep Lab
- Wound Care/Hyperbaric Services
- Dermatology
- Health center services (GYN & pediatric clinic, adult and pediatric dentistry, immunizations, WIC)

- Homecare/Hospice services

Pursuant to the terms of the APA, such essential services will be maintained at Prospect CharterCARE, LLC for at least five (5) years.

Furthermore, Prospect CharterCARE, LLC will invest in strategic initiatives which may include (i) the development and implementation of physician engagement strategies, and (ii) projects related to facilities and equipment, including but not limited to:

- expansion of the cancer center at RWMC,
- expansion of the emergency department at RWMC,
- renovation/reconfiguration of the emergency department at Fatima,
- renovation of the operating rooms at RWMC,
- conversion of all patient rooms to private rooms at both Hospitals,
- renovation and expansion of the ambulatory care center at Fatima,
- new windows at both Hospitals,
- a new generator at Fatima,
- a facelift for the facades at both Hospitals,
- access for the handicapped at the front entrances of both Hospitals.

The specific capital projects to be funded will be determined by Prospect CharterCARE, LLC's Board of Directors.

In accord with the APA, at Section 13.15 and Exhibit L thereto, the Newco Hospitals, post-transaction, shall maintain all Essential Services for a period of five (5) years. However, in certain instances, these Essential Services may be terminated, suspended or modified.

The reasons that may result in termination, suspension, and/or modification of an Essential Service, as that term is defined in Section 13.15 of the APA and Exhibit L to the APA, can be summarized as follows:

1. It is no longer financially viable to provide the Essential Service. For an Essential Service to be "no longer financially viable", two (2) specific indicia must be proven. First, over a period of twelve (12) consecutive months, the Essential Service must suffer a cumulative net loss which is defined as the actual aggregate revenue associated with such Essential Service over the twelve (12) month period to be less than the actual aggregate expense for providing the Essential Service over the twelve (12) month period. The other indicia that must be present is that for the subsequent twelve (12) month period immediately thereafter, the Essential Service must be projected to suffer a cumulative net loss, meaning that the projected aggregate revenue associated with such Essential Service over such twelve (12) months is projected to be less than the aggregate expense for providing the Essential Service over that same twelve (12) month period.
2. The Newco Hospitals do not have the requisite number of qualified physicians on the medical staff as necessary to support the Essential Service.
3. The Essential Service experiences a significant decrease in patient volumes for reasons that are beyond the reasonable control of the Newco Hospitals. The examples could be a change of technology which renders the Essential Service obsolete, changes in methods, techniques or sites for delivery of this Essential Service. Other examples could be pharmaceutical advancements that render the Essential Service no longer necessary at historic levels. Furthermore, there could be a failure of the Essential Service to qualify for reimbursement under Medicare or any other successor programs, or a material portion of other payors. Finally, there could be other demographic or market changes, or other competitive factors in the marketplace.
4. The actual projected volume or clinical staffing for such Essential Service is insufficient to achieve or maintain a level of quality comparable to other general, acute care community hospitals in the region at which the Essential Service is provided.

EEC:

EEC is a 194-bed nursing facility that provides long term care (including skilled nursing care, physical, occupational and speech therapies, respiratory care, IV therapies, wound care, pain management and individualized meal plans), short-term (Sub-acute) care (including skilled nursing care, physical, occupational and speech therapies, respiratory care, wound care, pain management and individualized meal plans), and Alzheimer's/dementia care (including aromatherapy, horticultural therapy, sensory stimulation, art therapy, music therapy and family support groups).

No services at Newco Elmhurst will be added, terminated, expanded, or reduced.

12. Please identify the long-term plans of the applicant with respect to the health care programs and health care services to be provided at the facility:

Response:

RWMC and Fatima:

Per the terms of the APA, the services listed in response 11 will be maintained for at least 5 years.

The purpose of the proposed transaction is to ensure the viability of the Existing Hospitals. In that regard, PMH has extensive experience in developing successful services and programs in an ever changing health care landscape. Several years prior to the introduction of the Affordable Care Act, PMH was among the first health care providers to adopt an operating model that mirrors the objectives of that legislation. PMH builds regional networks of hospitals and medical groups that contribute to the entire continuum of care.

This coordinated regional care platform allows PMH to respond to the rapid changes in reimbursement and care delivery by operating its hospitals efficiently, aligning physician interest with the efficient and effective delivery of health care, and offering a full continuum of non-acute services in the hospitals' service areas. PMH's goal is to ensure that patients receive the right care, at the right time, in the right setting, while avoiding unnecessary, inefficient and duplicative services, while reducing medical errors. Thus, the PMH/CCHP venture is committed to providing a coordinated regional care solution in the Providence and North Providence communities that it proposes to serve.

The plan is to have the executive team leverage PMH's knowledge and experience to implement similar systems and programs that PMH has used nationally at a local level in Rhode Island. This will allow an efficient delivery system to be designed and implemented that meets the needs of the local communities.

Moreover, to support the continuation of health care programs and health care services at Newco Hospitals, PMH has committed to capital contributions of \$50M, defined above as Long-Term Funding Commitment. The Long-Term Funding Commitment is in addition to a routine capital investment of at least \$10M per year to be reinvested by Prospect CharterCARE.

The specific uses of the Long-Term Funding Commitment will be determined post-closing after appropriate studies and analyses are undertaken. Though, under the APA, the use of the Long-Term Funding Commitment may include (i) the development and implementation of physician engagement strategies, and (ii) projects related to facilities and equipment, including but not limited to:

- expansion of the cancer center at RWMC,
- expansion of the emergency department at RWMC,
- renovation/reconfiguration of the emergency department at Fatima,
- renovation of the operating rooms at RWMC,
- conversion of all patient rooms to private rooms at both Hospitals,
- renovation and expansion of the ambulatory care center at Fatima,
- new windows at both Hospitals,

- a new generator at Fatima,
- a facelift for the facades at both Hospitals, and
- access for the handicapped at the front entrances of both Hospitals.

The specific capital projects to be funded will be determined by Prospect CharterCARE's Board of Directors, which will be a 50/50 Board as detailed above.

EEC:

PMH intends to maintain access and quality for each of the services that are provided at EEC. PMH and CCHP intend to have Newco Elmhurst continue to provide skilled nursing services at the facility. No services that currently exist at EEC will be eliminated or modified in any way as a result of the change in effective control.

13. Does the entity seeking licensure plan to participate in Medicare or Medicaid (Titles XVIII or XIX of the Social Security Act)?

MEDICARE: Yes X No ___

MEDICAID: Yes X No ___

- If response to Question 13 for either Medicare and/or Medicaid is 'No', please explain.

14. Please provide all appropriate signed legal transfer documents (i.e. purchase and sale agreement, affiliation agreement); **NOTE:** these documents must cause both parties to be legally bound.

See Asset Purchase Agreement, with appended schedules, attached hereto at **Exhibit 14.**

15. Please provide organization charts of both agencies (existing entity and the applicant) for prior to transfer and post transfer, identifying all "parent" legal entities with direct or indirect ownership in or control, all "sister" legal entities also owned or controlled by the parent(s), and all "subsidiary" legal entities.

Response:

PMH:

See pre-closing organizational chart at **Exhibit 15A-1.**

See post-closing organizational charts at **Exhibit 15A-2** (For ease of viewing, included is a post-closing organizational chart that does not include the non-hospital affiliates).

CCHP, RWMC and SJHSRI:

See pre-closing organizational chart at **Exhibit 15B.**

16. If the proposed owner, operator or director owned, operated or directed a health care facility (both within and outside Rhode Island) within the past five years, please demonstrate the record of that person(s) with respect to access of traditionally underserved populations to its health care facilities.

Response:

For decades, the CCHP entities have provided significant levels of care for underserved, indigent, and low income patients in Rhode Island. Such care has been provided through a variety of community based programs.

In fiscal year 2012, the Existing Hospitals provided on a charge basis approximately \$25M in charity care to those who would not otherwise be able to afford such care. Additionally, Prospect CharterCARE, LLC participates in Medicare and Medicaid, which, to a great extent, serves underserved populations.

Regarding PMH's history of serving underserved populations, a number of PMH affiliate Hospitals are so-called "safety net hospitals". In fact, PMH is a member of Private Essential Access Community Hospitals ("PEACH"). PEACH is a network of private, core safety net hospitals in California that care for disproportionate share or low-income, medically vulnerable, and underserved patients. Additionally, in fiscal year 2012, PMH's affiliate hospitals provided over \$60M in charity care, of which a large portion treated low-income, medically vulnerable, and underserved patients.

The tables detailing the "five year track record" for access of traditionally underserved populations to health care facilities are attached at **Exhibit 16A** for RWMC, Fatima and EEC and **Exhibit 16B** for PMH and its hospital affiliates.

17. Please identify the proposed immediate and long-term plans of the applicant to ensure adequate and appropriate access to the program and health care services to be provided by the health care facility/ies to traditionally underserved populations.

Response:

Part of Prospect CharterCARE, LLC's mission will include providing high quality care to those who would otherwise be unable to afford that level of medical care or otherwise not have access to the same.

Subject to changes in legal requirements and governmental guidelines, Prospect CharterCARE, LLC will adopt, maintain and adhere to CCHP's policy on charity care and or adopt policies and procedures that are at least as favorable to the indigent, uninsured and underserved as CCHP's existing policies and procedures. Thus, Prospect CharterCARE, LLC will continue to provide any and all medically necessary services to patients regardless of their ability to pay and further will continue to participate in Medicare and Medicaid.

Furthermore, Prospect CharterCARE, LLC will continue to provide care through sponsorship and support of community based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improve the health status of the elderly, poor, underserved, and at risk populations in the community.

As such, PMH and CCHP commit that charity care and an emphasis on ensuring service to underserved sectors of the population will continue to play an important role in the care that Prospect CharterCARE, LLC will provide.

The proposed transaction will ensure that Prospect CharterCARE, LLC, through PMH, has access to the necessary capital and expertise to continue operating in a changing healthcare landscape, thus

ensuring that the indigent, uninsured and underserved continue to have access to high quality healthcare.

18. Please provide a copy of charity care policies and procedures and charity care application form.

Response:

PMH:

Attached at **Exhibit 18A** are the charity care policies and applications utilized by the PMH hospital affiliates.

CCHP:

Attached at **Exhibit 18B** are the charity care policies and applications utilized by the Existing Hospitals. A substantially similar form will continue to be utilized.

EEC:

There is not a charity care policy or form for EEC as EEC is not required to maintain one.

19. After the proposed change in effective control, will the facility/ies provide medically necessary services to patients without discrimination, including the patients' ability to pay for services?
Yes X No .

- If response to Question 19 is 'No', please explain.

20. Please identify any state or federal licensure or certification citations and/or enforcement actions taken against the applicant and their affiliates within the past 3 years and the status or disposition of each.

Response:

PMH:

Attached at **Exhibit 20** is a list of pending or adjudicated investigations, citations, violations or charges against PMH and/or its Hospital affiliates brought by any governmental agency or accrediting agency within the past 3 years.

21. Please provide a list of pending or adjudicated citations, violations or charges against the applicant and their affiliates brought by any governmental agency or accrediting agency within the past 3 years and the status or disposition of each.

PMH:

Attached at **Exhibit 20** is a list of pending or adjudicated investigations, citations, violations or charges against PMH and/or its Hospital affiliates brought by any governmental agency or accrediting agency within the past 3 years.

22. Please provide a list of any investigations by federal, state or municipal agencies against the applicant and their affiliates within the past 3 years and the status or disposition of each.

Response:

PMH:

Attached at **Exhibit 20** is a list of pending or adjudicated investigations, citations, violations or charges against PMH and/or its Hospital affiliates brought by any governmental agency or accrediting agency within the past 3 years.

23. Please identify any planned actions of the applicant to reduce, limit, or contain health care costs and improve the efficiency with which health care services are delivered to the citizens of this state.

Response:

As part of stabilizing the Existing Hospitals and EEC, so that existing services can be preserved and new services can be offered, and to reduce, limit, or contain health care costs and improve the efficiency with which health care services are delivered, the venture proposes to take a number of steps, which include:

1. **Productivity Improvements.** The executive team, supported by PMH, will oversee working with individual departments to continue to improve productivity for each department. Emphasis will continue to be placed on productivity standards that obtain optimal staffing for both quality outcomes and efficiency.
2. **Supply Chain.** The executive team, supported by PMH, will oversee an analysis of existing group purchasing organizations (“GPO”) to determine whether cost savings can be realized from changes to the existing GPO’s.
3. **Revenue Cycle.** The executive team, supported by PMH, will further explore streamlining existing revenue cycles and outsourcing problematic collections.
4. **Clinical Resource Allocation.** The executive team, supported by PMH, will implement the utilization of analytical tools to track patients through their medical care and standardize the allocation of resources.
5. **Community Outreach.** The executive team, supported by PMH, will work to strengthen the already existing outreach programs to area businesses, churches, schools and community groups in their primary service areas to ensure that communities’ needs are being met and that existing opportunities are realized. This includes a focus on the area’s bilingual community to determine whether there are opportunities to increase services to these communities through bilingual offerings.
6. **Quality Incentives.** The executive team, supported by PMH, will work to continually improve the quality functions at the Existing Hospitals and EEC to ensure that they qualify for any available financial incentives by either meeting or exceeding quality metrics offered by third party payors.

With regard to improving existing services, there are a number of sophisticated tools to successfully manage both the quality and cost and efficiency of care for patients. The venture intends to utilize some of these tools to improve existing services. These tools include:

1. Case Management. The executive team, supported by PMH, will increase the monitoring of care transitions for its patient population by: 1) reconciling medications, 2) setting up follow-up appointments, 3) educating patients about warning signs, and 4) using effective patient–physician communication. Key players in providing case management include inpatient case managers, ambulatory case managers, hospitalists and nurse practitioners on site at hospitals and skilled nursing facilities, social workers, patients’ primary and specialty care physicians.
2. Disease Management. The executive team, supported by PMH, will continue to explore implementing case management processes in conjunction with primary care physicians. Primary care providers help patients with chronic conditions with self-care management plans, with a case manager being assigned to each patient. The plans include recommendations for patients on routine care, sick-day planning, symptom recognition, and early intervention to prevent unnecessary emergency department visits.
3. In-home teams. The executive team, supported by PMH, will explore implementing “in-home teams”. An advanced nurse practitioner, case manager, social worker, and pharmacist would coordinate patients’ transition from hospital or nursing facility to home and make home visits.
4. Urgent Care and ‘Alternative’ Providers. The executive team, supported by PMH, will continue to pursue methods to reduce hospital re-admissions and emergency department visits. PMH has had success in this regard by using hospitalists, skilled nursing physicians and nurse practitioners for better care transitions and, if appropriate, encouraged members to utilize urgent care facilities or other appropriate outpatient facilities and community based care providers.

The success of new programs aimed at strengthening existing services and implementing new services will be measured in a number of ways:

1. Clinical outcomes. This analysis will be based on industry standards surrounding best practices.
2. Member satisfaction. This analysis will be based on the results of an annual survey of members who participated in a program.
3. Financial outcomes. This analysis will be based on claims cost, emergency room visits, hospital admissions, and healthcare cost outcomes with a goal that members who participate in a population health management program have lower healthcare costs compared to people with similar conditions who do not participate.

PMH has a track record of success in implementing the above systems and programs. The plan is to have the executive team leverage PMH’s knowledge and experience to implement similar systems and programs at a local level in Rhode Island and continue to build on the successful initiatives currently in place at CCHP. This will allow an efficient delivery system to be designed and implemented in a manner that meets the needs of the local communities.

While there should always be a place for the acutely and episodic ill, Prospect CharterCARE, LLC's mantra will be keeping patients healthy (and out of the hospital) by implementing the programs and tools describe above.

Additionally, PMH has made significant investments in California and Texas that target improving the efficiency with which health care services are delivered, and thus, simultaneously controlling costs. PMH's investments in primary care have resulted in a network of 18 specialty and primary care clinics in Texas and California, and PMH's investment in creating Medical Groups in southern California has resulted in a network of approximately 1,100 primary care and 2,200 specialty physicians who provide physician services to over 180,000 enrollees.

24. Please provide a copy of the Quality Assurance Policies (for the services) and a detailed explanation of how quality assurance for patient services will be implemented at the facility/ies by the applicant.

Response:

RWMC and Fatima:

Attached at **Exhibit 24A** is the quality assurance policy for the Existing Hospitals. These policies will continue post-closing.

EEC:

Attached at **Exhibit 24B** is the quality assurance policy for EEC. This policy will continue post-closing.

25. Please provide a detailed description about the amount and source of the equity and debt commitment for this transaction. (**NOTE:** If debt is contemplated as part of the financing, please complete Appendix E). Additionally, please demonstrate the following:
- A. The immediate and long-term financial feasibility of the proposed financing plan;
 - B. The relative availability of funds for capital and operating needs; and
 - C. The applicant's financial capability.

Response:

A. PMH will not require debt financing to proceed with the purchase.

B. PMH will contribute equity in the amount of \$45M. Additionally, PMH has committed to additional capital contributions of \$50M over the first four (4) years after the closing on the transaction. This has been defined above as the Long-Term Funding Commitment.

PMH will contribute the \$45 million purchase price necessary for the proposed partnership from its existing cash on hand. PMH's financial statements at **Exhibit 30A** demonstrate that PMH has the cash and financial wherewithal to make such contributions. As of the submission of this application, PMH has approximately \$87M in cash on hand.

PMH will meet its post-closing commitments including the \$50 Million commitment for capital using its own income and if necessary, financing in the form of a revolving credit facility. PMH has available a \$60 million revolving Senior Credit facility of which PMH has never drawn any amounts under the facility and no amounts are currently owed. Furthermore, PMH does not anticipate the need to use its available credit facility to meet its post-closing obligations.

C. The specific uses of the Long-Term Funding Commitment will be determined post conversion after appropriate studies and analyses are undertaken by the board of directors 50% of which is appointed locally by CCHP. Under the APA, the Long-Term Funding Commitment will be utilized to address (i) the development and implementation of physician network strategies necessary to meet the mandates and challenges of the Affordable Care Act, and (ii) projects related to facilities and equipment as identified by CharterCARE, including but not limited to:

- expansion of the cancer center at RWMC,
- expansion of the emergency department at RWMC,
- renovation/reconfiguration of the emergency department at Fatima,
- renovation of the operating rooms at RWMC,
- conversion of all patient rooms to private rooms at both Hospitals,
- renovation and expansion of the ambulatory care center at Fatima,
- new windows at both Hospitals,
- a new generator at Fatima,
- a facelift for the facades at both Hospitals, and
- access for the handicapped at the front entrances of both Hospitals.

PMH anticipates that it will meet all of its obligations under the APA by its cash on hand. PMH generates more than \$713 million per year in revenue and \$114M in EBITDA. Furthermore, PMH also has access to a \$60 million credit facility. PMH has never used its credit facility. Furthermore, PMH believes that it will satisfy its obligations under the APA from the cash it routinely generates through its operations.

Moreover, \$31,000,000 of the purchase price will be applied towards extinguishing CCHP's existing long term debt and other obligations; thus, freeing up additional funds for capital and operating needs.

Furthermore, the operational initiatives set forth in Response to Question 23, will result in additional available funds for operational needs and initiatives.

26. Please provide legally binding evidence of site control (e.g., deed, lease, option, etc.) sufficient to enable the applicant to have use and possession of the subject property, if applicable.

Response:

RWMC and SJHSRI own the real property on which the Existing Hospitals are located. Roger Williams Realty Corporation owns the property on which EEC is located. The APA (**Exhibit 14**) at Section 2.1, requires Sellers to deliver free and clear of all encumbrances the Sellers' right, title and interest to all owned and leased real property at closing. The Sellers must convey all owned real

property by good and marketable fee simple title, and all leased real property, to the extent possible, will be assigned to the Buyer.

27. If the facility is not-for-profit and/or affiliated with a not-for-profit, please provide written approval from the Rhode Island Department of Attorney General of the proposal.

Response:

A Hospital Conversion Act application has been filed with the Rhode Island Department of Attorney General with regard to the proposed transaction.

28. Please provide each of the following documents applicable to the applicant's legal status:

- Certificate and Articles of Incorporation and By-Laws (for corporations)
- Certificate of Partnership and Partnership Agreement (for partnerships)
- Certificate of Organization and Operating Agreement (for limited liability corporations)

- If any of the above documents are proposed to be revised or modified in any way as a result of the implementation of the proposed change in effective control, please provide the present documents and the proposed documents and **clearly identify** the revisions and modifications.

Response:

Prospect CharterCARE, LLC. See Attached at **Exhibit 28A** the following:

- Articles of Organization
- Articles of Amendment
- Company Agreement

Prospect CharterCARE RWMC, LLC. See Attached at **Exhibit 28B** the following:

- Articles of Organization
- Operating Agreement

Prospect CharterCARE SJHSRI, LLC. See Attached at **Exhibit 28C** the following:

- Articles of Organization
- Articles of Amendment
- Operating Agreement

Prospect East. See Attached at **Exhibit 28D** the following:

- Certificate of Incorporation
- Bylaws

Prospect CharterCARE Elmhurst, LLC. See Attached at **Exhibit 28E** the following:

- Articles of Organization
- Operating Agreement

Prospect Medical Holdings, Inc. See Attached at **Exhibit 28F** the following:

- Amended and Restated Certificate of Incorporation;
- Bylaws

29. If the applicant and/or one of its parent companies (or ultimate parent) is a publicly traded corporation, please provide copies of its most recent SEC 10K filing.

N/A

30. Please provide audited financial statements (which should include an income statement, balance sheet and cash flow statement) for the last three years for the applicant, and/or its ultimate parent, and for the existing facility.

Response:

PMH:

Please see attached at **Exhibit 30A**,

- For the FY ending September 30, 2013 PMH's Audited Financial Statement
- For the FY ending September 30, 2012 PMH's Audited Financial Statement
- For the FY ending September 30, 2011 PMH's Audited Financial Statement
- For the FY ending September 30, 2010 PMH's SEC Form 10-K.

RWMC:

Please see attached at **Exhibit 30B**,

- Roger Williams Medical Center September 30, 2013 Year End Financial Statements Unaudited
- Roger Williams Medical Center 2012-2010 A-133 Audit Reports
- Roger Williams Medical Center 2012-2010 Audited Financial Statements

SJHSRI:

Please see attached at **Exhibit 30C**,

- SJHSRI September 30, 2013 Year End Financial Statements Unaudited
- SJHSRI 2012-10 A-133 Audit Reports
- SJHSRI 2012-10 Audited Financial Statements

EEC:

Please see attached at **Exhibit 30D**,

- Elmhurst Extended Care Facilities, Inc. November 2013 Unaudited Statement of Operations
- Elmhurst Extended Care Facilities, Inc. 2012-10 Audited Financial Statements

31. All applicants must complete Appendix A, D, F and G.

EXHIBIT 11

EXECUTION COPY

ASSET PURCHASE AGREEMENT

by and among

CHARTERCARE HEALTH PARTNERS,
ROGER WILLIAMS MEDICAL CENTER,
ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND,
ROGER WILLIAMS REALTY CORPORATION,
RWGH PHYSICIANS OFFICE BUILDING, INC.,
ELMHURST EXTENDED CARE FACILITIES, INC.,
ROGER WILLIAMS MEDICAL ASSOCIATES, INC.,
ROGER WILLIAMS PHO, INC.,
ELMHURST HEALTH ASSOCIATES, INC.,
OUR LADY OF FATIMA ANCILLARY SERVICES, INC.,
THE CENTER FOR HEALTH AND HUMAN SERVICES,
SJH ENERGY, LLC,
ROSEBANK CORPORATION,
PROSPECT MEDICAL HOLDINGS, INC.,
PROSPECT EAST HOLDINGS, INC.,
PROSPECT CHARTERCARE, LLC,
PROSPECT CHARTERCARE RWMC, LLC,
PROSPECT CHARTERCARE SJHSRI, LLC,
PROSPECT CHARTERCARE ELMHURST, LLC,
and
PROSPECT CHARTERCARE PHYSICIANS, LLC

Dated as of September 24, 2013

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (this "Agreement") is made and entered into as of September 24, 2013 by and among CharterCARE Health Partners, a Rhode Island non-profit corporation ("CCHP"), Roger Williams Medical Center, a Rhode Island non-profit corporation ("RWMC"), St. Joseph Health Services of Rhode Island, a Rhode Island non-profit corporation ("SJHSRI"), Roger Williams Realty Corporation, a Rhode Island non-profit corporation ("RWRC"), RWGH Physicians Office Building, Inc., a Rhode Island non-profit corporation ("RWOB"), Elmhurst Extended Care Facilities, Inc., a Rhode Island non-profit corporation ("Elmhurst ECF"), Roger Williams Medical Associates, Inc., a Rhode Island non-profit corporation ("RWMA"), Roger Williams PHO, Inc., a Rhode Island non-profit corporation ("PHO"), Elmhurst Health Associates, Inc., a Rhode Island corporation ("Elmhurst HA"), Our Lady of Fatima Ancillary Services, Inc., a Rhode Island corporation ("Our Lady"), The Center for Health and Human Services, a Rhode Island non-profit corporation ("TCHHS"), SJH Energy, LLC, a Rhode Island limited liability company ("SJHE"), and Rosebank Corporation, a Rhode Island corporation ("Rosebank" and together with CCHP, RWMC, SJHSRI, RWRC, RWOB, Elmhurst ECF, RWMA, PHO, Elmhurst HA, Our Lady, TCHHS and SJHE, each a "Seller" and, collectively, "Sellers"), Prospect Medical Holdings, Inc., a Delaware corporation ("Prospect"), Prospect East Holdings, Inc., a Delaware corporation ("Prospect Member"), Prospect CharterCare, LLC, a Rhode Island limited liability company (the "Company"), Prospect CharterCare RWMC, LLC, a Rhode Island limited liability company ("RWMC SMLLC"), Prospect CharterCare SJHSRI, LLC, a Rhode Island limited liability company ("SJHSRI SMLLC"), Prospect CharterCare Elmhurst, LLC, a Rhode Island limited liability company ("Elmhurst SMLLC"), and Prospect CharterCare Physicians, LLC, a Rhode Island limited liability company ("Physicians SMLLC" and together with RWMC SMLLC, SJHSRI SMLLC, Elmhurst SMLLC, each a "Company Subsidiary" and collectively, the "Company Subsidiaries"). Sellers, Prospect, the Prospect Member, the Company, and each Company Subsidiary are each a "Party" and collectively, the "Parties".

RECITALS

WHEREAS, Sellers own, lease and operate the Facilities and engage in the Business;

WHEREAS, Prospect is in the business of owning and operating hospitals and related businesses and has formed the Company and owns 100% of the outstanding equity of the Company;

WHEREAS, the Company has formed all of the Company Subsidiaries as single-member limited liability companies and owns 100% of the outstanding equity in each Company Subsidiary as the sole member thereof;

WHEREAS, Sellers desire to sell to the Company, and the Company desires to acquire from Sellers, either directly or through the Company Subsidiaries, substantially all of the assets used in the operation of the Facilities, all as more fully set forth herein;

WHEREAS, Prospect desires to contribute equity capital to the Company in order to fund, in part, the acquisition by the Company or the Company Subsidiaries of the Purchased Assets;

WHEREAS, Sellers have designated CCHP (the “Seller Member”) to be the holder of the units representing the Company’s limited liability company membership interests on behalf of all Sellers to be issued as partial consideration in respect of the sale by Sellers of the Purchased Assets; and

WHEREAS, upon the Closing of the transactions contemplated by this Agreement, the Company will be owned 85% by the Prospect Member and 15% by the Seller Member, and the Company and the Company Subsidiaries will be subject to various operational covenants relating to maintaining essential healthcare services, Catholic identity, pastoral care programs, charity care policies, medical staff structure, medical education and research at the Facilities, as well as various other terms and provisions, all as more fully set forth herein and in the Company’s limited liability company agreement;

NOW, THEREFORE, for and in consideration of the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I DEFINITIONS AND INTERPRETATION

1.1 Definitions. The capitalized terms in this Agreement shall have the meanings ascribed to them in the Preamble, the Recitals and Annex A, as applicable.

1.2 Interpretation. In this Agreement, unless the context otherwise requires: (a) references to this Agreement are references to this Agreement and to the Annexes, Exhibits and Schedules hereof, and references to Annexes, Articles, Exhibits, Recitals, Sections or Schedules are references to the Annexes, Articles, Exhibits, Recitals, Sections or Schedules of this Agreement; (b) the terms “including” or “include” shall all be interpreted to read, “including, without limitation”; (c) references to any Person shall include references to such Person and their respective successors and permitted assigns; (d) the terms “hereof,” “herein,” “hereby” and derivative or similar words will refer to this entire Agreement; (e) references to any document (including this Agreement) are references to that document as amended, modified, supplemented, extended or renewed by the Parties from time to time, in the manner provided therein (or herein); (f) references to any law, rule or regulation include such law, rule or regulation as amended, restated, supplemented, superseded or otherwise modified from time to time, unless otherwise specified; (g) the gender of all words herein include the masculine, feminine and neuter, and the number of all words herein include the singular and plural; and (h) the terms “date hereof” and “date of this Agreement” and similar terms shall mean the date set forth in the opening paragraph of this Agreement.

ARTICLE II TRANSFER OF ASSETS; ASSUMPTION OF LIABILITIES

2.1 Transfer of Sellers' Assets. At the Closing, Sellers shall assign, transfer, convey and deliver to the Company or the Company Subsidiaries (as determined by the Company in its discretion), free and clear of all Encumbrances, all of Sellers' right, title and interest in and to all assets of every kind, character or description, whether real, personal or mixed, tangible or intangible (other than the Excluded Assets), owned, leased or licensed by Sellers on the Closing Date that are held for use or used in the Business, including the following items (collectively, the "Purchased Assets"):

(a) any and all parcels of land and other real property owned by Sellers and used in connection with the operation of, or acquired for the benefit for, the Facilities, including the real property described on Schedule 4.14(a), together with all of Sellers' right, title and interest in and to (i) all buildings, improvements and fixtures located thereupon and all appurtenances (including all construction in progress) (the "Improvements"), (ii) all easements, rights of way, privileges, hereditaments and other rights and appurtenances thereto, including, any right, title and interest of Sellers in and to adjacent streets, alleys or rights of way, (iii) all strips and gores adjacent thereto, (iv) all plans and specifications and engineering and Architectural Plans related to the improvements located on such real property, to the extent in the possession and control of any Seller, and (v) development, air, water and signage rights with respect to such real property, if any and to the extent transferable (the "Owned Real Property");

(b) subject to receipt of any required third party consents, any and all real property that is leased, subleased or licensed to Sellers by another Person (whether an Affiliate or otherwise) related to, associated with or used in connection with the operation of, or acquired for the benefit for, the Facilities, and described on Schedule 4.14(b), together with all buildings, improvements and fixtures located thereupon and all appurtenances (including all construction in progress) and rights thereto that are leased, subleased or licensed to Sellers (the "Leased Real Property");

(c) all equipment, medical equipment, fixtures, machinery, computer hardware and other data processing equipment, vehicles, office furnishings, leasehold improvements and other tangible personal properties owned or held by Sellers or used in the operation of the Facilities (the "Personal Property");

(d) all Inventory;

(e) all documents, records, operating manuals and files with respect to the operation of the Facilities, including all financial, billing, patient, medical, accreditation, public program participation, business, operational, quality assurance, credentialing, peer review, facilities and systems maintenance, real property, educational, marketing and other records, Architectural Plans, structure or system drawings, manuals and materials (in paper, electronic or other form) and on-site regulatory compliance records;

(f) all of the rights and interests of Sellers in all: (1) Contracts for the employment of any individual other than a physician ("Employment Agreements") that are listed on Schedule 2.1(f)(1) (the "Assumed Employment Agreements"), as provided in Section 8.2(f) below; (2) any Contracts with physicians, physician practices or physician-owned entities ("Physician Agreements") that are listed on Schedule 2.1(f)(2) (the "Assumed Physician");

Agreements"); (3) Leases to which any Seller is a party and entered into or maintained in connection with the Facilities, the Business or the Purchased Assets (except for leases involving physicians, physician groups or physician-owned entities) (the "Assumed Leases"); (4) Sellers' Medicare and Medicaid provider agreements and associated provider numbers (the "Provider Agreements"); and (5) Contracts (other than Employment Agreements that are not Assumed Employment Agreements, Physician Agreements that are not Assumed Physician Agreements, Leases that are not Assumed Leases, and the Provider Agreements) to which any Seller is a party and pertaining to the Facilities, the Business or the Purchased Assets (items (1) through (5) collectively, the "Assumed Contracts"), and all rights and obligations arising out of such Assumed Contracts; provided, however, that the Company may elect to remove any Assumed Physician Agreements from Schedule 2.1(f)(2) prior to Closing if:

(i) the Company reasonably believes that such agreement poses a significant risk of violating or otherwise being inconsistent with any applicable laws or regulations; or

(ii) the Company reasonably believes that such agreement, if not rejected, would cause the Company to be in breach, or violate the terms, of any contract to which the Company is or will be a party as of the Closing Date;

(each, a "Rejected Physician Agreement" and, collectively, the "Rejected Physician Agreements"). The Company shall provide Sellers with a list of such Rejected Physician Agreements and its reasons for rejecting the same not less than ten (10) days prior to the Closing Date. For ten (10) days after receipt by the Company of such list, the Parties shall consult in good faith as to what action, if any, should be taken with respect to any such Rejected Physician Agreement to address concerns raised by the Company. If the Parties do not mutually agree on the actions to be taken with respect to any such Rejected Physician Agreement within such ten (10) day period, such Rejected Physician Agreement shall thereafter not be deemed to be an "Assumed Contract" and shall be deemed to be an "Excluded Contract" for purposes of this Agreement, and Sellers shall be responsible for the termination or other disposition of such Rejected Physician Agreement, including any costs or expenses associated with such termination or other disposition;

(g) all Accounts Receivables, other than intercompany receivables;

(h) to the extent transferable, all Permits, Environmental Permits and Approvals issued or granted to Sellers by or pending before Governmental Entities and accreditations/certifications issued to Sellers by accrediting bodies, which relate to the ownership or operation of the Facilities;

(i) all Intellectual Property;

(j) all advance payments, prepayments or prepaid expenses made by Sellers relating to the operation of the Facilities;

(k) all rights in all warranties of any vendor or manufacturer in connection the Personal Property and all rights to enforce covenants not to compete with respect to the Purchased Assets or the Business;

- (l) all insurance proceeds (after application of Seller deductibles or co-insurance payments) arising in connection with property damage to the Purchased Assets;
- (m) general intangible rights of the Business, including goodwill;
- (n) all files and records relating to the Transferred Employees, including those regarding work history, benefits and pensions, as well as such of Sellers' policies, manuals and similar materials as are reasonably necessary for the Company to address personnel, benefits or other issues, or resolve disputes, regarding Transferred Employees;
- (o) all website domain names, e-mail addresses, and telephone and fax numbers;
- (p) subject to receipt of any required third party consents, any rights of Sellers to receive, or any expectancy of Sellers in, any state or federal grants or subsidies, allocation payments or other reimbursement pool;
- (q) subject to receipt of any required third party consents, the software, licenses and information systems used in the Business;
- (r) any rebates paid or payable in respect to the period prior to Closing under or in respect of any group purchasing organization agreements in which Sellers participate that relate to purchases of goods or services prior to Closing;
- (s) any claims, rights, credits, causes of action and rights of set-off of Sellers (whether known or unknown, contingent or otherwise) against third parties related to the Purchased Assets (including the Assumed Contracts), contractual or otherwise, accruing or arising prior to the Closing;
- (t) the A/R Bank Accounts;
- (u) [intentionally omitted];
- (v) all cash security deposits held or previously paid by Sellers under the Assumed Leases (together with accrued interest thereon, if any);
- (w) to the extent not included in any of the foregoing, (A) any assets included in the Interim Balance Sheet, except for assets used, consumed or disposed of in the Ordinary Course of Business since the Interim Balance Sheet Date, and (B) any assets purchased or otherwise acquired since the Interim Balance Sheet Date that are not reflected on the Interim Balance Sheet but are held or used in the Business;
- (x) all rights to reimbursement for services rendered, and medicine, drugs and supplies provided, by Sellers to individuals who are patients of the Business on or before the Closing Date, but who are not discharged until after the Closing Date (collectively, "Transitional Patient Services");

(y) all of Sellers' equity, membership or other ownership interests (i) in Rhode Island PET Services, LLC and Chemosynergy, LLC and (ii) to the extent applicable, pursuant to Section 7.2(n) below, in UMG and/or such other project or entity contemplated by such Section 7.2(n); and

(z) either: (1) all of Sellers' equity, membership or other ownership interests in Roger Williams Radiation Therapy, LLC; or (2) in the event that Sellers sell all or any part of their interests in Roger Williams Radiation Therapy, LLC prior to Closing and, notwithstanding Sellers' commercially reasonable efforts to reinvest all or a portion of the proceeds of such sale as provided in Section 7.2(n) below, all or a portion of such proceeds are not so reinvested, then any portion of the sale proceeds not so reinvested (hereafter, the "JV Proceed Deficiency") shall be included as a Purchased Asset hereunder and shall be transferred to the Company.

2.2 Excluded Assets of Sellers. Notwithstanding anything herein to the contrary, the following assets are excluded from the Purchased Assets and shall be retained by Sellers (the "Excluded Assets"):

(a) cash, cash equivalents and investments (except for the amount of any JV Proceed Deficiency as per Section 2.1(z) above);

(b) all of the following: (i) any Employment Agreement that is not listed as an Assumed Employment Agreement on Schedule 2.1(f)(1); (ii) any Physician Agreement that is not listed as an Assumed Physician Agreement on Schedule 2.1(f)(2), or that is so listed but is removed prior to Closing as provided in Section 2.1(f); and (iii) any other Contract listed on Schedule 2.2(b) (collectively, the "Excluded Contracts"); and all of Sellers' rights and interests thereunder;

(c) any Permits, Environmental Permits and Approvals that are not transferable;

(d) any Seller Plans (and any and all assets associated therewith or set aside to fund liabilities related thereto), the Retirement Plan and the Retirement Plan Assets;

(e) any unamortized bond issuance costs and all funds held by the bond trustee under the bond indentures for RWMC Rhode Island Health and Educational Building Corporation Tax-Exempt Revenue Bonds - Series 1998 and SJHSRI Rhode Island Health and Educational Building Corporation Tax-Exempt Revenue Bonds - Series 1999;

(f) except to the extent included within the Transferred Restricted Funds, any charitable restricted assets of Sellers, whether held directly by Sellers or by one or more third parties for Sellers' benefit, and any accrued interest thereon;

(g) the assets of CharterCARE Health Partners Foundation (f/k/a St. Joseph Health Services Foundation);

(h) funds held by Sellers' trustee for insurance, board designated investments, restricted interests in perpetual trusts, donor restricted funds and funds restricted by spending policy, and any accrued interest thereon;

- (i) the corporate books and records of Sellers;
- (j) any shares of capital stock, membership interest, partnership interest or other ownership in any Seller;
- (k) all rights in any insurance policies of Sellers covering the Purchased Assets or any Assumed Liabilities, except as otherwise expressly provided herein (including without limitation pursuant to Section 2.1(l) above); and
- (l) the rights of Sellers under this Agreement and all related documents.

2.3 Assumed Liabilities of Sellers. On the terms and subject to the conditions set forth in this Agreement, at the Closing, Sellers shall assign, and the Company shall assume or shall cause one or more Company Subsidiaries to assume, effective as of the Effective Time, the following Liabilities of Sellers with respect to the Facilities and the Purchased Assets as and to the extent existing on the Closing Date (collectively, the "Assumed Liabilities"):

- (a) the Assumed Contracts, but only to the extent of Liabilities that (x) are described in Section 2.3(b) below, or (y) accrue or arise after the Effective Time and relate to any period after the Closing Date;
- (b) all accounts payable of Sellers as of the Closing Date that were accrued in the Ordinary Course of Business to the extent such accounts payable remain unpaid as of the Closing Date and are reflected in the calculation of Final Net Working Capital;
- (c) all accrued expenses of Sellers incurred in the Ordinary Course of Business to the extent the same remain unpaid as of the Closing Date, other than (x) intercompany payables, (y) transaction expenses of Sellers, and (z) any expenses associated with any Taxes, the Seller Plans (but only to the extent such expenses are not reflected in the calculation of Final Net Working Capital) or the Retirement Plan;
- (d) deferred gain on investments in the Related Ventures;
- (e) all ETO balances associated with the Transferred Employees, including all costs, liabilities and expenses associated with or arising from the same and/or the rollover of such balances from Sellers to the Company as of the Effective Time;
- (f) asset retirement obligations as reflected on the Interim Balance Sheet;
- (g) if, prior to Closing, Sellers invest the proceeds of any sale of all or any part of their interests in Roger Williams Radiation Therapy, LLC in UMG or some other project or entity as may be mutually agreed by the Parties, as provided in Section 7.2(n) below, and Sellers' acquisition of such replacement interest entails the assumption of any liabilities, any such liabilities so assumed; and
- (h) any other obligations or Liabilities identified in Schedule 2.3.

In no event shall the Company assume any Liability that is an Excluded Liability.

2.4 Excluded Liabilities of Sellers. Notwithstanding anything herein to the contrary, the Company and/or the Company Subsidiaries are assuming only the Assumed Liabilities and are not assuming and shall not become liable for the payment or performance of any other Liability of Sellers (collectively, the “Excluded Liabilities”). The Excluded Liabilities are and shall remain Liabilities of the Sellers. Without limiting the generality of the foregoing, the term “Excluded Liabilities” includes any Liability: (i) that is not related to the Business; (ii) relating to any Material Indebtedness; (iii) that is described on Schedule 2.4; or (iv) pertaining to any Excluded Asset.

2.5 Prospect Contribution.

(a) At the Closing, Prospect shall make a capital contribution to the Company in the amount of Forty-Five Million Dollars (\$45,000,000) payable in cash (the “Prospect Contribution”). The Prospect Contribution shall be subject to adjustment pursuant to Section 2.9 below.

(b) The Prospect Member shall also be obligated to contribute additional capital to the Company during the four (4)-year period immediately following the Closing Date, in an amount of \$50,000,000 (which shall be in addition to the Company’s routine capital investment, in its own facilities or those of the Company Subsidiaries, of at least \$10 million per year), subject to adjustment, offset or satisfaction as expressly provided herein and in the Amended and Restated Agreement, a copy of which is attached hereto as Exhibit A (the “Long-Term Capital Commitment”). Except as otherwise provided in the Amended and Restated Agreement, and subject to the process and requirements therein, the Company shall cause the Long-Term Capital Commitment to be used by the Company or the Company Subsidiaries on (i) the development and implementation of physician engagement strategies, and (ii) projects related to facilities and equipment (“Capital Projects”), in each case based on a return-on-investment calculation or a material needs assessment. Capital Projects currently identified include the following: expansion of the cancer center at Roger Williams Medical Center, expansion of the emergency department at Roger Williams Medical Center, renovation/reconfiguration of the emergency department at Our Lady of Fatima Hospital, renovation of the operating rooms at Roger Williams Medical Center, conversion of all patient rooms to private rooms at both Hospitals, renovation and expansion of the ambulatory care center at Our Lady of Fatima Hospital, new windows at both Hospitals, a new generator at Our Lady of Fatima Hospital, a facelift for the facades at both Hospitals, and access for the handicapped at the front entrances of both Hospitals (with the specific Capital Projects to be funded as determined by the Company’s board of directors).

2.6 Consideration.

(a) Subject to the adjustment as provided in Section 2.9, the aggregate cash purchase price (the “Cash Purchase Price”) to be paid by the Company to Sellers shall be an amount equal to: (i) (A) the actual dollar amount of the Prospect Contribution, minus (B) the Assumed Capital Lease Excess Amount (if any) (the “Closing Cash Amount”), plus or minus (ii) the Final Adjustment Amount. The Closing Cash Amount shall be paid at Closing, and the Final Adjustment Amount shall be paid following Closing in accordance with Section 2.9(e).

(b) At the Closing, as partial consideration for the Purchased Assets, the Company shall issue to the Seller Member an aggregate of 16,760 limited liability company membership units of the Company (the “Units”), which Units will represent a 15% ownership interest in the Company.

2.7 Expense Contribution. Sellers, on the one hand, and Prospect, on the other hand, shall bear their pro rata share (based on their ownership in the Company immediately following Closing) of any expenses incurred (i) by the Company in connection with the Transaction, or (ii) by Prospect on behalf of the Company (including, for the avoidance of doubt, expenses incurred by Prospect on behalf of the Company prior to the actual formation of the Company as a Rhode Island limited liability company) in connection with Company’s review and analysis of the Business and the Purchased Assets, which shall be limited to those inspections, studies, tests and similar analyses specifically described on Schedule 2.7 (collectively, the “Prospect Advance”). At the Closing, Prospect shall be reimbursed by Sellers an amount equal to Sellers’ pro rata share of the Prospect Advance.

2.8 Use of Proceeds. Sellers shall adopt a board resolution specifying the manner in which the Cash Purchase Price shall be used.

2.9 Assumed Capital Lease Excess Amount; Net Working Capital Adjustment.

(a) For purposes of determining the Closing Cash Amount, not more than five (5) but in no event less than two (2) Business Days prior to the Closing, Sellers shall deliver to Prospect and the Company a statement setting forth the Assumed Capital Lease Excess Amount as of the Closing Date (setting forth in reasonable detail such amount owed for each capital lease to be assumed by the Company), including supporting documentation of reasonable specificity and other information requested by the Company to verify such amount.

(b) Not more than ninety (90) days after the Closing, the Company shall prepare and deliver, or cause to be prepared and delivered, to the Sellers’ Representative (the “Final Working Capital Statement”): (i) its good faith determination of the actual Net Working Capital as of the Effective Time (as finally determined pursuant to this Section 2.9, the “Final Net Working Capital”); and (ii) a calculation showing the difference between its determination of the Final Net Working Capital pursuant to clause (i) above and the Historical Working Capital Position (such difference, which may be positive or negative, the “Final Adjustment Amount”). Each of the Final Net Working Capital and Historical Working Capital Position shall be calculated in accordance with the methodology set forth on Annex B.

(c) Following receipt of the Final Working Capital Statement, the Sellers’ Representative will be afforded a period of twenty (20) Business Days (the “20-Day Period”) to review the Final Working Capital Statement. During the 20-Day Period, the Sellers’ Representative and its Representatives shall have reasonable access during reasonable business hours upon prior written notice to the Company to the books, records and supporting data of the Company and its Representatives relating to the Final Working Capital Statement and the calculations set forth therein. At or before the end of the 20-Day Period, the Sellers’ Representative will either (i) accept the amount of Final Net Working Capital and the Final Adjustment Amount (each as set forth in the Final Working Capital Statement) in their entirety

or (ii) deliver to the Company a written notice (the "Objection Notice") containing a reasonably detailed written explanation of those items in the Final Working Capital Statement that the Sellers' Representative disputes, in which case the items specifically identified by the Sellers' Representative shall be deemed to be in dispute. The failure by the Sellers' Representative to deliver the Objection Notice within the 20-Day Period shall constitute the Sellers' Representative's acceptance of the amount of Final Net Working Capital and the Final Adjustment Amount, each as set forth in the Final Working Capital Statement. If the Sellers' Representative delivers the Objection Notice in a timely manner, then, within a further period of twenty (20) Business Days from the end of the 20-Day Period (the "Second 20-Day Period"), the Parties and, if desired, their respective Representatives will attempt to resolve in good faith any disputed items and reach a written agreement (the "Settlement Agreement") with respect thereto. Failing such resolution, as promptly as practicable (and no event later than ten (10) Business Days from the end of the Second 20-Day Period), the unresolved disputed items will be referred for final binding resolution to a nationally recognized independent public accounting firm mutually selected by the Company and the Sellers' Representative (the "Arbitrating Accountants"). In resolving any disputed item, the Arbitrating Accountants may not assign a value to any item greater than the greatest value for such item claimed by either party or less than the smallest value for such item claimed by either party. The fees and expenses of the Arbitrating Accountants shall be allocated between the Sellers' Representative (on behalf of the Sellers), on the one hand, and Prospect, on the other hand, in proportion to the amounts by which their proposals of the Final Adjustment Amount differed from the Arbitrating Accountants final determination of the Final Adjustment Amount. Such determination (the "Accountants' Determination") shall be (i) in writing, (ii) furnished to the Sellers' Representative and the Company as soon as practicable (and in no event later than thirty (30) Business Days) after the items in dispute have been referred to the Arbitrating Accountants, (iii) made in accordance with GAAP, consistently applied, and (iv) non-appealable and incontestable by Sellers, the Sellers' Representative, the Company and each of their respective Affiliates and successors and assigns and not subject to collateral attack for any reason other than manifest error or fraud.

(d) The "Final Determination Date" shall mean the earliest to occur of (i) the twenty-first (21st) Business Day following the receipt by the Sellers' Representative of the Final Working Capital Statement if the Sellers' Representative shall have failed to deliver the Objection Notice to the Company within the 20-Day Period, (ii) the date on which the Sellers' Representative gives the Company written notice to the effect that such party has no objection to the Company's determination of the amount of Final Net Working Capital and the Final Adjustment Amount, each as set forth in the Final Working Capital Statement, (iii) the date on which the Sellers' Representative and the Company execute and deliver a Settlement Agreement, (iv) the date as of which the Sellers' Representative and the Company shall have received the Accountants' Determination, and (v) the Company's failure to deliver the Final Working Capital Statement within the ninety (90) day period described in Section 2.9(a).

(e) The following payment shall be made within two (2) Business Days following the Final Determination Date and shall be by wire transfer of immediately available funds to an account designated by the Party or Parties entitled to receive any such payments:

(i) If the Final Net Working Capital is less than the Historical Working Capital Position, then Sellers shall pay to the Company the amount by which the Final

Net Working Capital is less than the Historical Working Capital Position (and if not paid to the Company within 90 days following the Final Determination Date, Prospect may (in its sole discretion) treat such amount as an offset to the Long-Term Capital Commitment as provided in Section 1.26 of the Amended and Restated Agreement); or

(ii) If the Final Net Working Capital is greater than the Historical Working Capital Position, then the Company shall pay to Sellers the amount by which the Final Net Working Capital is greater than the Historical Working Capital Position.

2.10 Withholding Tax. Notwithstanding anything in this Agreement to the contrary, the Company shall be entitled to deduct and withhold from the Cash Purchase Price such amounts as the Company is required to deduct and withhold with respect to such payment under the Code or any provision of state or local law. To the extent that amounts are so withheld and paid over to the appropriate Governmental Entity by the Company, such withheld amounts shall be treated for all purposes of this Agreement as having been paid by the Company to Sellers.

2.11 Cash Purchase Price Allocation. The Cash Purchase Price (including any applicable Assumed Liabilities) will be allocated for Tax purposes (the "Allocation") among the Purchased Assets. The Company shall prepare the proposed Allocation and deliver a copy thereof to Sellers within one hundred twenty (120) calendar days after the Closing. Sellers shall thereafter have thirty (30) calendar days to approve or disapprove of such proposed allocation, such approval not to be unreasonably withheld, conditioned or delayed. Sellers and the Company shall work in good faith to resolve any disputes relating to the allocation. If Sellers and the Company are unable to resolve any such dispute within thirty (30) days of the Company's delivery of the proposed allocation to Sellers, then such dispute shall be resolved finally and conclusively by the Arbitrating Accountants, the costs of which shall be borne equally by the Company and Sellers. The Company, Sellers and their Affiliates shall report, act and file Tax Returns (including Internal Revenue Service Form 8594) in all respects and for all purposes consistent with the Allocation agreed to by the Parties or as otherwise determined pursuant to this Section. No Party shall take any position (whether on any Tax Return or in connection with any audit or other examination) that is inconsistent with the Allocation unless required to do so by applicable law.

2.12 Bulk Sales. To the extent applicable to any Seller, Sellers shall make such filings and pay such Taxes as are required to be filed and/or paid in accordance with R.I.G.L. Sections 44-19-22 and 44-11-29 as and when required pursuant thereto. Sellers, jointly and severally, agree to indemnify and hold Company/Prospect Indemnified Parties harmless from, for and against any Liability that a Company/Prospect Indemnified Party may suffer or sustain as a result of any failure by Sellers, or any of them, to make such filings or pay such Taxes.

2.13 Prorations. At Closing, Sellers and the Company shall prorate real estate and personal property lease payments, real estate and personal property Taxes (except that no such proration of property Taxes will be necessary in respect of the transfer of property by any Seller that is a non-profit corporation that does not pay any property Taxes) and other assessments, and all other items of income and expense that are normally prorated upon a sale of assets of a going concern, if any. If any payment of Taxes made by Sellers before Closing is credited against real estate Taxes for which the Company or any Company Subsidiary will be liable, the amount of

such credit will be applied as a credit against any prorations owing by Sellers, to the extent available for offset, and any amounts not so applied will be paid to Sellers by the Company upon the Company's receipt of such credit.

ARTICLE III CLOSING

3.1 Closing. Subject to the satisfaction or waiver by the appropriate Party of all the conditions precedent to Closing specified in ARTICLE IX and ARTICLE X, the consummation of the Transactions (the "Closing") shall take place at the offices of Sills Cummis & Gross P.C., One Riverfront Plaza, Newark, New Jersey 07102 at 10:00 a.m., local time, on the fifth (5th) Business Day following the satisfaction (or due waiver) of the conditions set forth in ARTICLE IX and ARTICLE X or at such other date and/or location as the Parties may mutually designate (the "Closing Date").

3.2 Effective Time. The Transactions shall be effective as of 11:59 p.m. local time (the "Effective Time") on the Closing Date, unless otherwise agreed in writing by Sellers and the Company.

3.3 Deliveries by Sellers at Closing. At or before the Closing and unless otherwise waived in writing by the Company, Sellers shall deliver to the Company the following:

- (a) a duly executed Amended and Restated Agreement, in the form of Exhibit A;
- (b) a duly executed and acknowledged Quitclaim Deed, in the form of Exhibit B, with respect to each Owned Real Property;
- (c) such estoppel certificates as have been obtained pursuant to Section 7.2(1) below from mobile communications providers that lease space for antennas and other mobile communications facilities on the Owned Real Property, in the form of Exhibit C (the "Tenant Estoppels");
- (d) [intentionally omitted];
- (e) with respect to those Assumed Leases where any Seller is a tenant or subtenant, duly executed and acknowledged Leasehold Assignment and Assumption Agreements, in the form of Exhibit E, with respect to each Leased Real Property; in the case of such Assumed Leases entailing more than 5,000 square feet of space or annual rent greater than \$100,000, such Leasehold Assignment and Assumption Agreements shall include an estoppel provision from each landlord as specified in the terms of the applicable Lease or, if not so specified, as indicated on the form of Exhibit E attached hereto (the "Landlord Estoppels");
- (f) one or more duly executed general bills of sale, in the form of Exhibit F;
- (g) one or more duly executed assignment and assumption agreements, in the form of Exhibit G;

(h) [intentionally omitted];

(i) (x) a certificate in form and substance satisfactory to the Company setting forth the aggregate dollar amounts of all Material Indebtedness outstanding at Closing, signed by the Chief Financial Officer of Sellers, and (y) executed pay-off letters, final invoices and/or releases necessary to terminate or release all Material Indebtedness (and related Encumbrances), which documents shall be in form and substance satisfactory to the Company;

(j) copies of resolutions duly adopted by the governing body of each Seller authorizing and approving the performance of the Transactions and the execution and delivery of this Agreement and the documents described herein and the change of name contemplated by Section 13.11, certified as true and of full force and effect as of Closing, by appropriate officers;

(k) certificates of existence and good standing of each Seller issued by the office of Secretary of State of Rhode Island dated no earlier than fourteen (14) days prior to the Closing Date and letters of good standing issued by the Rhode Island Division of Taxation for each Seller dated no earlier than fourteen (14) days prior to the Closing Date;

(l) such documentation as may be necessary to transfer the A/R Bank Accounts and all other of Sellers' bank accounts to the Company as of the Effective Time;

(m) FIRPTA Certificates, in the form of Exhibit I, duly executed by Sellers;

(n) the Limited Power of Attorney, in the form of Exhibit J, duly executed by Sellers;

(o) the consents of third parties to the assignment of the Assumed Contracts identified with an asterisk in Schedule 4.12(e), including any Assumed Lease as to which any Seller is a tenant or subtenant where such Lease entails more than 5,000 square feet of space or annual rent greater than \$100,000 ("Material Consents"), in form and substance reasonably acceptable to the Company, except to the extent waived by the Company pursuant to Section 13.4 below;

(p) Officer's Certificates from each Seller, in the forms reasonably requested by the Company; and

(q) such other instruments, certificates, consents and documents, as the Company reasonably deems necessary to effectuate the Transactions in accordance with the terms hereof.

3.4 Deliveries by the Company and Prospect at Closing. At or before the Closing and unless otherwise waived in writing by Sellers, the Company and Prospect shall deliver to Sellers the following:

(a) The Closing Cash Amount, in immediately available funds;

(b) a duly executed Amended and Restated Agreement, in the form of Exhibit

Δ:

(c) counterparts to one or more assignment and assumption agreements duly executed by the Company or a Company Subsidiary (as applicable), in the form of Exhibit G;

(d) a duly executed Management Services Agreement, in the form of Exhibit H;

(e) copies of resolutions duly adopted by the governing body of each of Prospect, the Prospect Member, and the Company authorizing and approving the performance by Prospect, the Prospect Member, the Company, and each Company Subsidiary of the Transactions and the execution and delivery of this Agreement and the documents described herein, certified as true and in full force as of Closing by an appropriate officer thereof;

(f) as to the Company and each Company Subsidiary, certificates of existence and good standing issued by the office of Secretary of State of Rhode Island dated no earlier than fourteen (14) days prior to the Closing Date; and as to Prospect and the Prospect Member, a certificate of existence and good standing issued by the office of the Secretary of State of Delaware dated no earlier than fourteen (14) days prior to the Closing Date, and a certificate of good standing to conduct business issued by the office of the Secretary of State of Rhode Island dated no earlier than fourteen (14) days prior to the Closing Date;

(g) Officer's Certificates from each of Company, Prospect and the Prospect Member, in the forms reasonably requested by Sellers; and

(h) such other instruments, certificates, consents and documents as Sellers reasonably deem necessary to effectuate the Transactions in accordance with the terms hereof.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLERS

As of the date hereof and as of the Closing Date (except to the extent any of the following speaks as of a specific date), Sellers, jointly and severally, represent and warrant to Prospect, the Prospect Member, the Company and each Company Subsidiary the following:

4.1 Incorporation, Qualification and Capacity. Each of CCHP, RWMC, SJHSRI, RWRC, RWOB, Elmhurst ECF, RWMA, PHO and TCHHS is a non-profit corporation, duly incorporated and validly existing in good standing under the Laws of the State of Rhode Island. Each of Elmhurst HA, Our Lady and Rosebank is a corporation, duly incorporated and validly existing in good standing under the Laws of the State of Rhode Island. SJHE is a limited liability company, duly formed and validly existing in good standing under the Laws of the State of Rhode Island. All of the respective owners or members of Sellers, as applicable, are listed on Schedule 4.1. Each Seller is duly licensed and qualified to do business under all applicable Laws of any Governmental Entity having jurisdiction over the Business, and has the lawful power to own, lease and operate its assets and properties and conduct its business in the place and manner now conducted, including, as appropriate, operating the Business. No Seller is licensed or qualified to do business in any jurisdiction other than the State of Rhode Island and there is no other jurisdiction in which the ownership, use or leasing of its assets or properties, or the conduct or nature of its business, makes such licensing or qualification necessary. The execution and delivery by each Seller of this Agreement and the documents described herein, the performance

by each Seller of its obligations under this Agreement and the documents described herein, and the consummation by each Seller of the Transactions and the documents described herein have been duly and validly authorized and approved by all necessary corporate/limited liability company action, including, to the extent required, any applicable board and member approvals, on the part of such Seller, and none of such actions has been modified or rescinded and all of such actions remain in full force and effect.

4.2 Powers; Consents; Absence of Conflicts With Other Agreements. Each Seller has the requisite power and authority to conduct its business as now being conducted, to enter into this Agreement, and to perform its obligations hereunder. The execution, delivery and performance of this Agreement and the documents described herein by Sellers, and the consummation by Sellers of the Transactions and documents described herein, as applicable:

(a) are not in contravention or violation of the terms of any Seller's certificate of formation/incorporation, bylaws, operating agreement or other organizational document;

(b) do not require any Approval or Permit of, or filing or registration with, or other action by, any Governmental Entity to be made or sought by any Seller, except (i) the Healthcare Regulatory Consents set forth in Schedule 4.2(b) and (ii) as otherwise set forth on Schedule 4.2(b); and

(c) assuming the Approvals and Permits set forth on Schedule 4.2(b) are obtained, will not conflict in any material respect with or result in any violation of or default under (with or without notice or lapse of time or both) or give rise to a right of termination, cancellation or acceleration of any obligation, lien or loss of a benefit under, or permit the acceleration of any obligation or result in the creation of any Encumbrance (other than Pre-Closing Permitted Exceptions or Permitted Exceptions, as applicable) upon any of the Facilities or the Purchased Assets under (i) any Contract or (ii) any Law applicable to any of the Facilities or the Purchased Assets or to the operation of the Facilities and the Business by the Company and the Company Subsidiaries following the Closing as they are operated on the date hereof and as of the Closing Date, or (iii) any Order by which any of the Facilities or Purchased Assets are bound.

4.3 Binding Effect. This Agreement and all other Ancillary Agreements to which each Seller becomes a Party have been duly and validly executed and delivered by Sellers, and, assuming the due authorization, execution and delivery of this Agreement and each respective Ancillary Agreement by Prospect, the Prospect Member, and the Company (as applicable), are and will constitute the valid and legally binding obligations of such Seller and are and will be enforceable against it in accordance with the respective terms hereof or thereof, except as enforceability may be restricted, limited or delayed by applicable bankruptcy, moratorium or other Laws affecting creditors' rights and remedies generally and except as enforceability may be subject to general principles of equity.

4.4 No Outstanding Rights.

(a) Except as set forth on Schedule 4.4(a), (a) no Seller owns, of record or beneficially, directly or indirectly, any shares of capital stock, membership or other comparable

equity interest of any Person other than the other Sellers, the Related Ventures, and publicly-traded securities available on established stock exchanges, (b) no Seller is a party to any agreement relating to the prospective formation of any other Person, and (c) no Seller has any contractual right or obligation to acquire any direct or indirect equity or ownership interest in any other Person.

(b) Except as set forth on Schedule 4.4(b), there are no outstanding rights (including any right of first refusal), options or Contracts made on behalf of any of Sellers or their Affiliates providing for, permitting or requiring any Person any current or future right to require any Seller or any Affiliate of any Seller or, following the Closing Date, the Company or a Company Subsidiary, to sell, lease or transfer to such Person or to any third party any interest in any of the Facilities or Purchased Assets.

4.5 Title; Purchased Assets.

(a) As of the date hereof, Sellers have good and marketable title to the Purchased Assets free and clear of all Encumbrances, except for Permitted Exceptions shown on Schedule 4.5(a) (“Pre-Closing Permitted Exceptions”). As of the Closing, the Sellers shall have good and marketable title to the Purchased Assets free and clear of all Encumbrances, except for Permitted Exceptions shown on Schedule 12.2 (“Permitted Exceptions”). At the Closing, Sellers shall convey all of their right, title and interest in, including good and marketable title to, the Purchased Assets to the Company and the Company Subsidiaries (as applicable) free and clear of all Encumbrances, except for Permitted Exceptions and the Assumed Liabilities.

(b) The Purchased Assets and the Excluded Assets (but only to the extent the Excluded Assets are specifically identified in this Agreement or the schedules hereto) constitute all assets that are held or used by any Seller or any Affiliate or otherwise necessary for the conduct of the Business substantially in the manner conducted as of the date of this Agreement and consistent with past practice.

4.6 Affiliate Agreements. Except as set forth on Schedule 4.6: (a) no Seller owes any amount to, or has any customer, supplier or distributor Contract with (other than amounts reimbursable for expenses and salary arising in the Ordinary Course of Business to such individuals), any Affiliate or any of such Seller’s directors, trustees, officers or consultants; and (b) there are no customer, supplier or distributor Contracts presently in effect between any Seller, on the one hand, and any director, trustee, officer or shareholder of any Seller or any Affiliate of the foregoing, on the other hand.

4.7 Financial Information.

(a) Attached hereto as Schedule 4.7(a) are true and correct copies of: (a) the audited consolidated balance sheet of Sellers as of September 30, 2012 (the “Audited Balance Sheet”) and the audited consolidated balance sheet of Sellers as of each of September 30, 2011 and September 30, 2010, together with the audited consolidated statements of earnings, changes in shareholders’ equity and cash flows for the respective fiscal years then ended, including the notes thereto, in each case examined by and accompanied by the report of independent public accountants; and (b) the unaudited consolidated balance sheet of Sellers as of July 31, 2013 (the

“Interim Balance Sheet”) and the unaudited consolidated statements of earnings, changes in shareholders’ equity and cash flows for the nine (9) months then ended (such unaudited statements collectively with the Interim Balance Sheet, the “Interim Financial Statements”). All of the foregoing financial statements (including the notes thereto, if any) are hereinafter collectively referred to as the “Financial Statements.”

(b) Except as set forth in Schedule 4.7(b), the Financial Statements present fairly, in all material respects, the financial position and results of operations of Sellers, on a consolidated basis, as of the dates and for the periods indicated, in each case in conformity with GAAP applied on a consistent basis throughout the periods covered thereby, and subject, in the case of the Interim Financial Statements, to the absence of footnote disclosures and normal year-end adjustments that will not be material individually or in the aggregate.

(c) Except as set forth in Schedule 4.7(c), Sellers have no Liabilities whether or not required by GAAP to be reflected or reserved against in the Audited Balance Sheet or the Interim Balance Sheet, except for (A) Liabilities reflected or reserved against in the Audited Balance Sheet or the Interim Balance Sheet and (B) current Liabilities incurred in the Ordinary Course of Business since the date of the Audited Balance Sheet.

(d) Schedule 4.7(d) accurately lists as of the date hereof and will set forth as of Closing all of Sellers’ outstanding Indebtedness, and shall specifically identify all outstanding Material Indebtedness and all outstanding Capital Lease Obligations.

4.8 Permits and Approvals.

(a) Schedule 4.8(a) lists all Permits, Environmental Permits and Approvals issued or granted by a Governmental Entity and owned or held by or issued to a Seller or an Affiliate of a Seller in connection with the Business, and such Permits, Environmental Permits and Approvals constitute all Permits, Environmental Permits and Approvals necessary for the conduct of the Business as currently conducted. Sellers are, and will be at the Closing, the duly authorized holders of such Permits, Environmental Permits and Approvals, all of which are in full force and effect and unimpaired. Except as set forth in Schedule 4.8(a), no approval by or permission from any Governmental Entity relating to any such Permit, Environmental Permit or Approval will be or is needed as a result of the Transactions contemplated in this Agreement. Each Facility’s pharmacies, laboratories and all other ancillary departments located at such Facility and operated by a Seller or an Affiliate of a Seller for the benefit of such Facility, if required to be specially licensed, are duly licensed by each appropriate Governmental Entity, and a list of such licenses is set forth on Schedule 4.8(a). True and complete copies of all such Permits, Environmental Permits and Approvals set forth on Schedule 4.8(a) have been delivered or made available to the Company.

(b) (i) The Business is in compliance in all material respects with all Permits, Environmental Permits and Approvals required by Law; (ii) to Sellers’ Knowledge, except as provided in Schedule 4.8(b), no waivers of any Laws have been granted or are required for the operation of the Business as currently conducted by Sellers, nor has grandfathered compliance status with respect to such Laws been granted; (iii) there are no provisions in, or Contracts relating to, any such Permits, Environmental Permits and Approvals that preclude or limit Sellers

from operating the Business as it is currently operated; and (iv) there is not now pending or, to Sellers' Knowledge, threatened any action by or before any Governmental Entity to revoke, cancel, rescind, suspend, restrict, modify or refuse to renew any of the Permits, Environmental Permits and Approvals, and all of the Permits, Environmental Permits and Approvals are and shall be effective, unrestricted and in good standing now and as of the Closing Date.

(c) (i) Sellers hold all accreditations/certifications issued by accrediting bodies that are necessary or customary for the operation of the Business; (ii) there is not now pending nor, to Sellers' Knowledge, threatened any action by any accrediting body to revoke, cancel, rescind, suspend, restrict, modify or non-renew any such accreditation/certifications; and (iii) all such accreditations/certifications are and shall be effective unrestricted and in good standing as of the date hereof and as of the Closing Date.

(d) Except as set forth in Schedule 4.8(d), each of the Facilities is in compliance with all applicable fire code regulations. Sellers have delivered or made available to the Company the most recent state licensing reports and lists of deficiencies, if any, and the most recent fire marshal surveys and lists of deficiencies, if any, for each of the Facilities, and no such deficiencies are material.

4.9 Intellectual Property. Except for Intellectual Property constituting Excluded Assets:

(a) Schedule 4.9(a) sets forth a complete and accurate list of all Intellectual Property licensed from third parties (the "Third Party Intellectual Property") other than Off-the-Shelf Software.

(b) Sellers own and will own at the Closing all Seller Intellectual Property free and clear of all Encumbrances other than Pre-Closing Permitted Exceptions or Permitted Exceptions, as applicable. To Sellers' Knowledge, the Seller Intellectual Property includes all of the Intellectual Property necessary in the conduct of the Business as currently conducted.

(c) To Sellers' Knowledge: (i) Sellers hold and will hold at the Closing valid licenses to use all Third Party Intellectual Property as used in the Business as of the date hereof and as of the Closing Date; and (ii) except as set forth on Schedule 4.9(c) and subject to Pre-Closing Permitted Exceptions or Permitted Exceptions, as applicable, Sellers have and will have at the Closing all rights necessary to assign, transfer and convey to the Company and the Company Subsidiaries (as applicable) pursuant to this Agreement all rights of Sellers in and to all Intellectual Property, other than pursuant to Excluded Contracts, free and clear of any Encumbrances other than Pre-Closing Permitted Exceptions or Permitted Exceptions, as applicable.

(d) To Sellers' Knowledge: (i) the conduct of the Business as conducted currently does not or, and at any time in the past did not, infringe, misappropriate or violate any Intellectual Property rights owned or controlled by any third party; and (ii) as of the date hereof and as of the Closing Date, there is no unauthorized use, disclosure, infringement or misappropriation by a third party of any Seller Intellectual Property.

(e) No Seller or Affiliate of Seller has brought any Legal Proceeding for infringement of Seller Intellectual Property or breach of any license or Contract involving Intellectual Property against any third party. No written claim by any third party contesting the validity, enforceability or ownership of any Seller Intellectual Property has been made, is currently outstanding, or, to Sellers' Knowledge, is threatened. To Sellers' Knowledge, no such claim has been made, is currently outstanding, or is threatened against any licensor to the Sellers of Third Party Intellectual Property.

(f) Except as set forth in the Assumed Contracts, no necessary registration, maintenance and renewal fees that are the responsibility of Sellers or their Affiliates in connection with the Intellectual Property pursuant to Assumed Contracts are due and payable as of the date hereof and none will be due and payable as of the Closing Date, except for standard expirations and renewals in the Ordinary Course of Business.

(g) No Seller has entered into any written agreement granting to any Person the right to control the prosecution or registration of any of the Seller Intellectual Property.

(h) Schedule 4.9(h) lists all Seller Intellectual Property that is registered or is the subject of a pending application for registration in any country, state or territory.

4.10 Government Program Participation/Accreditation.

(a) Except as set forth on Schedule 4.10(a), each Facility that participates in a Government Reimbursement Program is: (i) eligible to receive payment without restriction under the Government Reimbursement Programs for services provided to qualified beneficiaries; and (ii) qualified to participate in and has current provider agreements (with one or more provider numbers) with the Government Reimbursement Programs and/or their MACs (or other fiscal intermediaries). All of the provider numbers used by Sellers in connection with the Business are listed on Schedule 4.10(a).

(b) Except as expressly disclosed in writing by Sellers to the Company, each Facility that participates in a Government Reimbursement Program is in compliance in all material respects with the conditions of participation for such Government Reimbursement Program. Except as expressly disclosed in writing by Sellers to the Company, there is not pending, nor, to Sellers' Knowledge, is there threatened, any proceeding or investigation under the Government Reimbursement Programs involving Sellers or the Business, or any Person who as of the date hereof or as of the Closing Date is an officer, director, trustee, Employee or agent of Sellers in connection with such Facilities.

(c) (i) Cost Reports for each of the Facilities that participates in a Government Reimbursement Program were filed when due; (ii) except as expressly disclosed in writing by Sellers to the Company, the Cost Reports are in all material respects complete and correct; (iii) such Cost Reports do not claim, and none of such Facilities has received payment or reimbursement in excess of, the amount provided by Law, other than as may be determined pursuant to a future RAC audit as provided in Section 13.6(b) below; (iv) all amounts shown as due from any of such Facilities in the Cost Reports either were remitted with such Cost Reports or will be remitted when required by applicable Law, and all amounts shown in the

corresponding Notices of Program Reimbursement as due have been or prior to Closing will be paid when required under applicable Law; and (v) except to the extent that liabilities or contractual adjustments with respect to such Facilities under the Government Reimbursement Programs have been properly reflected and adequately reserved in the Financial Statements, Sellers have not received notice of any dispute or claim by any Governmental Entity, fiscal intermediary or other Person regarding the Government Reimbursement Programs or the participation by any of such Facilities in such programs. Complete and correct copies of all such reports for the three (3) most recently completed fiscal years of Sellers have been delivered or made available to the Company.

(d) Except as set forth on Schedule 4.10(d), there are no claims, actions or appeals pending before any Governmental Entity with respect to any Cost Reports or claims filed on behalf of Sellers with respect to any of the Facilities that participates in a Government Reimbursement Program, on or before the date of this Agreement (nor shall there be as of Closing, except as disclosed in writing to the Company), or any disallowances by any Government Entity in connection with any audit of such Cost Reports. Except as set forth on Schedule 4.10(d), no validation review or program integrity review related to the Business or the consummation of the Transactions has been conducted by any Governmental Entity in connection with any Government Reimbursement Programs, and, to Sellers' Knowledge, no such reviews are scheduled, pending or threatened against Sellers with respect to the Business or the consummation of the Transactions.

(e) All billing practices of Sellers (including any employed physician practices) with respect to Government Reimbursement Programs and Private Health Plans have been in compliance in all material respects with all applicable Laws, regulations and policies of such Government Reimbursement Programs and Private Health Plans and, to Sellers' Knowledge, Sellers (including any employed physician practices) have not billed or received any material payment or reimbursement in excess of amounts allowed by Law or such payors, other than as may be determined pursuant to a future RAC audit as provided in Section 13.6(b) below.

(f) Sellers have provided to the Company true and complete copies of the most recent accreditation survey report and deficiency list with respect to each Facility and plan of correction, if any, issued by a Governmental Entity. Except as set forth on Schedule 4.10(f), each Facility is implementing remediation of any such deficiencies.

(g) Neither any Seller nor, to Sellers' Knowledge, any of their Affiliates or any director, trustee, officer or Employee of Sellers or any of their Affiliates or any agent acting on behalf of or for the benefit of any of the foregoing, has, directly or indirectly, in connection with any of the Facilities or the Business, engaged in any activities that are prohibited or are cause for civil monetary penalties, criminal sanctions or other legal sanctions under any Laws.

(h) Neither any Seller nor, to Sellers' Knowledge, any of their Affiliates or any director, trustee, officer or Employee of Sellers or any of their Affiliates, is a party to any Contract (including any joint venture or consulting agreement) related to or affecting the Business with any physician, health care facility, hospital, nursing facility, home health agency or other Person who is in a position to make or influence referrals to or otherwise generate business for the Business, to provide services, lease space, lease equipment or engage in any

other venture or activity, in a manner or to the extent that any of the foregoing is prohibited by Law.

4.11 Regulatory Compliance; Illegal Payments.

(a) Except as expressly disclosed in writing by Sellers to the Company: (i) Sellers are in compliance in all material respects with all applicable Laws of Governmental Entities having jurisdiction over each Facility, the Purchased Assets and the Business; and (ii) since December 31, 2009, each of Sellers has timely filed all material forms, applications, reports, statements, data and other information required to be filed with Governmental Entities with respect to the Business.

(b) To Sellers' Knowledge, except as expressly disclosed in writing by Sellers to the Company: (i) each of the Related Ventures is in compliance, in all material respects, with all applicable Laws of Governmental Entities having jurisdiction over it and its business; and (ii) since December 31, 2009, each of the Related Ventures has timely filed all material forms, applications, reports, statements, data and other information required to be filed with Governmental Entities with respect to its business.

(c) Neither any Seller nor, to Sellers' Knowledge, any officer, director, trustee, manager, personnel or agent of any Seller or any other Person on behalf of any Seller, has made or authorized, directly or indirectly, any payment of funds of, or relating to, any Seller that is prohibited by any Laws, including laws relating to bribes, gratuities, kickbacks, lobbying expenditures, political contributions and contingent fee payments.

4.12 Contracts.

(a) Schedule 4.12(a) lists all of the following Contracts to which any Seller is a party or by which it is bound and that are primarily related to the Business or by which the Purchased Assets or Facilities may be bound or affected (collectively, the "Material Contracts"):

- (i) Third party contracts;
- (ii) Managed care matrix;
- (iii) Outside consulting/labor agreements;
- (iv) Equipment lease agreements;
- (v) Capital leases; and
- (vi) Loan guarantees and agreements.

Notwithstanding the foregoing, the Parties hereby acknowledge and agree that Schedule 4.12(a) has been prepared based on good faith efforts by Sellers in anticipation of execution of this Agreement and, accordingly, the inadvertent omission of a Material Contract from Schedule 4.12(a) shall not constitute or be construed as a breach for purposes of Sections 9.2, 11.1(iv), or 14.2(a) hereof.

(b) Each Assumed Contract is valid and existing as to the applicable Seller, and each Seller has duly performed, in all material respects, its obligations under each Assumed Contract to which it is a party to the extent that such obligations to perform have accrued or the term thereof has not expired. Except as set forth on Schedule 4.12(b), to Sellers' Knowledge, no breach or default, alleged breach or default, or event or condition that would (with the passage of time, notice or both) constitute a breach or default under any Assumed Contract by Sellers or any other party or obligor with respect thereto, has occurred or exists.

(c) Schedule 4.12(c) lists each Assumed Contract with a change of control provision that would be triggered by the Transactions and, as a result thereof, may require notice to or consent by a third party or may cause a third party to have a right of termination (excluding, for these purposes, any Assumed Contract and Material Contract described in Section 4.12(d) or (e) below).

(d) Schedule 4.12(d) lists each Assumed Contract that, by its terms, requires notice to (but not consent of) a third party in order for Sellers to assign such Assumed Contracts and Material Contracts to the Company or a Company Subsidiary in accordance with the terms of this Agreement (excluding, for these purposes, any Assumed Contract described in Section 4.12(e) below).

(e) Schedule 4.12(e) lists each Assumed Contract that, by its terms, requires a third party's consent to assignment in order for Sellers to assign such Assumed Contracts and Material Contracts to the Company or a Company Subsidiary in accordance with the terms of this Agreement, with Material Consents (for purposes of Section 3.3(o) above and Section 13.4 below) denoted with an asterisk. Company shall have a period of three (3) Business Days following the Delivery Date during which to complete the denotation of Material Consents with an asterisk.

(f) Sellers have delivered or made available to the Company true and correct copies of all of the foregoing Assumed Contracts described in the foregoing Sections 4.12(c)-(e). No Seller is a party to any oral arrangement or understanding relating to the Business that if in writing would be described in any such Section.

4.13 Tax Matters. Except as set forth on Schedule 4.13:

(a) Each Seller is an entity organized under U.S. federal or state law, and all of the Facilities and Purchased Assets are located in the United States;

(b) All of the assets and operations of Sellers are located within the State of Rhode Island;

(c) None of the Facilities or Purchased Assets are treated, for U.S. federal income tax purposes, as either stock of a corporation or interests in a partnership, except for the interests of CCHP in the Related Ventures, which are treated as interests in partnerships for U.S. federal income tax purposes. None of the Facilities or Purchased Assets are equity interests in an entity that is treated as disregarded from its owner for U.S. federal income tax purposes;

(d) Except as provided below, each Seller is: (i) exempt from taxation under Subtitle A of the Code by virtue of being described in Section 501(c)(3) of the Code; and (ii) exempt from state and local income taxation under applicable analogous provisions of state and local Tax laws. Notwithstanding the foregoing: (x) SJHE is an entity that is treated as disregarded from its owner for U.S. federal income tax purposes; and (y) PHO, Elmhurst HA, Our Lady and Rosebank are subject to U.S. federal and state income taxation;

(e) To Sellers' Knowledge, all Tax Returns required to be filed by, or on behalf of, any Seller have been filed within the time (including any valid extensions thereof) and in the manner provided by Law, and all such Tax Returns are true, correct and complete in all material respects (provided, for the avoidance of doubt, that any statements in a Tax Return relevant to the continuing eligibility of any Seller, or any Affiliate of any Seller, for exemption from any Tax shall be deemed to be material for purposes of this Section 4.13), and all amounts shown due on such Tax Returns have been paid on a timely basis;

(f) To Sellers' Knowledge, all Taxes for which any Seller may have any liability (whether disputed or not) that have become or are due with respect to the Facilities or Purchased Assets, and any assessments received by any Seller, either have been paid or have been adequately reserved for in accordance with GAAP on the financial statements of Sellers;

(g) To Sellers' Knowledge, there are no liens for any Tax on any of the Facilities or Purchased Assets, and there is no basis for the assertion of any lien for any Tax;

(h) To Sellers' Knowledge: (i) all amounts required to be withheld or collected by any Seller in compliance with the payroll tax and other withholding provisions of all applicable Laws have been so withheld or collected, and all such amounts withheld or collected have been timely, duly and validly remitted to the proper Governmental Entity; and (ii) all Internal Revenue Service Forms W-2, Forms 1099 and other required information returns, as well as any and all analogous state or local information returns, have been timely filed with the proper Governmental Entity, and all required information statements in respect of such information returns have been properly delivered to the appropriate recipients thereof; and

(i) No audit or other examination of any Tax Return is presently in progress, and, during the prior three (3)-year period, no notice of a claim or pending investigation has been received or, to Sellers' Knowledge has been threatened, alleging that: (i) any Seller may not have been fully exempt from any Tax for any period for which Sellers filed any Tax Return claiming such exemption; or (ii) any Seller otherwise has a duty to file any Tax Return or pay any Tax or is otherwise subject to the taxing authority of any jurisdiction in any manner, nor in connection therewith has any Seller received any notice or questionnaire from any Governmental Entity in any jurisdiction which suggests or asserts that such Seller may have a duty to file such Tax Returns or pay such Taxes, or otherwise is subject to the taxing authority of such jurisdiction, and no Seller has executed a waiver of any statute of limitations or other extension of the period for the assessment or collection of any Tax, which waiver or extension remains outstanding.

4.14 Real Property; Condition of Title.

(a) Real Property. Schedule 4.14(a) lists by street address all Owned Real Property owned by any Seller and used in connection with the Business. Neither any Seller nor any of their Affiliates have created any Encumbrance (other than Pre-Closing Permitted Exceptions or Permitted Exceptions, as applicable) that will interfere with the use of the Facilities and the Purchased Assets by the Company or a Company Subsidiary after Closing in a manner consistent with the current use by Sellers and their Affiliates. Any Seller that owns Owned Real Property at Closing will convey good and marketable fee simple title to such parcel of Owned Real Property and, to the extent transferrable, any Seller with a leasehold interest in Leased Real Property will assign a valid and enforceable leasehold interest in such Leased Real Property to the Company or a Company Subsidiary, in each case, free and clear of any Encumbrance, except for Permitted Exceptions.

(b) Owned Real Property. Except as otherwise disclosed in Schedule 4.14(b), with respect to each parcel of Owned Real Property: (i) there are no pending or, to Sellers' Knowledge, threatened condemnation proceedings, suits or administrative actions relating to the Owned Real Property or other matters adversely affecting the current use, occupancy or value thereof; (ii) Sellers have not received a written notice from any Governmental Entity of any violation of any applicable Law issued with respect to any of the Owned Real Property that has not been corrected prior to the date hereof and, to Sellers' Knowledge, no such violation exists that could have a material adverse effect on the operation or value of any of the Owned Real Properties; (iii) other than rights of third parties arising under any Lease or Assumed Contract, there are no Contracts granting to any party or parties the right of use or occupancy of any portion of the parcels of Owned Real Property; (iv) the Facilities have received all approvals of Governmental Entities (including licenses and permits) required in connection with the ownership or operation thereof and, to Sellers' Knowledge, are in compliance, in all material respects, with applicable Laws, ordinances, rules and regulations; (v) other than rights arising under any Lease or Assumed Contract (true and correct copies of which have been delivered or made available to the Company), there are no outstanding options or rights of first refusal to purchase the parcels of Owned Real Property, or any portion thereof or interest therein; (vi) there are no parties (other than Tenants under Leases) in possession of the parcels of Owned Real Property; (vii) neither any Seller nor any of their Affiliates has received written notice of any special assessment that may affect any parcel of Owned Real Property; and (viii) the Owned Real Property is, and until Closing shall be, insured against casualty on a full replacement cost basis by one or more insurance policies maintained by Sellers.

(c) Leases. Schedule 4.14(c) lists all Leases where any Seller is a lessee, sublessee, licensee or occupant (copies of which have previously been delivered or made available to the Company), or a lessor, sublessor or licensor in each case, setting forth (a) the parties thereto and the date and term of each of the Leases, (b) the street address and, if applicable, the suite or office number of the premises under the applicable Lease, (c) a brief description (including size and function) of the premises under the applicable Lease, (d) any requirement of consent of or notice to the lessor, sublessor or licensor to assignment of any Leased Real Property, and (e) any sublessees or sublicensees of any tenants of Sellers. Except as set forth on Schedule 4.14(c): (i) no Seller nor any Affiliate has entered into any Leases with respect to the Real Property or the Business; (ii) each Lease in respect of the Real Property

constitutes a legal, valid and binding obligation of the Seller or its Affiliate that is a party thereto, is in full force and effect, has not been amended and such Seller is not in default or breach thereunder and, to Sellers' Knowledge, the other party thereto is not in default or breach thereof; (iii) to Sellers' Knowledge, no event has occurred that, with the passage of time or the giving of notice or both, would cause a breach of or default under any of such Leases by the Seller that is a party thereto or by the other party to such Lease; and (iv) with respect to each such parcel of Leased Real Property (A) Sellers or their Affiliate have valid leasehold interests in such leased premises, free and clear of any Encumbrances, except for Permitted Encumbrances, and (B) neither any Seller nor any Affiliate have received written notice of (1) any condemnation proceeding with respect to any portion of the Leased Real Property or any access thereto, or (2) any special assessment which may affect any parcel of Leased Real Property. True and complete copies of all such Leases and all amendments, modifications and supplements existing as of the date hereof have been delivered or made available to the Company. The Rent Roll attached as Schedule 4.14(c) hereto is true and correct as of the date hereof. As of the date hereof, all rents and any additional charges due under each Lease (including, without limitation, all fixed rents, base rents, additional rents, percentage rents, common area maintenance charges, utility charges and tax charges) under which a Seller or its Affiliate is a landlord, lessor, sublessor, licensor or sublicensor are being billed to the Tenants under such Lease in accordance with the schedule set forth on Schedule 4.14(c). As of the date hereof, no such Tenant is in arrears in the payment of any such rent for more than one calendar month, except as set forth on Schedule 4.14(c). As of the date hereof, no Tenant is entitled to "free" rent or tenant improvement allowances, except as set forth on Schedule 4.14(c). As of the date hereof, all work required to be performed by the lessor or sublessor under each of the Leases has been completed and paid for, except as set forth on Schedule 4.14(c).

(d) Buildings and Systems. To Sellers' Knowledge, each of the following systems of the Hospital or other Owned Real Property: plumbing, electrical, mechanical or heating, ventilation and air conditioning, sewage, roofing, foundation and floors (collectively, the "Buildings and Systems"); is now, and shall be at Closing, in working order and, except as set forth on Schedule 4.14(d), none of such systems are currently in need of repairs anticipated to cost more than \$200,000. Except as set forth on Schedule 4.14(d), there are no written notices of any outstanding requirements, recommendations or requests from any Governmental Entity or Tenant requiring any repairs or work to be done with respect to the improvements or pertaining to the maintenance of the Buildings and Systems.

(e) Utilities. To Sellers' Knowledge, all public utilities, including water, sewer, gas, electricity and telephone, are installed and operating and provide adequate service to the Facilities and the other Owned Real Property to continue operations in the manner in which they are now operating. Except as set forth on Schedule 4.14(e), no Seller has received written notice from any public utility regarding (i) any arrearages, fines or penalties relating to utility services that remain unpaid or unresolved, or (ii) any change (pending, proposed or actual) in utility service or fees therefor with respect to the Facilities and the other Owned Real Property. Parking spaces for visitors are available in parking lots at each Facility, which parking is sufficient to accommodate and service the present usage of the Facilities. To Seller's Knowledge, each Facility and other Owned Real Property is contiguous to publicly dedicated streets, roads, or highways providing legal access to such Owned Real Property or such legal access is provided through valid, appurtenant easements.

4.15 Personal Property. Sellers have delivered or made available to the Company true and complete, in all material respects, list(s) and/or schedule(s) of fixed assets, equipment, supplies and other tangible personal property owned or leased by, in the possession of, or used by Sellers in connection with the Business. Sellers own and hold, and will own and hold on the Closing Date, good title to all tangible personal property assets and, except as to Intellectual Property, valid title to all intangible assets included in the Facilities and Purchased Assets, free and clear of all Encumbrances except Pre-Closing Permitted Exceptions or Permitted Exceptions (as applicable) and rights of owners under leases or licenses of assets leased or licensed to Sellers in the Ordinary Course of Business under Assumed Contracts. To Sellers' Knowledge, the tangible personal property of Sellers is in working order and, except as set forth on Schedule 4.15, none of such property is currently in need of repairs or replacements anticipated to cost more than \$200,000.

4.16 Insurance. Sellers have delivered or made available to the Company true and complete, in all material respects, list(s) and/or schedule(s) of all insurance policies or self-insurance funds maintained by Sellers as of the date of this Agreement covering the ownership and operation of the Purchased Assets or any of the Facilities, indicating the types of insurance, policy numbers, terms, identity of insurers and amounts and coverage (including applicable deductibles). To Sellers' Knowledge, Sellers are not in default under any such policies. Except as described on Schedule 4.16, all of such policies are now and will be until the Closing in full force and effect. Except as described on Schedule 4.16, Sellers have received no notice of default under any such policy or notice of any pending or threatened termination or cancellation, coverage limitation or reduction or material premium increase with respect to any such policy. Sellers have delivered or made available to the Company the claims history under each of the insurance policies of Sellers since December 31, 2010. Except as set forth on Schedule 4.16, all of Sellers' insurance policies and coverages are "occurrence-based" and do not require tail policies in order to cover all matters and liabilities occurring prior to the Effective Time.

4.17 Employee Benefit Plans.

(a) Schedule 4.17(a) lists (i) each employee benefit plan within the meaning of Section 3(3) of ERISA (whether or not ERISA applies to such employee benefit plan) other than the Retirement Plan, which shall not be considered a "Seller Plan" for purposes of this Agreement, and (ii) any other employee benefit or executive compensation plan, fund, agreement, program, policy, or arrangement, including any Employment Agreement, retention agreement and bonus program, whether written or unwritten, formal or informal, (A) which is or has been maintained or contributed to within the last 6 years by any Seller or by any other member of any Sellers' Controlled Group for the benefit of any Employee or former employee of any Sellers or their Affiliates at the Facilities or the Purchased Assets or (B) under which any Seller or any other member of any Sellers' Controlled Group has or may have any outstanding present or future obligations to contribute or other liability, whether voluntary, contingent or otherwise (collectively, the "Seller Plans"). With respect to each Seller Plan and the Retirement Plan, (i) all contributions (including all employer contributions and employee salary reduction contributions), distributions, reimbursements and premium payments for all periods ending prior to or as of the Closing Date shall have been made by Sellers or properly accrued, (ii) with respect to any insurance contract providing funding under any Seller Plan, to Sellers' Knowledge, there is no material liability for any retroactive rate adjustment arising from events occurring prior to

the Closing Date, and (iii) to Sellers' Knowledge, there has been no prohibited transaction (as defined in Section 406 of ERISA and 4975 of the Code, or Section 503 of the Code, as applicable) or breach of fiduciary duty (as determined under ERISA or state law, as applicable).

(b) With respect to each Seller Plan and the Retirement Plan, Sellers have delivered to the Company true and complete copies of such Plans and trust documents and any amendments thereto (or if the Seller Plan is not written, a true and reasonably complete description thereof), summary plan descriptions, all insurance contracts or other funding arrangements and the most recent third party administration contracts, all material communications received or sent to any Governmental Entity, the most recent actuarial reports and accountant's opinions of the plan's financial statements, if applicable, the most recent estimate available to Sellers of any potential multiemployer plan withdrawal liability of Sellers and their Controlled Group members, the most recent determination letter received from the IRS to the extent that any Seller Plan or the Retirement Plan is intended to be tax-qualified under Section 401(a) of the Code, and, in the case of any Seller Plan subject to ERISA, the three most recent Form 5500 annual reports, as filed, and all other material documents pursuant to which the Seller Plan is maintained, funded, and administered. Each Seller Plan and the Retirement Plan complies in all material respects with the Code and all applicable Laws, and such Plan has been operated in material compliance with the terms thereof in all respects. Neither any Seller nor any members of Sellers' Controlled Group have improperly excluded any eligible employee from participation in any Seller Plan or the Retirement Plan. The Retirement Plan and each Seller Plan that is intended to be tax-qualified under Section 401(a) of the Code is so qualified and, to Sellers' Knowledge, there are no currently existing circumstances that could reasonably result in revocation of any such qualification. The trusts maintained under each such tax-qualified plan are exempt from taxation under Section 501(a) of the Code. Each Seller Plan that is intended to meet the requirements of Section 403(b) of the Code complies in all material respects with Section 403(b) of the Code and the regulations issued thereunder, and each Seller Plan that is intended to meet the requirements of Section 457(b) of the Code complies in all material respects with Section 457(b) of the Code and the regulations issued thereunder.

(c) The Purchased Assets are not, and to Sellers' Knowledge there is no existing factual basis for the Purchased Assets to become, subject to a lien imposed under the Code or under Title I or Title IV of ERISA or by operation of state law, including liens arising by virtue of any Seller being considered to be aggregated with another trade or business pursuant to Section 414 of the Code or Section 4001(b)(1) of ERISA ("Controlled Group").

(d) Neither any Seller nor any member of Sellers' Controlled Group has at any time sponsored, contributed to, has or had an "obligation to contribute" (as defined in ERISA Section 4212) or has or had any liability, whether voluntary, contingent or otherwise with respect to a "multiemployer plan" (as defined in ERISA Sections 4001(a)(3) or 3(37)(A) or Section 414(f) of the Code), either as an employer or a joint employer.

(e) Neither any Seller nor any member of Sellers' Controlled Group has at any time sponsored or contributed to or has or had any liability, whether voluntary, contingent or otherwise with respect to a "single employer plan" (as defined in ERISA Section 4001(a)(15), whether or not ERISA would apply to such plan) to which at least two or more of the

“contributing sponsors” (as defined in ERISA Section 4001(a)(13), whether or not ERISA would apply to such plan) are not part of the same Controlled Group.

(f) Except as set forth on Schedule 4.17(f), (i) no Legal Proceeding has been instituted or, to Sellers’ Knowledge, threatened against or involving any Seller Plan or the Retirement Plan (other than routine claims for benefits), any trustee or fiduciaries thereof, or Sellers, (ii) there are no actions, audits or claims pending or, to Sellers’ Knowledge, threatened against any Seller or any Seller Plan or the Retirement Plan with respect to such Seller’s maintenance of the Seller Plans, other than routine claims for benefits, and (iii) no Seller Plan nor the Retirement Plan is under audit by the IRS or any other Government Entity, or, to Sellers’ Knowledge, under investigation by the IRS or any other Governmental Entity.

(g) To the extent applicable, the members of Sellers’ Controlled Group have complied with all of the continuation coverage requirements of Section 4980B(f) of the Code and Party 6 of Subtitle B of Title I of ERISA and any comparable state laws requiring Sellers or any member of Sellers’ Controlled Group to provide group health continuation coverage to employees, former employees and other eligible individuals (“COBRA”).

(h) Except as set forth on Schedule 4.17(h), no Seller Plan provides health, dental, life insurance or other welfare benefits (whether on an insured or self-insured basis) to Employees after their retirement or other termination of employment (other than continuation coverage required under COBRA which may be purchased at the sole expense of the Employee).

(i) None of the Seller Plans is a “church plan” within the meaning of Code Section 414(e) (a “Church Plan”). The Retirement Plan is a Church Plan. The Retirement Plan has been a Church Plan since the date on which the Retirement Plan was established, and has continuously maintained such status since that date. The Retirement Plan has at all times been administered by an organization described in Section 414(e)(3)(A) of the Code and Seller has not made, with respect to the Retirement Plan, an election pursuant to Section 410(d) of the Code.

(j) Except as set forth on Schedule 4.17(j), no Seller has within the last six (6) years sponsored or contributed to or has or had any liability, whether voluntary, contingent or otherwise with respect to a defined benefit plan. With respect to any defined benefit plan listed on Schedule 4.17(j), Seller has fully disclosed the current funding status of the plan and properly accounted for its obligations with respect to such plans on its financial statements. Except as set forth on Schedule 4.17(j), neither any Seller nor any member of Sellers’ Controlled Group participates in, contributes to, or otherwise has any current or contingent liability or obligation under or with respect to any plan that is or was subject to Title IV of ERISA or Section 412 of the Code. No Seller nor any member of Sellers’ Controlled Group has any current or contingent liability or obligation by reason of at any time being treated as a single employer under Section 414 of the Code with any other Person.

(k) Each agreement, contract or other arrangement to which the a Seller is a party that is a “nonqualified deferred compensation plan” subject to Section 409A of the Code has been maintained in all material respects in documentary and operational compliance with Section 409A of the Code and the regulations thereunder and no amounts under any such agreement, contract, or other arrangement is or has been subject to the interest and additional tax

set forth under Section 409A of the Code. No Seller has any actual or potential obligation to reimburse or otherwise “gross-up” any Person for the interest or additional tax set forth under Section 409A of the Code. Each Seller Plan that is intended to constitute an “eligible deferred compensation plan” within the meaning of Section 457(b) of the Code satisfies the requirements of said Code section.

(l) Except as set forth on Schedule 4.17(l), the consummation of the transactions contemplated by this Agreement will not (i) entitle any Employee to severance pay or termination benefits, (ii) accelerate the time of payment or vesting (except to the extent required by Section 411 of the Code), or increase the amount of compensation due to any such Employee, (iii) obligate the Company or any Company Subsidiary to pay or otherwise be liable to any Employee for periods before the Closing Date to the extent such obligation or liability is not contained in the calculation of Final Net Working Capital, (iv) require assets to be set aside or other forms of security to be provided for any liability under a Seller Plan or the Retirement Plan, or (v) result in any “parachute payment” (within the meaning of Section 280G of the Code or any corresponding provision of state or local law).

4.18 Employees and Employee Relations.

(a) Sellers have delivered or made available to the Company on Sellers’ Due Diligence Data Site a true and correct list of all Employees (other than residents or fellows) as of August 24, 2013, including the following information, as applicable: (i) position; (ii) job site; (iii) date of hire; (iv) department or administrative unit assigned; (v) current annual salary or hourly wage; (vi) date of last salary or wage increase; (vii) accrued vacation, holidays and/or sick leave; and (viii) the labor union, if any, by which the individual is represented (the “Employee List”).

(b) Sellers have delivered to the Company complete and accurate copies of each employment, consulting, enrollment, appointment, training and similar agreement pertaining to the Business to which any Seller is a party. Except as disclosed on Schedule 4.18(b) or Schedule 4.18(c), no Seller is a party to or bound by any Contract, Order or statutory obligation (other than the WARN Act) pertaining to the Business (i) for the employment or provision of services (including as an independent contractor or consultant) by any individual, that is not terminable by such Seller without penalty upon 30 days’ notice or less, or (ii) relating to the payment of any severance or termination payment, bonus or death benefit to any Employee, former employee or their estates or designated beneficiaries, except for proceeds under any standard employee benefit insurance policies that may be in effect.

(c) Schedule 4.18(c) identifies the labor or collective bargaining agreements, if any, including all side agreements, memoranda of understanding, arbitration awards construing or modifying the terms of any such agreements, and any other ancillary agreements applicable to the Employees. Prior to the date hereof, Sellers have delivered to the Company a copy of each agreement and/or other document listed on Schedule 4.18(c), if any. Sellers, without violating their statutory obligation to bargain in good faith, shall not negotiate any changes to, or extensions of, said collective bargaining agreements, or present substantive proposals to the applicable labor unions with respect to any such proposed changes or extensions, without first consulting with the Company and securing its prior written consent to same. Except as described

on Schedule 4.18(c), in connection with Sellers' operation of the Business: (i) no labor union or employee association has been certified as the collective bargaining agent for any group of Employees; (ii) there is no current, or to Sellers' Knowledge threatened, union organizing activities or campaign, or labor union demand for recognition or neutrality, with respect to any Employees or that could otherwise affect Sellers; (iii) to Sellers' Knowledge, no petition has been filed or proceeding instituted by or on behalf of any Employee, group of Employees or labor organization with the National Labor Relations Board or any other Governmental Entity exercising lawful jurisdiction over Sellers seeking recognition of a bargaining representative; and (iv) no Employee is represented by a labor union as it pertains to his or her employment by Sellers.

(d) Except as set forth on Schedule 4.18(d), there are no (i) strikes, work stoppages, work slowdowns or lockouts pending or threatened against or involving Sellers, or (ii) unfair labor practice charges or complaints pending or, to Sellers' Knowledge, threatened by or on behalf of any Employee or group of Employees, and Sellers have not experienced any such pending or threatened strikes, work stoppages, work slowdowns, lockouts, unfair labor practice charges or complaints since December 31, 2008.

(e) Except as described on Schedule 4.18(e), each Seller is in compliance in all material respects with all collective bargaining agreements, if any, arbitration awards or other Contracts relating to employment of represented or non-represented Employees, and there are no grievances or arbitrations pending under any such collective bargaining agreements.

(f) Except as set forth on Schedule 4.18(f): (i) each Seller is in compliance in all material respects with all Laws relating to employment, denial of employment or employment opportunity and termination of employment; (ii) no Seller is a party to, or otherwise bound by, any settlement agreement or consent decree with, or citation by, any Governmental Entity relating to Employees or employment practices; (iii) there is no charge of discrimination in employment or employment practices against Sellers, on any basis, including age, gender, race, religion, national origin, disability, marital status, sexual orientation or other legally protected characteristic, or charge of retaliation, which is now pending or, to Sellers' Knowledge, threatened, before the United States Equal Employment Opportunity Commission, or any other Governmental Entity in any jurisdiction in which Sellers have employed or currently employs any Employee or any probable cause determination with respect to any such charge; (iv) no Seller is liable for any payment to any trust or other fund or to any Governmental Entity with respect to unemployment compensation benefits, workers' compensation benefits, social security or other benefits or obligations for Employees (other than routine payments to be made in the normal course of business and consistent with past practice); (v) there is no claim with respect to payment of wages, salary or overtime pay, or unpaid withholding taxes or other sums as required by any appropriate Governmental Entity that is now pending or, to Sellers' Knowledge, threatened, before any Governmental Entity with respect to any current or former Employees; and (vi) there are no controversies pending or, to Sellers' Knowledge, threatened, by or on behalf of any Employees against Sellers, which controversies have or could reasonably be expected to result in a Legal Proceeding before any Governmental Entity, including those related to payment of wages, hours and the payment of withholding of taxes and other sums as required by any appropriate Governmental Entity.

(g) Except as set forth on Schedule 4.18(g), there is no material controversy pending or, to Sellers' Knowledge, threatened between a Seller and any of its current or former officers, directors, trustees or senior managers, in each case, in connection with the Business.

(h) Schedule 4.18(h) identifies all Employees who are working exclusively or substantially in connection with a research program.

(i) To Sellers' Knowledge: (i) no officer or senior manager has any present intention to terminate or materially alter his or her relationship with any Seller, other than as contemplated by this Agreement and the agreements to be entered into pursuant to this Agreement; and (ii) no Employees are in violation of any material term of any employment contract, patent disclosure agreement, enforceable noncompetition agreement or any enforceable non-solicitation or other restrictive covenant, in each case, to a former employer relating to the right of any such Employee to be employed by Sellers.

4.19 Residents and Fellows. Sellers have delivered or made available to the Company on Sellers' Due Diligence Data Site a true and correct list of all medical residents and fellows as of August 24, 2013, including the following information, as applicable: (i) the position; (ii) the date of appointment and enrollment in a sponsored graduate education program associated with Sellers; (iii) current annual stipend or other compensation; (iv) average number of hours participating in graduate medical education and training per week; (v) date of last stipend increase; and (vi) the union, if any, by which the individual is represented (the "Residents and Fellows List").

4.20 Medical Staff; Physician Relations. Sellers have delivered or made available to the Company on Sellers' Due Diligence Data Site complete and correct copies of the Bylaws, Rules and Regulations of the Medical Staff applicable to the Facilities, as in effect as of August 31, 2013. Consistent with applicable state law confidentiality and disclosure requirements applicable to medical staff members, Sellers have expressly informed the Company regarding any pending or, to Sellers' Knowledge, threatened, proceedings with the medical staff members at the Facilities or applicants or allied health professionals, other than routine medical staff credentialing and privileging functions. Sellers have delivered to the Company a true and correct list of all members of the medical staff and allied health professional staff of the Facilities as of August 31, 2013 (collectively, the "Medical Staff List"), including each person's name, title or position, and department.

4.21 Legal Proceedings. Schedule 4.21 contains an accurate list and summary description of all Legal Proceedings currently pending with respect to or affecting the Facilities and the Purchased Assets to which Sellers or any of their Affiliates is a party (including Governmental Entity and third party payor audits and related proceedings), as well as settlements, Orders or conciliation agreements under which Sellers or any of their Affiliates has current or future obligations with respect to the Facilities or Purchased Assets. Except to the extent set forth on Schedule 4.21, there are no Legal Proceedings, compliance reports, notices of violation or information requests pending, or, to Sellers' Knowledge, threatened against (i) any Seller or its Affiliates with respect to the Business, or (ii) any Employee as relates to his or her employment by Sellers.

4.22 Absence of Changes. Except as set forth in Schedule 4.22, between the date of the Audited Balance Sheet and the date hereof, there has not been any transaction or occurrence in which Sellers or any of their Affiliates, in connection with the Purchased Assets, have:

(a) suffered any damage, destruction or loss with respect to or affecting any of the Facilities or Purchased Assets in an amount in excess of \$100,000;

(b) written down or written up the value of any Inventory (including write-downs by reason of shrinkage or markdowns), except in the Ordinary Course of Business;

(c) determined as collectible any account receivable or any portion thereof that was previously considered uncollectible, or written off as uncollectible any account receivable or any portion thereof, except for write-downs, write-ups and write-offs in the Ordinary Course of Business;

(d) disposed of, modified or permitted to lapse, any right to the use of any Intellectual Property, except in the Ordinary Course of Business;

(e) made any capital expenditure or commitment for additions to property, plant, equipment, intangible or capital assets or for any other purpose in an amount in excess of \$100,000, other than in the Ordinary Course of Business;

(f) acquired any assets, including acquired any business (whether by merger, consolidation, the purchase of a substantial portion of the assets or equity interests of such business or otherwise), in an amount in excess of \$100,000, other than in the Ordinary Course of Business;

(g) sold, leased, transferred or otherwise disposed of any of the Facilities or Purchased Assets having a current book value or fair market value in excess of \$100,000, other than in the Ordinary Course of Business;

(h) granted or incurred any obligation for any increase in the compensation of any Employee (including any increase pursuant to any bonus, pension, profit-sharing, retirement, or other plan or commitment) or created any Seller Plan, in each case, other than in the Ordinary Course of Business;

(i) incurred, assumed or guaranteed any indebtedness, or made any loans, advances or capital contributions to, or investments in, any other Person, other than in the Ordinary Course of Business;

(j) cancelled, settled, compromised, waived or released any right or claim (or series of related rights and claims) involving more than \$100,000, other than in the Ordinary Course of Business;

(k) made any change in any method of accounting or accounting principle, practice or policy, except as required by GAAP;

(l) suspended operation of, or closed any departments (or material service), clinics or health services or educational programs, or otherwise terminated or took action to terminate such operations;

(m) filed for bankruptcy;

(n) taken any other material action except in the Ordinary Course of Business, or specifically provided for in this Agreement; or

(o) agreed, so as to legally bind the Sellers or affect the Facilities or the Purchased Assets, whether in writing or otherwise, to take any of the actions set forth in this Section 4.22 and not otherwise permitted by this Agreement.

4.23 Environmental Matters.

(a) Except as set forth on Schedule 4.23:

(i) Except in compliance with applicable Environmental Laws, or in concentrations that would not be reasonably likely to result in an obligation to report to a Governmental Entity, investigate, remediate, correct or monitor any environmental condition, to Sellers' Knowledge, there are not and have not been during the past six (6) years any Hazardous Materials located in, on, under, at or from any Facility, Owned Real Property or Leased Real Property. Except in material compliance with applicable Environmental Laws, to Sellers' Knowledge, there are no portions of any Facility or Real Property being used, or within the last six (6) years have been used, by Sellers, or that have previously been used by any other Person, for Hazardous Activity in violation of Environmental Laws.

(ii) To Sellers' Knowledge, the Facilities, the Real Property and the Business and the operations of Sellers are in compliance in all material respects with all applicable Environmental Laws and have at all times during Sellers' operations for the past six (6) years been in compliance in all material respects with all applicable Environmental Laws. To Sellers' Knowledge, all Former Real Property had been in compliance in all material respects with applicable Environmental Laws during the ownership, lease or operation thereof by Sellers. To Sellers' Knowledge, there are no conditions existing at any Facility, Real Property or Former Real Property that have resulted in, or that with the giving of notice or the passage of time or both, could reasonably be expected to result in, liability under Environmental Laws. Sellers have not received any written notice of any potential or actual liability under Environmental Laws relating to any Facility, Real Property, Former Real Property or the conduct of the Business or the operations of Sellers or their predecessors-in-interest.

(iii) Sellers have, or have timely applied for, all material Environmental Permits. To Sellers' Knowledge, the Business, Sellers' operations, the Facilities and the Real Property are, and for the past six (6) years have been, in material compliance with the terms and conditions of all such Environmental Permits. To Sellers' Knowledge, no reason exists why the Company and the Company Subsidiaries (as applicable) should not be able to continue the Business and the operations of Sellers following the consummation of the transactions contemplated by this Agreement, consistent with past practice in material compliance with Environmental Laws and such Environmental Permits.

(b) Neither this Agreement nor the consummation of the transaction that is the subject of this Agreement will result in any obligations for any Remediation, or notification to or consent of Governmental Entities or third parties, pursuant to any of the so-called “transaction-triggered” or “responsible property transfer” Environmental Laws.

(c) Sellers have provided to the Company all material environmental reports, assessments, audits, studies, investigations, data and other written environmental information in their custody or possession concerning Sellers, the Facilities, the Real Property and the Former Real Property.

(d) None of the matters disclosed on Schedule 4.23, individually or in the aggregate, is reasonably likely to result in a Material Adverse Development.

4.24 Immigration Act. To Sellers’ Knowledge, Sellers are in compliance, in all material respects, with the terms and provisions of the Immigration Act with respect to the operation of the Facilities and the Purchased Assets. No Seller has received any written notice of any actual or potential violation of any provision of the Immigration Act (it being acknowledged that receipt of Social Security Administration “no match letters” does not constitute notice of any actual or potential violation of any Law) and there are no, and, since December 31, 2007, have not been any, citations, investigations, administrative proceedings or formal complaints of violations of the immigration laws imposed, pending or threatened before the U.S. Department of Homeland Security (including the U.S. Citizenship and Immigration Services, U.S. Immigration and Customs Enforcement or U.S. Customs and Border Protection), U.S. Department of Labor or before any other Governmental Entity against or involving any of Sellers.

4.25 WARN Act. Sellers have delivered or made available to the Company a true and correct list of the full name, job title, job site and unit, date of Employment Loss, and type of Employment Loss (termination, layoff or reduction in work hours) of each Employee of Sellers who furnished services at any of the Facilities or the Purchased Assets who has experienced an Employment Loss in the ninety (90) days preceding the date of this Agreement. Except as expressly disclosed in writing by Sellers to the Company, Sellers do not presently intend to take any action that would result in an Employment Loss by any Employee or Person who furnishes services at any of the Facilities or the Purchased Assets between the date of this Agreement and the Closing Date, other than in the Ordinary Course of Business. For purposes of this Section 4.25, “Employee” shall mean any Employee, including officers, managers and supervisors, but excluding Employees who are employed for an average of fewer than 20 hours per week or who have been employed for fewer than 6 of the preceding 12 months, unless Employees working fewer than 20 hours per week or employed fewer than 6 months are protected by a current or then-existing federal, state or local plant closing law.

4.26 Credit Balance Reports. Sellers have delivered or made available to the Company accurate and complete copies of their Medicare and Medicaid quarterly credit balance reports for the past four quarters.

4.27 Inventory. Substantially all of the Inventory existing on the date hereof will exist on the Closing Date, except for Inventory exhausted, replaced or added in the Ordinary Course of Business between the date of this Agreement and the Closing Date. To Sellers’ Knowledge,

substantially all of the Inventory on hand on the date of this Agreement and to be on hand on the Closing Date consists and will consist of items of a quality and quantity useable or saleable in the operation of the Business in the Ordinary Course of Business, except to the extent of reserves reflected in the Financial Statements.

4.28 Accounts Receivable and Accounts Payable.

(a) Except as set forth on Schedule 4.28(a), all Accounts Receivable due or recorded in the books and records of account of Sellers, have arisen from bona fide transactions in the Ordinary Course of Business, are valid and existing and are reasonably believed by Sellers to be collectible in an aggregate amount equal to the amount shown for Accounts Receivable on Schedule 4.28(a), except to the extent of the amount of the reserve for doubtful accounts reflected thereon. Except to the extent of any allowance for bad debt or doubtful receivables as reflected on the Interim Balance Sheet, to Sellers' Knowledge, no Accounts Receivable or other debts are or will, at the Closing Date, be subject to any valid counter-claim or set-off.

(b) All Accounts Receivable are currently deposited, either electronically or manually, into the bank accounts listed on Schedule 4.28(b)-1 (the "A/R Bank Accounts"). All of Sellers' other bank accounts are also listed on Schedule 4.28(b)-2 and identified as the "Non-A/R Bank Accounts."

(c) All of the accounts payable of Sellers have arisen in bona fide arm's-length transactions in the Ordinary Course of Business and, as of the date hereof and the Closing Date, and except as set forth on Schedule 4.28(c), each Seller shall have paid its accounts payable in the Ordinary Course of Business.

4.29 Solvency. After exclusion of Liabilities associated with the Retirement Plan due to their uncertainty of amount: (i) Sellers are not now insolvent and will not be rendered insolvent by any of the Transactions; (ii) Sellers have, and immediately after giving effect to the Transactions, will have, assets (both tangible and intangible) with a fair saleable value in excess of the amount required to pay their Liabilities as they come due; and (iii) Sellers have adequate capital for the conduct of their business and discharge of their debts. No Sellers are involved in any proceeding by or against it as a debtor before any Governmental Entity under Title 11 of the United States Bankruptcy Code or any other insolvency or debtors' relief act, whether state, federal or foreign, or for the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for any part of any Seller's property.

4.30 Brokers or Finders. Except for Cain Brothers & Company, LLC, no person, firm or corporation is entitled to any commission, broker's or finder's fees, or other similar payments from Sellers or their Representatives in connection with the Transactions. As of the Closing Date, Sellers shall have made full payment of all amounts due and owing to Cain Brothers & Company, LLC in connection with the Transactions.

4.31 Acknowledgement Regarding Representations and Warranties. Notwithstanding anything contained in this Agreement to the contrary, Sellers acknowledge and agree that, except as set forth herein, neither Prospect, the Prospect Member, the Company nor any Company

Subsidiary, nor any Affiliate of any of the foregoing, is making any representation or warranty whatsoever.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF COMPANY

As of the date hereof and as of the Closing Date (except to the extent any of the following speaks as of a specific date, such as the date hereof), the Company represents and warrants to Sellers the following:

5.1 Incorporation, Qualification and Capacity. Each of the Company and each Company Subsidiary is a limited liability company duly formed and validly existing in good standing under the Laws of the State of Rhode Island. As of the date hereof and until immediately prior to the Effective Time, Prospect is and shall remain the sole member of the Company. As of the date hereof and as of the Effective Time, the Company is and shall remain the sole member of each Company Subsidiary. Each of the Company and each Company Subsidiary is duly authorized, qualified to do business and in good standing under all applicable Laws of any Governmental Entity having jurisdiction over the business of the Company or such Company Subsidiary (as applicable) and has the lawful power to own, lease and operate its properties and conduct its business in the place and manner now conducted. The execution and delivery by the Company and the Company Subsidiaries of this Agreement and the documents described herein, the performance by the Company and the Company Subsidiaries of their obligations under this Agreement and the documents described herein, and the consummation by the Company and the Company Subsidiaries of the Transactions and the documents described herein have been duly and validly authorized and approved by all necessary action, including, to the extent required, any applicable board and member approvals, on the part of the Company and none of such actions have been modified or rescinded and all of such actions remain in full force and effect.

5.2 Powers; Consents; Absence of Conflicts With Other Agreements. The execution, delivery and performance of this Agreement and the documents described herein by the Company and the Company Subsidiaries, and the consummation by the Company and the Company Subsidiaries of the Transactions and documents described herein, as applicable:

(a) are not in contravention or violation of any of the material terms of the articles of organization, operating agreement or other organizational documents of the Company or any Company Subsidiary;

(b) do not require any Approval or Permit of or filing or registration with or other action by, any Governmental Entity to be made or sought by the Company or any Company Subsidiary, except (i) the Healthcare Regulatory Consents set forth in Schedule 5.2(b) and (ii) as otherwise set forth on Schedule 5.2(b); and

(c) assuming the Approvals and Permits set forth on Schedule 5.2(b) are obtained, will not conflict in any material respect with or result in any violation of or default under (i) any contract by which the Company or any Company Subsidiary is bound or (ii) any

Law applicable to or (iii) any Order by which the Company or any Company Subsidiary or their respective businesses are bound.

5.3 Binding Effect. Subject to the receipt of the Approvals set forth in Section 5.2 and on Schedule 5.2(b), this Agreement and all other Ancillary Agreements to which the Company and any Company Subsidiaries will become a party hereunder have been duly and validly executed and delivered by the Company and such Company Subsidiaries, and, assuming the due authorization, execution and delivery of this Agreement and each respective Ancillary Agreement by Sellers and Prospect, are and will constitute the valid and legally binding obligations of the Company and such Company Subsidiaries and are and will be enforceable against the Company and such Company Subsidiaries in accordance with the respective terms hereof and thereof, except as enforceability against the Company or such Company Subsidiaries may be restricted, limited or delayed by applicable bankruptcy, moratorium or other Laws affecting creditors' rights and remedies generally and except as enforceability may be subject to general principles of equity.

5.4 Litigation. There is no Legal Proceeding pending or, to the knowledge of the Company, threatened against or affecting the Company or any Company Subsidiary, that has or would reasonably be expected to have a material adverse effect on the ability of the Company or any Company Subsidiary to timely consummate the Transactions. Notwithstanding the foregoing, each of Sellers and Prospect acknowledge and agree that, for all purposes of this Agreement, the Company makes no representation or warranty regarding the ability of the Company or the Company Subsidiaries to consummate the Transactions consistent with the Antitrust Laws.

5.5 Solvency. Each of the Company and each Company Subsidiary is not now insolvent and will not be rendered insolvent by any of the Transactions.

5.6 Brokers or Finders. Neither the Company, any Company Subsidiary, nor any of their respective Representatives have incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Transactions.

5.7 Acknowledgement Regarding Representations and Warranties. Notwithstanding anything contained in this Agreement to the contrary, the Company and the Company Subsidiaries acknowledge and agree that, except as set forth herein, neither any Seller nor Prospect nor Affiliates of the foregoing are making any representations or warranties whatsoever.

ARTICLE VI REPRESENTATIONS AND WARRANTIES OF PROSPECT

As of the date hereof and as of the Closing Date (except to the extent any of the following speaks as of a specific date, such as the date hereof), Prospect represents and warrants to Sellers and the Company the following:

6.1 Incorporation, Qualification and Capacity. Each of Prospect and the Prospect Member is duly incorporated and validly existing in good standing under the Laws of the State of

Delaware. Each of Prospect and the Prospect Member is duly authorized, qualified to do business and in good standing under all applicable Laws of any Governmental Entity having jurisdiction over its business and has the lawful power to own, lease and operate its properties and conduct its business in the place and manner now conducted. The execution and delivery by Prospect and the Prospect Member of this Agreement and the documents described herein, the performance by Prospect and the Prospect Member of their obligations under this Agreement and the documents described herein, and the consummation by Prospect and the Prospect Member of the Transactions and the documents described herein have been duly and validly authorized and approved by all necessary action, including, to the extent required, any applicable board and member approvals, on the part of Prospect and the Prospect Member and none of such actions have been modified or rescinded and all of such actions remain in full force and effect.

6.2 Powers; Consents; Absence of Conflicts With Other Agreements. The execution, delivery and performance of this Agreement and the documents described herein by Prospect and the Prospect Member, and the consummation by Prospect and the Prospect Member of the Transactions and documents described herein, as applicable:

(a) are not in contravention or violation of any of the material terms of the Certificate of Incorporation, bylaws or other organizational documents of Prospect or the Prospect Member;

(b) do not require any Approval or Permit of or filing or registration with or other action by, any Governmental Entity to be made or sought by Prospect or the Prospect Member, except (i) the Healthcare Regulatory Consents set forth in Schedule 6.2(b) and (ii) as otherwise set forth on Schedule 6.2(b); and

(c) assuming the Approvals and Permits set forth on Schedule 6.2(b) are obtained, will not conflict in any material respect with or result in any violation of or default under (i) any contract by which Prospect or the Prospect Member is bound or (ii) any Law applicable to or (iii) any Order by which Prospect or the Prospect Member or their respective businesses are bound.

6.3 Binding Effect. Subject to the receipt of the Approvals set forth in Section 6.2 and on Schedule 6.2(b), this Agreement and all other Ancillary Agreements to which Prospect and/or the Prospect Member will become a party hereunder have been duly and validly executed and delivered by Prospect or the Prospect Member (as applicable), and, assuming the due authorization, execution and delivery of this Agreement and each respective Ancillary Agreement by the Company and Sellers, are and will constitute the valid and legally binding obligations of Prospect and/or the Prospect Member (as applicable) and are and will be enforceable against Prospect and/or the Prospect Member (as applicable) in accordance with the respective terms hereof and thereof, except as enforceability against Prospect or the Prospect Member may be restricted, limited or delayed by applicable bankruptcy, moratorium or other Laws affecting creditors' rights and remedies generally and except as enforceability may be subject to general principles of equity.

6.4 Litigation. There is no Legal Proceeding pending or, to the knowledge of Prospect, threatened against or affecting Prospect or the Prospect Member, that has or would

reasonably be expected to have a material adverse effect on the ability of Prospect and/or the Prospect Member to timely consummate the Transactions. Notwithstanding the foregoing, each of Sellers and the Company acknowledge and agree that, for all purposes of this Agreement, Prospect makes no representation or warranty regarding the ability of Prospect or the Prospect Member to consummate the Transactions consistent with the Antitrust Laws.

6.5 Solvency. Each of Prospect and the Prospect Member is not now insolvent and will not be rendered insolvent by any of the Transactions. Each of Prospect and the Prospect Member has, and immediately after giving effect to the Transactions, will have, assets (both tangible and intangible) with a fair saleable value in excess of the amount required to pay its Liabilities as they come due. Each of Prospect and the Prospect Member has adequate capital for the conduct of its business and discharge of its debts. Neither Prospect, the Prospect Member, nor any Affiliate of either of the foregoing is involved in any proceeding by or against it as a debtor before any Governmental Entity under Title 11 of the United States Bankruptcy Code or any other insolvency or debtors' relief act, whether state, federal or foreign, or for the appointment of a trustee, receiver, liquidator, assignee, sequestrator or other similar official for any part of any its property.

6.6 Brokers or Finders. Neither Prospect, the Prospect Member, nor any of their respective Representatives have incurred any obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with the Transactions.

6.7 Acknowledgement Regarding Representations and Warranties. Notwithstanding anything contained in this Agreement to the contrary, Prospect and the Prospect Member acknowledge and agree that, except as set forth herein, neither any Seller nor the Company nor any Affiliates of the foregoing are making any representations or warranties whatsoever.

ARTICLE VII PRE-CLOSING COVENANTS

7.1 Access to Information.

(a) Between the date of this Agreement and the Closing Date, to the extent permitted by Law, Sellers shall afford to Prospect, the Company and their Representatives (i) access, during normal business hours, to and the right to inspect, the plants, properties (including the Real Property), books and records, litigation materials and other documents and information relating to the Facilities, Purchased Assets and Assumed Liabilities, and (ii) access, during normal business hours, to Sellers' employees and medical staff members, and shall furnish Prospect, the Company and their Representatives with such additional financial and operating data and other information of Sellers in Sellers' possession, custody or control relating to the Facilities, Purchased Assets and Assumed Liabilities as Prospect, the Company or their Representatives may from time to time reasonably request.

(b) Sellers shall provide Prospect, the Company and their Representatives access to the Owned Real Property and, subject to consent of the landlord if applicable, the Leased Real Property to conduct any environmental, health or safety inspections or

investigations, which may include sampling or testing of soils, surface water, groundwater, ambient air or improvements at, on or under the Real Property or sampling of the Facilities. The Company agrees that, after performing any inspections or investigations, the Company shall restore the Real Property to its original condition (or as close as reasonably possible to such condition) and repair any damage to same caused by the performance of such inspections or investigations.

(c) The Company agrees that the Company's right of access and investigation under this Section 7.1 will be exercised in such a manner as to not unreasonably interfere with the operation of Sellers' Business.

7.2 Operations. From the date hereof until the Closing Date, except as set forth in Schedule 7.2 or otherwise agreed to in writing by the Parties, each Seller shall, with respect to the Business (unless prior written consent of the Company is received):

(a) carry on the Business in substantially the same manner as it has heretofore and not make any material change in personnel, operations, finance or accounting policies (unless required under GAAP) of the Facilities or the Purchased Assets;

(b) maintain the Facilities and the Purchased Assets and all parts thereof in working order and in condition as at present, ordinary wear and tear excepted, and make all normal, planned and budgeted capital expenditures related to the Purchased Assets and/or the Facilities, provided, that Sellers shall obtain the Company's prior input regarding individual capital expenditures or additions to property, plant and equipment (or a series of related expenditures or additions) that exceed \$350,000;

(c) continue to perform its obligations under Assumed Contracts and, as to new Contracts proposed to be entered into prior to the Closing Date:

(i) In connection with any new Contracts (other than Physician Agreements, as described in (ii) below) anticipated to exceed \$100,000 per year or \$250,000 over the entire term of the arrangement, Sellers shall implement a centralized authorization process requiring senior executive approval and signature for such Contracts, and shall enter into any such Contracts only after seeking the Company's input on the same; and

(ii) In connection with any new Physician Agreements involving future payments, performance of services or delivery of goods in an amount or value in excess of One Million Dollars (\$1,000,000) in the aggregate over the entire term of the agreement, Sellers shall enter into any such Physician Agreements only after obtaining the Company's prior written consent to the same; any such new Physician Agreements consented to by the Company, along with any other Physician Agreements in amounts below the foregoing threshold that are entered into by Sellers in the Ordinary Course of Business prior to the Closing Date, shall be deemed to be Assumed Physician Agreements and shall automatically be added to Schedule 2.1(f)(2), unless and except rejected by the Company pursuant to the standards for Rejected Physician Agreements set forth in Section 2.1(f) above;

(d) keep in full force and effect present insurance policies on the Facilities and the Purchased Assets (unless a policy is canceled or terminated in the Ordinary Course of

Business and concurrently replaced with a policy or arrangement with substantially similar coverage, with no gap in coverage);

(e) (i) maintain and preserve the business organization with respect to the Facilities and Purchased Assets intact; (ii) use commercially reasonable efforts to retain present Employees at the Facilities and maintain its relationships with physicians and medical staff, suppliers, customers and others having business relations with the Facilities and Purchased Assets; and (iii) refrain from inducing any Employees (other than Employees who do not receive offers of employment from the Company prior to Closing) to leave employment at the Facilities in order to be employed elsewhere by any Seller or its Affiliates;

(f) permit and allow reasonable access by the Company (which shall include the right to send written materials, all of which shall be subject to Sellers' reasonable approval prior to delivery) to make offers of post-Closing employment to any of Sellers' personnel (including access by the Company for the purpose of conducting open enrollment sessions for the Company's employee benefit plans and programs) and to establish relationships with physicians, medical staff and others having business relations with Sellers;

(g) with respect to deficiencies, if any, cited by any Governmental Entity or accreditation body in the most recent surveys conducted by each, cure or develop and timely implement a plan of correction that is acceptable to any Governmental Entity or such accreditation body;

(h) timely file or cause to be filed all reports, notices and Tax Returns relating to the Facilities and the Purchased Assets required to be filed with any Governmental Entity, pay all required Taxes as they come due, and take any other actions required to maintain tax-exempt status for each Seller that has historically held such status;

(i) comply in all material respects with all Laws (including Environmental Laws) applicable to the conduct of the Business;

(j) maintain all Approvals, Permits and Environmental Permits relating to the Facilities, Purchased Assets and Assumed Liabilities in good standing;

(k) notify the Company within two (2) Business Days immediately following any material or adverse change to the condition of the Facilities or Purchased Assets, or to the business or operations thereof, including any Material Adverse Development or any circumstance or events that are reasonably likely to lead to a Material Adverse Development;

(l) use commercially reasonable efforts to obtain the Tenant Estoppels and Landlord Estoppels in accordance with the terms of Section 3.3(c) and Section 3.3(d);

(m) afford Prospect, the Company and their Affiliates an opportunity to provide input with respect to other significant or material matters pertaining to the Business, including monitoring and implementation of any operations improvement plans and the development and implementation of physician engagement strategies; and

(n) if, prior to Closing, Sellers sell all or any part of their interests in Roger Williams Radiation Therapy, LLC, Sellers shall use commercially reasonable efforts to reinvest all or a portion of the proceeds of such sale in UMG or some other project or entity as may be mutually agreed by the Parties; in that event, all of Sellers' equity, membership or other ownership interests in UMG or such other project or entity shall be included in the Purchased Assets hereunder; provided, however:

(i) if Sellers' acquisition of the replacement interest entails the assumption of any liabilities, any such liabilities shall be assumed by the Company pursuant to Section 2.3(g) above, and such liabilities shall not be included or reflected in the calculation of Final Net Working Capital pursuant to Annex B hereto; and

(ii) any portion of the sale proceeds not so reinvested (*i.e.*, the JV Proceed Deficiency) shall be included as a Purchased Asset hereunder and shall be transferred to the Company as provided in Section 2.1(z) above, and such proceeds shall not be included or reflected in the calculation of Final Net Working Capital pursuant to Annex B hereto.

7.3 Negative Covenants. From the date hereof to the Closing Date, except as set forth in Schedule 7.3, or as required by Law, no Seller will, with respect to the Business (without the prior written consent of the Company):

(a) enter into any Contract, or incur or agree to incur any Liability, outside the Ordinary Course of Business; provided, however, that, notwithstanding the foregoing, the Parties acknowledge and agree that, after the date hereof and prior to the Closing Date, Sellers shall negotiate amended collective bargaining agreements with each union representing any Transferred Employee, with the expectation that each such collective bargaining agreement shall be assumed by the Company as of the Closing Date pursuant to Section 8.4 hereof; any such amended collective bargaining agreement shall be subject to the prior written consent of the Company, with such consent not to be unreasonably withheld;

(b) enter into any capital lease;

(c) notify any payor to send payments to, or cause any Accounts Receivable to be deposited in, any account other than the A/R Bank Accounts, or sell or factor any Accounts Receivable;

(d) increase compensation payable or to become payable or make a bonus payment to or otherwise enter into one or more bonus or severance Contracts with any Employee or agent or under any personal services Contract, except in the Ordinary Course of Business in accordance with existing personnel policies and practices;

(e) sell, assign or otherwise transfer or dispose of any, or waive or settle any material claims regarding, the Facilities or Purchased Assets outside the Ordinary Course of Business;

(f) pay or agree to pay any increased benefits under any Seller Plan, or amend or otherwise modify any Seller Plan, or create any new Seller Plan, except for amendments required to comply with this Agreement or applicable Law;

(g) (i) amend, modify or terminate any Assumed Contract, except in conformity with this Agreement and in a commercially reasonable manner in the Ordinary Course of Business; (ii) by action or inaction, abandon, terminate, cancel, forfeit, waive or release any material rights of any Seller, in whole or in part, with respect to the Facilities or Purchased Assets; (iii) effect any corporate merger, business combination, reorganization or similar transaction or take any other action, corporate or otherwise, that could reasonably be expected to affect adversely Sellers' ability to perform in accordance with this Agreement; (iv) cancel or permit the cancellation or lapse of insurance coverage on the Purchased Assets or the Facilities; or (v) settle any dispute or threatened dispute with any Governmental Entity regarding the Facilities or Purchased Assets other than in the Ordinary Course of Business;

(h) except for the Pre-Closing Permitted Exceptions or Permitted Exceptions, create, assume or permit to exist any new Encumbrance upon any of the Purchased Assets other than in the Ordinary Course of Business;

(i) amend or terminate or otherwise modify any employment Contract or enter into any new employment Contract with any Person, except in the Ordinary Course of Business;

(j) make or change any material Tax election, change any method of accounting (unless required by GAAP), or settle any material claim or dispute with any Governmental Entity in respect of any Tax;

(k) take or omit to take any action that could result in any Seller who was historically exempt from any Tax, ceasing to be exempt from such Tax;

(l) amend or agree to amend the articles or certificate of incorporation, bylaws or other governing documents of any Seller or otherwise take any action relating to any liquidation or dissolution of any Seller, except as expressly contemplated by this Agreement;

(m) remove any material personal property or fixtures located at the Real Property, except as may be required for repair, retirement and/or replacement in the Ordinary Course of Business (provided that any replacements shall be free and clear of any and all Encumbrances (except for Encumbrances to be satisfied by Sellers at Closing), of quality at least equal to the replaced items, and shall be deemed included in this sale, without cost or expense to the Company); or

(n) request or consent to any zoning changes.

7.4 Notification of Certain Matters. At any time from the date of this Agreement to the Closing Date:

(a) Sellers shall give written notice to Prospect and the Company as promptly as reasonably feasible of: (i) the occurrence, or failure to occur, of any event that has caused any representation or warranty of Sellers contained in this Agreement to be untrue; (ii) any matter hereafter arising or discovered that, if existing or known at the date of this Agreement, would have been required to be set forth or described in a schedule to this Agreement; and (iii) any

failure of any Seller to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.

(b) Sellers shall promptly notify Prospect and the Company of: (i) any written notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the Transactions (disregarding, for such purposes, communications with parties to those Assumed Contracts described on Schedule 4.12(e)) so long as the subject matter of such communications pertains solely to the delivery of such consent and only if there is not any dispute with such party with respect thereto); (ii) any written notice or other communication from any Governmental Entity in connection with the Transactions or that is (or may reasonably be regarded at the time of notice as) material to or materially adverse to the business, condition or operations of Sellers, the Facilities or the Purchased Assets; and (iii) any Legal Proceedings commenced or, to Sellers' Knowledge, threatened, against or relating to or involving or otherwise affecting any Seller or the Facilities or Purchased Assets or that relate to the consummation of the Transactions, and any significant developments relating to any Legal Proceedings hereby disclosed.

(c) Sellers shall notify Prospect and the Company as soon as possible in the event of any substantial unforeseen Employment Losses. Such notices shall provide a reasonably detailed description of the relevant circumstances.

(d) The Company and Prospect shall give notice to Sellers as promptly as reasonably feasible of: (i) the occurrence, or failure to occur, of any event that has caused any representation or warranty of the Company or Prospect contained in this Agreement to be untrue; (ii) any matter hereafter arising or discovered that, if existing or known at the date of this Agreement, would have been required to be set forth or described in a schedule to this Agreement; and (iii) any failure of Prospect, the Prospect Member, the Company or any Company Subsidiary to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.

(e) The Company and Prospect shall promptly notify Sellers of: (i) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the Transactions (disregarding, for such purposes, communications with parties to those Assumed Contracts described on Schedule 4.12(e)); (ii) any notice or other communication from any Governmental Entity in connection with the Transactions or that is (or may reasonably be regarded at the time of notice as) material to or materially adverse to the business, condition or operations of Prospect, the Prospect Member, the Company or any Company Subsidiary; and (iii) any Legal Proceedings commenced or, to the Company's or Prospect's knowledge, threatened against, or relating to the consummation of the Transactions, and any significant developments relating to any Legal Proceedings hereby disclosed.

(f) All notices provided pursuant to this Section 7.4 shall include a reasonably detailed description of the relevant circumstances.

7.5 Approvals.

(a) Responsibility for Approvals Generally. The Company shall be responsible for obtaining, and shall use commercially reasonable efforts to obtain, as promptly as practicable, all Approvals, Permits and Environmental Permits of any Governmental Entities required of the Company and the Company Subsidiaries to consummate the Transactions and to operate the Facilities and Purchased Assets following Closing in substantially the same manner as currently operated by Sellers. Sellers shall be responsible for obtaining, and shall use commercially reasonable efforts to obtain, as promptly as practicable, all Approvals of Governmental Entities and all Church Approvals required of Sellers to consummate the Transactions. The Company, on the one hand, and Sellers, on the other hand, shall (i) cooperate with one another in their respective efforts to obtain all Approvals, Permits and Environmental Permits of any Governmental Entities and all Church Approvals required to consummate the Transactions and to permit the Company and/or the Company Subsidiaries (as applicable) to operate the Facilities and Purchased Assets following Closing in substantially the same manner as currently operated by Sellers, and (ii) provide such other information and communications to any Governmental Entity and Church officials as may be reasonably requested in connection with such Approvals.

(b) Rhode Island Hospital Conversions Act. The Parties shall, within fifteen (15) Business Days after the Delivery Date, submit the HCA Initial Application to the DAG and the DOH. The Parties shall cooperate in the preparation and prosecution thereof. Each of the Parties shall timely submit all information and documents requested in connection therewith by the DAG, the DOH or any other Governmental Entity; provided, however, that each Party shall provide each other Party an opportunity in advance of the submission to review such submission.

(c) Medicare/Medicaid Change of Ownership. The Parties shall cooperate and take all commercially reasonable actions to cause the Provider Agreements to be transferred to the Company or the Company Subsidiaries (as applicable) as of the Closing, including by submitting to each of CMS and the Rhode Island Medicaid program on a timely basis (but in no event prior to the Delivery Date) the applicable enrollment form with respect to the Medicare change of ownership.

(d) Rhode Island Health Care Facility Licensing Act. The Parties shall, within fifteen (15) Business Days after the Delivery Date, submit the HCFLA Change in Effective Control Application to the DOH. The Parties shall cooperate in the preparation and prosecution thereof. Each of the Parties shall timely submit all information and documents requested in connection therewith by the DOH and any other Governmental Entity.

(e) Church Approvals. Sellers shall promptly apply for and use commercially reasonable efforts to obtain those ecclesiastical approvals required from officials within the Roman Catholic Church (the "Church") in order to consummate the Transactions, including the authorization of the Bishop of the Roman Catholic Diocese of Providence, Rhode Island, and the permission of the Holy See through the Vatican Congregation of Bishops (the "Church Approvals"). The Parties shall cooperate in the preparation and prosecution of such application(s). Each of the Parties shall timely submit all information and documents requested in connection therewith by Church officials.

(f) Third Party Consents. Sellers shall promptly apply for and use commercially reasonable efforts to obtain before Closing all consents (and make all notifications) required to assign the Assumed Contracts to the Company or the Company Subsidiaries (as applicable) at Closing, as described on Schedule 4.12(e), including but not limited to the Material Consents. The Company and Prospect shall cooperate in and use commercially reasonable efforts to facilitate the process of obtaining such third party consents.

(g) Notification and Cooperation. Subject to applicable confidentiality restrictions or restrictions required by applicable Law, the Company, Prospect and Sellers shall each notify the other promptly upon receipt of: (i) any comments or questions from any official of any Governmental Entity in connection with any filings made pursuant to this Section 7.5 or otherwise in connection with the Transactions, and (ii) any requests by any officials of any Governmental Entity for amendments or supplements to any filings made pursuant to any applicable Laws, rules and regulations of any Governmental Entity or answers to any questions, or the production of any documents, relating to an investigation of the Transactions by any Governmental Entity. Without limiting the generality of the foregoing, each Party shall promptly provide to the other Party (or its respective advisers) copies of all correspondence between such Party and any Governmental Entity relating to the Transactions. In addition, to the extent reasonably practicable, the Parties shall use commercially reasonable efforts to cause all scheduled discussions, telephone calls and meetings with a Governmental Entity regarding the Transactions to include representatives of the Company, Prospect and Sellers; notwithstanding the foregoing, in the event of discussions, calls and/or meetings that do not involve representatives of the Company, Prospect and Sellers, the participating Party(ies) shall promptly inform the non-participating Party(ies) of the existence and substance of such communications (unless otherwise directed by the pertinent Governmental Entity or required by Law). Subject to applicable Law, the Parties will consult and cooperate with each other in connection with any analyses, appearances, presentations, memoranda, briefs, arguments and proposals made or submitted to any Governmental Entity regarding the Transactions by or on behalf of any Party; provided, that, unless required by applicable Law, the Parties shall not make any such submissions prior to the Delivery Date.

7.6 Additional Financial Information. From the date hereof until the Closing Date, Sellers will deliver to the Company and Prospect:

(a) within fifteen (15) days after the end of each calendar month, copies of the unaudited balance sheets and the related unaudited statements of income and cash flows of Sellers for each month then ended and for the fiscal year-to-date then ended, in each case to be prepared in accordance with GAAP, except that footnotes may be omitted;

(b) within forty-five (45) days after the end of each fiscal quarter, copies of the unaudited balance sheet and the related unaudited statements of income and cash flows of Sellers for the fiscal quarter then ended and for the fiscal year-to-date then ended, in each case to be prepared in accordance with GAAP, except that footnotes may be omitted;

(c) within sixty (60) days after the end of each fiscal year, copies of the unaudited balance sheet and the related unaudited statements of income and cash flows of Sellers for the fiscal year then ended, in each case to be prepared in accordance with GAAP;

(d) within ten (10) days after completion of the independent audit for each fiscal year, copies of the audited balance sheet and the related audited statements of income and cash flows of Sellers for the fiscal year then ended, in each case to be prepared in accordance with GAAP; and

(e) promptly after prepared, copies of routine supporting schedules for the financial statements and other operating statistics or other supporting documentation routinely provided to Sellers' senior management and/or board of directors.

7.7 Certain Litigation. Sellers shall give the Company and Prospect the option (which does not entail the obligation) to participate, at the Company's and Prospect's sole cost and expense, in the defense or settlement of any third party litigation against Sellers relating to the Transactions. Sellers shall not agree to any compromise or settlement of such litigation without the Company's and Prospect's consent, not to be unreasonably withheld, conditioned or delayed.

7.8 Tail Insurance. To the extent that Sellers are currently subject to claims-made rather than occurrence-based insurance coverage, Sellers shall, at their sole cost and expense, obtain "tail" insurance to insure against professional and other liabilities of the Facilities (including, without limitation, malpractice insurance) relating to the period prior to the Effective Time, with such tail insurance coverage to become effective as of the Effective Time. The insurance shall be for an unlimited tail period (unless the insurance carrier specifies a maximum tail period, in which case the insurance shall be for such maximum period), shall have coverage levels equal to the current policies insuring Sellers, and shall name the Company and the Company Subsidiaries (as applicable) as additional named insureds.

7.9 No-Shop. Sellers agree that they shall not, and shall direct and use commercially reasonable efforts to cause their respective Representatives (including any investment banker, attorney or accountant retained by them) not to: (a) offer for sale, lease or other disposition any of the Facilities, all or any significant portion of the Purchased Assets or any ownership interest in any entity owning any of the Facilities or any of the Purchased Assets; (b) solicit offers to buy any of the Facilities, all or any significant portion of the Purchased Assets or any ownership interest in any entity owning any of the Facilities or the Purchased Assets; (c) initiate, encourage or provide any documents or information to any third party in connection with, discuss or negotiate with any Person regarding any inquiries, proposals or offers relating to any disposition of any of the Facilities or all or any significant portion of the Purchased Assets or a merger or consolidation of any entity owning any of the Facilities or any of the Purchased Assets; or (d) enter into any agreement or discussions with any party (other than the Company and Prospect) with respect to the sale, lease, assignment or other disposition of any of the Facilities or all or any significant portion of the Purchased Assets or any ownership interest in any entity owning any of the Facilities or any of the Purchased Assets or with respect to a merger or consolidation of any entity owning any of the Facilities or any of the Purchased Assets. Sellers will promptly communicate to the Company the substance of any inquiry or proposal concerning any such transaction.

7.10 Contract Compliance. Sellers shall, upon notice from the Company that any Contract to which any Seller is a party is not in compliance with Law, take commercially

reasonable efforts to promptly modify such Contract so that it is in compliance with Law prior to the Closing.

7.11 Amendments and Updates to Disclosure Schedules.

(a) Notwithstanding any other provision of this Agreement, during the twenty-one (21) day period immediately following the date of this Agreement, a Party may amend any of the Applicable Disclosure Schedules provided by such Party pursuant to this Agreement for the purpose of ensuring the accuracy and completeness thereof as of the date of this Agreement and, if such amendments are acceptable to the other Parties, the pertinent Applicable Disclosure Schedules as amended shall be deemed final as though attached hereto as of the date of this Agreement. In the event that a proposed amended schedule is not acceptable to the Parties, the Party proposing such amended Applicable Disclosure Schedule shall be entitled to terminate this Agreement pursuant to Section 11.1(ii) below.

(b) From time to time prior to the Closing, the Parties shall update with reasonable frequency (and as promptly as reasonably feasible upon the occurrence of any event or circumstance that would have required a party to notify such other Party under Section 7.4 hereof) the information contained in the disclosure schedules with respect to any material events, circumstances, conditions or matters arising after the date of this Agreement, which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in any disclosure schedule; provided, however, that no such update shall be deemed to modify the disclosure schedules for the purpose of: (i) certifying to the accuracy of any representation or warranty made by Sellers in this Agreement in the Officer's Certificates delivered pursuant to Sections 9.3 and 10.3 hereof, (ii) determining whether any of the conditions set forth in ARTICLE IX and ARTICLE X have been satisfied, and (iii) indemnification in ARTICLE XIV.

7.12 Communications With Medical Staffs. From the date hereof through the Closing Date, the Parties shall work collaboratively to ensure that the physician members of the medical staffs at both Hospitals maintain an active presence at the Business, are kept informed, are given opportunities for input as to critical needs of the medical staff, and are encouraged to maintain their medical practices within the community.

ARTICLE VIII
EMPLOYEES, RESIDENTS/FELLOWS AND EMPLOYEE BENEFITS

8.1 Offers of Employment. Not later than thirty (30) days prior to the Closing, Sellers shall deliver to the Company an updated Employee List and an updated Residents and Fellows List.

(a) Employees. At least ten (10) days prior to the Closing, the Company shall make a written offer of employment (subject to the Closing) to substantially all of the Employees listed on the updated Employee List who continue to be Employees as of such date and are anticipated to be Employees as of the Closing Date (including any Employee who is on any form of paid or unpaid leave pursuant to Law or Sellers' policies), who are in good standing on the Closing Date, regarding employment by the Company or a Company Subsidiary as of and following the Closing Date. The Company shall likewise make as soon as practicable such an

offer to any individual not included on the updated Employee List that between the date of the delivery of the updated Employee List and the Closing Date is hired by, or transferred to, the Business as an Employee who is in good standing with the Sellers on the Closing Date. Such Employees who accept such offer of employment shall hereinafter be referred to as the “Transferred Employees” and will be hired by the Company or a Company Subsidiary as of the Effective Time. Subject to Section 8.2, in making any offers to Employees, the Company or the Company Subsidiary (as applicable) shall not be obligated to change the nature of the employment of any Employee other than changing the Employee’s employer (for example, Employees at will shall continue to be Employees at will). Neither the Company nor any Company Subsidiary shall be responsible for any compensation or benefits obligations of Sellers in respect of the Transferred Employees accruing prior to the Effective Time, except that the Sellers may include the value of such compensation or benefits obligations in the calculation of Final Net Working Capital.

(b) Residents and Fellows. Prior to the Closing, the Company shall make a written offer of appointment and enrollment in a program of graduate medical education of the Company or a Company Subsidiary (subject to the Closing) on such terms and conditions as determined by the Company to substantially all of the residents and fellows listed on the Residents and Fellows List who continue to be enrolled in Sellers’ program of graduate medical education as of such date, who are anticipated to be enrolled as of the Closing Date, who have satisfied the Company’s customary screening procedures and for whom the Company, on or before the Closing Date, has verified has the requisite certifications, credentials and licenses (if applicable) required by the Accreditation Council for Graduate Medical Education, applicable Law and customary practice for such residents and fellows to participate in graduate medical education. Such new terms and conditions of appointment established by the Company will be consistent with those applied to the Company’s residents, interns and fellows and will not be equivalent to those established by Sellers. Such individuals who accept such offers of appointment are hereinafter referred to as “Transferred Residents and Fellows” and will be appointed by the Company or a Company Subsidiary as of the Effective Time. Neither the Company nor the Company Subsidiaries shall be responsible for any compensation or benefits obligations of Sellers in respect of the Transferred Residents and Fellows accruing prior to the Effective Time, except that the Sellers may include the value of such compensation or benefits obligations in the calculation of Final Net Working Capital.

8.2 Employment Terms; Employee Benefits.

(a) The Transferred Employees shall be hired by the Company or a Company Subsidiary (as applicable) at base salaries and wages equal to their base salaries and wages as of the Closing Date. The Transferred Employees shall retain their seniority status for purposes of benefits, and their salaries or wages as of the Closing Date shall provide the base for future salary adjustments, if any, thereof. Each Transferred Employee will be treated by the Company or the Company Subsidiary (as applicable) as employed as of such individual’s initial hire date at the Facilities for all purposes regarding seniority, except as otherwise required by Law or collective bargaining agreement assumed by the Company. Subject to the right to terminate any Company employee benefit plan and/or restrictions provided under any collective bargaining agreement assumed by the Company, the Company and the Company Subsidiaries as of the Closing Date will provide benefits to Transferred Employees at benefit levels substantially

comparable to those provided under the Seller Plans immediately prior to Closing, including but not limited to qualified retirement plans (except that the Company and the Company Subsidiaries shall not be required to offer a defined benefit plan), vacation, sick leave, holidays, health insurance, life insurance, 401(k) plan (in lieu of similar plans that were offered by Sellers based on their tax-exempt status but are not available to the Company) and policies of the Company and the Company Subsidiaries for which each Transferred Employee is eligible.

(b) Any Transferred Employees who are terminated without cause within the twelve (12) month period following the Closing Date will be offered a severance package on terms comparable to the severance package as in effect with respect to Sellers' Employees prior to the Closing Date or, if and as applicable, as set forth in any Assumed Employment Agreement to which the Transferred Employee is subject.

(c) The Parties acknowledge and agree that each of the Company and each Company Subsidiary constitutes a "successor employer" within the meaning of Code Section 3121(a)(1) and Code Section 3306(b)(1) and the regulations thereunder for federal and state income tax and employment tax purposes. The Company or the Company Subsidiary (as applicable) shall (i) assume Sellers' obligation to furnish IRS Forms W-2 to the Transferred Employees for the Tax year in which the Closing occurs in accordance with the "alternate filing procedure" as provided in Section 5 of Revenue Procedure 2004-53, 2004 C.B. 320 (the "Revenue Procedure") and (ii) report such amounts on IRS Forms 941 as required under Section 5 of the Revenue Procedure. The Company and each Company Subsidiary will treat all wages paid to the Transferred Employees as paid by a successor employer for all federal and state income tax and employment tax purposes. As of the Effective Time, all of the Transferred Employees will cease participation in any of the Seller Plans that such Transferred Employees participated in immediately prior to the Effective Time.

(d) On and after the Closing Date, the Company and the Company Subsidiaries (as applicable) shall be responsible for providing, subject to payment of applicable premiums by qualified beneficiaries, continuation coverage, as required under COBRA, or otherwise provided by Seller prior to the Closing Date to all Employees and former employees of Seller who are not Transferred Employees (and other "qualified beneficiaries," as defined under Section 607(3) of ERISA, under COBRA with respect to such employees) who have or have had a COBRA or other qualifying event (due to termination of employment with Seller or otherwise) prior to or as a result of the Closing. The Company and the Company Subsidiaries shall also be responsible for any COBRA or other group health plan continuing coverage obligations in respect of Transferred Employees and any qualified beneficiaries in relation to such employees arising with respect to qualifying events that occur under the Company's group health plan after the Closing Date.

(e) Except to the extent otherwise expressly set forth herein, neither the Company nor any Company Subsidiary will assume, before, on or after the Closing Date, any Seller Plan, or any rights, duties, obligations or liabilities thereunder, nor shall it become a successor employer or be responsible in any way for Sellers' or a Controlled Group member's participation in or obligations or responsibilities with respect to any Seller Plan.

(f) The senior executives of Sellers who are subject to Assumed Employment Agreements shall be employed by the Company, and the Company shall assume their Employment Agreements as provided in Section 2.1(f) above. In addition to the benefits provided under the Employment Agreements, the senior executives will be provided with the same benefits made available to the Transferred Employees.

8.3 No Right to Continued Employment or Enrollment in Graduate Medical Education; No Third Party Beneficiary. Nothing contained in this Agreement shall be construed to prevent the termination of employment of any individual Transferred Employee or the termination of the appointment or enrollment in graduate medical education of any residents and fellows, or any change in the benefits available to any such individual. No provision of this Agreement shall create any third party beneficiary or other rights in any current or former employee or residents and fellows (including any beneficiary or dependent thereof) of Sellers in respect, as applicable, of continued employment, appointment as one of the residents and fellows, or enrollment in a graduate medical education program associated with the Company or a Company Subsidiary (or resumed employment, resumed enrollment or renewal of appointment) with either the Business or the Company or any Company Subsidiary, and no provision of this Agreement will create any such rights in any such Persons in respect of any benefits that may be provided, directly or indirectly under any Seller Plan or any plan or arrangement which may be established or maintained by the Company or any Company Subsidiary. No provision of this Agreement will constitute a limitation on rights to amend, modify or terminate any Seller Plan, or on the right of the Company or any Company Subsidiary to amend, modify or terminate any of the employee benefit plans of the Company or any Company Subsidiary.

8.4 Collective Bargaining Agreements. Effective as of the Closing, Prospect shall cause the Company to, and the Company shall, recognize each union representing any Transferred Employee and assume all existing collective bargaining agreements, as amended between the date of this Agreement and the Closing Date; provided, however, that in no event shall the Company be required to assume any collective bargaining agreement that has not been consented to by the Company pursuant to Section 7.3(a) hereof.

ARTICLE IX

CONDITIONS PRECEDENT TO OBLIGATIONS OF PROSPECT AND THE COMPANY

The obligations of Prospect, the Prospect Member, the Company and the Company Subsidiaries hereunder are subject to the satisfaction, on or prior to the Closing Date, of the following conditions unless waived in writing by Prospect and the Company:

9.1 Compliance With Covenants. All of the covenants and obligations that Sellers are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), shall have been duly performed and complied with in all material respects.

9.2 Representations and Warranties. All of Sellers' representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), shall have been accurate as of the date of this Agreement (giving

effect to any amended Applicable Disclosure Schedules delivered pursuant to Section 7.11(a) and as of the time of the Closing as if then made (but without giving effect to any updated schedules delivered pursuant to Section 7.11(b)), except where the failure of such representations and warranties to be accurate does not have or cause, individually or in the aggregate, a Material Adverse Development. Each of the representations and warranties in this Agreement that contains an express Material Adverse Development qualification shall have been accurate in all respects as of the date of this Agreement (giving effect to any amended Applicable Disclosure Schedules delivered pursuant to Section 7.11(a)) and shall be accurate in all respects as of the time of the Closing as if then made (but without giving effect to any updated schedules delivered pursuant to Section 7.11(b)).

9.3 Officers' Certificates. Each of Sellers shall have delivered to the Company and Prospect a certification of an appropriate officer to the effect that each of the conditions set forth in Section 9.1 and Section 9.2 have been satisfied in all material respects.

9.4 Approvals and Permits. All of the following shall have been received:

(a) The Company or the applicable Company Subsidiary shall have received all Approvals that are required to: (i) consummate the Transactions and (ii) operate the Facilities and the Purchased Assets in the same manner as currently operated by Sellers, in each case without any conditions that are unacceptable to Prospect and the Company in their sole discretion;

(b) The Company or the applicable Company Subsidiary shall have received all required Permits and Environmental Permits from all Governmental Entities whose approval is required to consummate the Transactions and for the Company or the Company Subsidiary to operate the Facilities and Purchased Assets in the same manner as currently operated by Sellers, or with respect to any such Permits and/or Environmental Permits that are not possible to obtain prior to Closing, Prospect, the Company and Sellers shall have received assurances, reasonably satisfactory to Prospect and the Company, that such Permits and/or Environmental Permits shall be obtained promptly after Closing and retroactive to the Closing Date, in each case without any conditions that are unacceptable to Prospect and the Company in their sole discretion; and

(c) Sellers shall have received all Church Approvals.

9.5 Clearances. The Parties shall have received approval under HCA and HCFLA, in each case without any conditions that are unacceptable to Prospect and the Company in its their discretion.

9.6 Property Tax. The Company or the Company Subsidiaries shall have received binding commitments from all applicable Governmental Entities, in form and substance satisfactory to Prospect in its sole and absolute discretion, with respect to the resolution of certain property tax abatement treaties.

9.7 Action/Proceeding/Litigation. No Governmental Entity shall have issued an Order restraining or prohibiting the Transactions; no Governmental Entity shall have commenced or threatened in writing to commence any action or suit before any court of competent jurisdiction or other Governmental Entity that seeks to restrain or prohibit the

consummation of the Transactions or impose material damages or penalties in connection therewith. No Legal Proceeding relating to the Transactions shall be pending, unless the Parties agree that such Legal Proceeding does not constitute a material obstacle to the consummation of the Transactions in accordance with the terms hereof.

9.8 Consents of Certain Third-Parties to Assumed Contracts. Sellers and/or the Company shall have obtained all Material Consents, *i.e.*, written consents from all applicable third-parties to the assignment of those Assumed Contracts identified with an asterisk on Schedule 4.12(e).

9.9 Title Insurance Policies. Title Company shall be prepared (subject to payment of the premiums and title, survey, search and related costs and fees required to be paid by the Company) to issue title insurance policies in accordance with this Agreement dated the day of Closing, in the full amount of the Cash Purchase Price (or such other reasonable amount as determined by the Company) allocated among the Owned Real Property or determined by the Company, at regular rates, showing fee simple title to the Owned Real Property, and leasehold title to any ground leases that are included among the Leased Real Property (each, a "Ground Lease"), in the name of the Company or a Company Subsidiary (as applicable), subject only to the Permitted Exceptions.

9.10 Material Indebtedness. All Material Indebtedness and all Encumbrances created by or in connection with such Material Indebtedness shall have been satisfied, discharged and terminated in full.

9.11 Collective Bargaining Agreements. Effective as of the Closing, the Company shall have recognized each union representing any Transferred Employee and shall have assumed all existing collective bargaining agreements, as amended between the date of this Agreement and the Closing Date, that have been consented to by the Company pursuant to Section 7.3(a) hereof.

9.12 Termination of Seller Plans. Sellers shall have taken necessary and appropriate action to terminate every Seller Plan effective before or as of the Closing Date, other than the Retirement Plan and any other Seller Plan listed on Schedule 9.12.

9.13 Freezing of Seller Plans. Sellers shall have taken necessary and appropriate action to freeze any Seller Plan listed on Schedule 9.13(a), and shall have taken best efforts to freeze any Seller Plan listed on Schedule 9.13(b), before or as of the Closing Date so that no benefits are accrued after the Closing Date. Notwithstanding the foregoing, Sellers hereby represent and warrant that, after the Effective Time: (i) there shall be no further benefit accruals under the Retirement Plan with respect to any of the Transferred Employees based on services rendered after the Effective Time; and (ii) the Retirement Plan shall continue to be frozen as to new participants.

9.14 Material Adverse Development. There shall have been no Material Adverse Development as to Sellers.

9.15 Closing Deliveries. Sellers shall have delivered (or be ready, willing and able to deliver at Closing) to the Company all agreements and documents required to be delivered to the Company at the Closing under this Agreement.

ARTICLE X
CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLERS

The obligations of Sellers hereunder are subject to the satisfaction, on or prior to the Closing Date, of the following conditions unless waived in writing by Sellers:

10.1 Compliance With Covenants. All of the covenants and obligations that each of Prospect, the Prospect Member, the Company and the Company Subsidiaries, respectively, is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), shall have been performed and complied with in all material respects.

10.2 Representations and Warranties. All of the Company's and Prospect's respective representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), shall have been accurate as of the date of this Agreement (giving effect to any amended Applicable Disclosure Schedules delivered pursuant to Section 7.11(a)) and as of the time of the Closing as if then made (but without giving effect to any updated schedules delivered pursuant to Section 7.11(b)), except where the failure of such representations and warranties to be accurate does not have or cause, individually or in the aggregate, a Material Adverse Development. Each of the representations and warranties in this Agreement that contains an express Material Adverse Development qualification shall have been accurate in all respects as of the date of this Agreement (giving effect to any amended Applicable Disclosure Schedules delivered pursuant to Section 7.11(a)) and shall be accurate in all respects as of the time of the Closing as if then made (but without giving effect to any updated schedules delivered pursuant to Section 7.11(b)).

10.3 Officers' Certificates. Each of Prospect, the Prospect Member, and the Company shall have delivered to Sellers a certification of an appropriate officer to the effect that each of the conditions set forth in Sections 10.1 and 10.2 have been satisfied in all material respects.

10.4 Approvals. All of the following shall have been received:

- (a) Sellers shall have received all Healthcare Regulatory Consents set forth in Schedule 4.2(b);
- (b) Sellers shall have received the Church Approvals; and
- (c) the Parties shall have received approval under HCA and HCFLA.

10.5 Action/Proceeding/Litigation. No Governmental Entity shall have issued an Order restraining or prohibiting the Transactions; no Governmental Entity shall have commenced or threatened in writing to commence any action or suit before any court of competent jurisdiction or other Governmental Entity that seeks to restrain or prohibit the consummation of the Transactions or impose material damages or penalties in connection

therewith. No Legal Proceeding relating to the Transactions shall be pending, unless the Parties agree that such Legal Proceeding does not constitute a material obstacle to the consummation of the Transactions in accordance with the terms hereof.

10.6 Collective Bargaining Agreements. Effective as of the Closing, the Company shall have recognized each union representing any Transferred Employee and shall have assumed all existing collective bargaining agreements, as amended between the date of this Agreement and the Closing Date, that have been consented to by the Company pursuant to Section 7.3(a) hereof.

10.7 Assumed Employment Agreements. The Company shall have assumed all of the Assumed Employment Agreements listed on Schedule 2.1(f)(1).

10.8 Material Adverse Development. There shall have been no Material Adverse Development as to Prospect.

10.9 Closing Deliveries. Prospect, the Prospect Member, the Company and the Company Subsidiaries shall have delivered (or be ready, willing and able to deliver at Closing) to Sellers all agreements and documents required to be delivered to Sellers at the Closing under this Agreement.

ARTICLE XI TERMINATION

11.1 Termination. Notwithstanding anything in this Agreement to the contrary, this Agreement may not be terminated, except prior to the Closing as follows:

(i) by mutual consent in writing of Prospect and the Company, on the one hand, and Sellers, on the other hand;

(ii) by either Prospect or the Company, on the one hand, or Sellers, on the other hand, if during the twenty-one (21) day period immediately following the date of this Agreement, Prospect or the Company, on the one hand, or Sellers, on the other hand, propose to amend any of the disclosure schedules provided thereby pursuant to this Agreement for the purpose of ensuring the accuracy and completeness thereof as of the date of this Agreement, and such proposed amended schedule is not acceptable to Sellers, on the one hand, or to Prospect and the Company, on the other hand;

(iii) by either Prospect or the Company, on the one hand, or Sellers, on the other hand, if any permanent injunction, order, decree or ruling of any court or other Governmental Entity of competent jurisdiction permanently restraining, enjoining or otherwise preventing the consummation of the Transactions shall have been issued and become final and non-appealable;

(iv) by either Prospect or the Company, on the one hand, or Sellers, on the other hand, if the Closing shall not have occurred on or before the Outside Date; provided, however, that the right to terminate this Agreement pursuant to this Section 11.1(iv) shall not be available to any Party whose breach or failure to perform any material covenant or obligation

under this Agreement has been the primary cause or primarily resulted in the failure of the Closing to have occurred on or before the Outside Date;

(v) by Prospect or the Company, if there has been a violation or breach in any material respect of any representation, warranty, covenant or agreement of Sellers set forth in this Agreement, which violation or breach would cause any of the conditions set forth in ARTICLE IX not to be satisfied, and such violation or breach has not been waived by Prospect or the Company or cured by Sellers, as the case may be, within twenty (20) Business Days after notice thereof is given by Prospect or the Company;

(vi) by Prospect or the Company, immediately by written notice to Sellers, if any event occurs or fact or condition exists that makes it impossible for Sellers to satisfy, or causes Sellers to be unable to satisfy, one or more conditions to the obligations of Prospect, the Prospect Member, the Company and the Company Subsidiaries to consummate the Transactions as set forth in ARTICLE IX prior to the Outside Date; provided, however, that such date may be extended by Sellers for up to six (6) months if Sellers are taking diligent steps to resolve any such outstanding conditions and such outstanding conditions relate solely to the receipt of one or more Approvals or the Church Approvals; provided, further, that, notwithstanding the foregoing, the right to terminate this Agreement under this Section 11.1(vi) shall not be available to Prospect or the Company if either of their actions or failure to act under this Agreement shall have been a primary cause of, or resulted in, the failure of the Closing to occur on or before the Outside Date and such action or failure to act constitutes a breach of this Agreement; and

(vii) by Sellers, immediately by written notice to Prospect and the Company, if any event occurs or fact or condition exists that makes it impossible for the Prospect, the Prospect Member, the Company or the Company Subsidiaries to satisfy, or causes Prospect, the Prospect Member, the Company or the Company Subsidiaries to be unable to satisfy, one or more conditions to the obligation of Sellers to consummate the Transactions as set forth in ARTICLE X prior to the Outside Date; provided, however, that such date may be extended by Prospect or the Company for up to six (6) months if Prospect or the Company is taking diligent steps to resolve any such outstanding conditions and such outstanding conditions relate solely to the receipt of one or more Approvals; provided, further, that, notwithstanding the foregoing, the right to terminate this Agreement under this Section 11.1(vii) shall not be available to Sellers if Sellers' actions or failure to act under this Agreement shall have been a primary cause of, or resulted in, the failure of the Closing to occur on or before the Outside Date and such action or failure to act constitutes a breach of this Agreement.

11.2 Effect of Termination. If this Agreement is terminated pursuant to Section 11.1, then all further obligations of the Parties under this Agreement shall terminate without further liability of any Party to another; provided, however, that (i) the obligations of the Parties contained in Section 13.12 (Public Statements) and ARTICLE XV shall survive any such termination, and (ii) a termination under Section 11.1 shall not relieve any Party of any liability for a breach of, or for any misrepresentation under this Agreement, or be deemed to constitute a waiver of any available remedy (including specific performance, if available) for any such breach or misrepresentation.

ARTICLE XII
PERMITTED EXCEPTIONS, TITLE INSURANCE & TAXES

12.1 Title to Property.

(a) The Company has ordered, or within five (5) Business Days after the execution and delivery of this Agreement the Company shall order, from the Title Company a title insurance report and commitment for a title insurance policy with respect to the interests in the Owned Real Property to be conveyed by Sellers to the Company or any Company Subsidiary hereunder, which policy shall be in the form currently used by reputable title insurers in the State of Rhode Island (such report and such commitment and any updates thereto issued by the Title Company in connection with this Agreement being referred to herein as the "Commitment"), and the Company shall promptly furnish to Sellers a copy thereof, together with copies of all Exceptions listed thereon. The Company shall also promptly provide to Sellers a copy of (i) any update to the Commitment issued by the Title Company on or prior to the Closing Date (an "Update") together with copies of all Exceptions listed thereon that the Company has not previously delivered, promptly after the Company's receipt thereof, and (ii) any update of each of the Surveys or new surveys of the Owned Real Property obtained by the Company (each of which the Company shall have the right, but no obligation, to obtain) (each, a "Survey Update"), promptly after the Company's receipt thereof. If the Commitment, any Update or any Survey Update discloses any exception, lien, mortgage, security interest, claim, charge, reservation, lease, tenancy, occupancy, easement, right of way, encroachment, restrictive covenant, condition, limitation or other encumbrance affecting the Owned Real Property (collectively, "Exceptions") that is not a Permitted Exception and to which the Company reasonably objects (the "Non-Permitted Exceptions"), then the Company shall promptly give a notice (a "Title Notice") to Sellers after the Company's receipt of the Commitment, the Update or the Survey Update first containing such Non-Permitted Exceptions, as applicable, which notice shall identify such Non-Permitted Exceptions, provided, however, notwithstanding anything herein to the contrary, (x) any and all monetary liens, including all mortgages and security interests securing any obligations of Sellers (or any predecessor-in-interest to Sellers) not of the type covered by Section 12.2, all judgments against Sellers (or any predecessor-in-interest to Sellers), all mechanics' liens recorded against the Owned Real Property (or any portion thereof), all monetary liens or penalties arising out of violations on the Owned Real Property and all Real Estate Taxes (other than Real Estate Taxes that constitute Permitted Exceptions pursuant to Section 12.2), and (y) any and all tenancies (except those set forth on Schedule 4.14(c)), shall be deemed to be and shall constitute Non-Permitted Exceptions for all purposes and the Company shall not be obligated to deliver a Title Notice with respect thereto in order for same to constitute Non-Permitted Exceptions. Any Exceptions disclosed in the Commitment, any Update or any Survey Update that are (x) not included in a Title Notice timely given in accordance with the preceding sentence and (y) not deemed Non-Permitted Exceptions in accordance with the preceding sentence shall be deemed Permitted Exceptions. Sellers shall, at or prior to Closing, (A) remove the following Exceptions ("Mandatory Removal Exceptions"): (i) any and all monetary liens, including all mortgages and security interests securing any obligations of Sellers (or any predecessor-in-interest to Sellers) not of the type covered by Section 12.2, all judgments against Sellers (or any predecessor-in-interest to Sellers), all mechanics' liens recorded against the Owned Real Property or any Ground Lease Property (or any portion thereof) and all Real Estate Taxes (other than Real Estate Taxes that constitute Permitted Exceptions pursuant to

Section 12.2), (ii) any and all tenancies (except those set forth on Schedule 4.14(c)), and (iii) without limitation of the Mandatory Removal Exceptions described in preceding clauses (i) and (ii), any and all of the Non-Permitted Exceptions that Sellers willfully placed of record or consented to be placed of record after the effective date of Sellers' Commitment, and (B) remove any and all other Non-Permitted Exceptions. The acceptance by the Title Company of an indemnification agreement by Sellers and the Title Company's removal of any Exception from the title policy at Closing in reliance thereon or the Title Company's agreement to issue an endorsement to its policy of title insurance that affirmatively insures against such Non-Permitted Exception in a manner reasonably acceptable to the Company shall be deemed removal of such Exception for purposes of the preceding sentence and of Section 12.1(b) below. Sellers shall have the right to adjourn the Closing Date from time to time, up to sixty (60) days in the aggregate, for the purpose of removing/eliminating Non-Permitted Exceptions.

(b) Sellers shall, at or prior to the Closing, remove any Non-Permitted Exceptions that are not Mandatory Removal Exceptions and that, in the aggregate, may be removed by Sellers expending \$500,000 or less. If there exist Non-Permitted Exceptions that are not Mandatory Removal Exceptions and that in the aggregate exceed \$500,000 in amount or value, and Sellers elect not to remove Non-Permitted Exceptions that are not Mandatory Removal Exceptions such that the remaining Non-Permitted Exceptions that are not Mandatory Removal Exceptions exceed \$500,000 in the aggregate, then Sellers shall notify the Company of such election within 20 Business Days of Sellers' receipt of the Title Notice disclosing such Non-Permitted Exceptions. Failure of Sellers to send notice of such election within such 20 Business Day period shall be deemed an election by Sellers to remove the Non-Permitted Exceptions that are not Mandatory Removal Exceptions. The Company may elect, within 10 Business Days after such notice from Sellers to the Company that Sellers have elected not to remove any Non-Permitted Exceptions which are not Mandatory Removal Exceptions, to either (i) not consummate the Transactions, in which event this Agreement shall be terminated and of no further force and effect, and none of the Parties shall have any rights or obligations to the other hereunder (except for those rights and obligations that are expressly stated herein to survive the termination of this Agreement), or (ii) consummate the Transactions subject to such Non-Permitted Exceptions which are not Mandatory Removal Exceptions and proceed to Closing with an abatement of the Cash Purchase Price in the amount of the cost to cure the Non-Permitted Exceptions that are not Mandatory Removal Exceptions, but in no event more than \$500,000. Failure of the Company to send notice of the election available to it pursuant to the preceding sentence within such 10 Business Day period shall be deemed an election by the Company to close under clause (ii) of the preceding sentence.

(c) Notwithstanding anything herein to the contrary, (i) if the Commitment discloses judgments, bankruptcies or other returns against other persons or entities having names the same as or similar to that of Sellers, then Sellers, on request and to the extent applicable, shall deliver to the Title Company affidavits (in a form reasonably requested by the Title Company) to the effect that such judgments, bankruptcies or other returns are not against Sellers, (ii) if requested by the Title Company to remove any exceptions for rights of parties in possession, Sellers shall deliver to the Title Company an affidavit to the effect that there are no leases in force and effect with respect to the Owned Real Property, and (iii) if reasonably required by the Title Company, Sellers agree to execute, acknowledge and deliver such other standard and customary owner's title affidavits at Closing.

(d) Any Service Contract that is not an Assumed Contract shall be deemed a Non-Permitted Exception and shall be terminated by Sellers on or prior to Closing.

12.2 Permitted Exceptions. “Permitted Exceptions” means: (a) all matters set forth on Schedule 12.2 (which Schedule shall consist of those exceptions set forth on Sellers’ existing title policy(ies) and agreed to by Prospect and the Company); (b) building, zoning, subdivision and other governmental laws, codes and regulations, and landmark, historic and wetlands designations; (c) liens for inchoate mechanics’ and materialmen’s liens for construction in progress and workmen’s, repairmen’s, warehousemen’s and carriers’ liens arising in the ordinary course of business; easements, restrictive covenants, rights of way and other similar restrictions of record that do not impair in any material respect the value of the assets or the continued conduct of the business of any Seller or any of its Affiliates or its continued use of its assets in the manner currently used; (d) such other matters with respect to which the Company expressly has agreed to take pursuant to the provisions of this Agreement, including any matters which the Company elects to take subject to pursuant to Section 12.1(b); (e) real property taxes, water rates and charges, sewer taxes and rents, business improvement district charges and similar items with respect to the Property (collectively, “Real Estate Taxes”), not yet due and payable; (f) rights of Tenants under Leases; (g) any Exceptions disclosed in the Commitments, any Update or any Survey Update that are not Non-Permitted Exceptions and deemed Permitted Exceptions pursuant to Section 12.1(a); and (h) rights of licensors under licenses of assets licensed to Sellers set forth in any of the Assumed Contracts and under licenses of Off-the-Shelf Software.

12.3 Transfer Taxes.

(a) Transfer Taxes incurred in connection with this Agreement shall be the responsibility of the Company or a Company Subsidiary (as applicable), provided, however, that the Parties shall endeavor to effect the transfer of the Facilities and the Purchased Assets in a manner that minimizes the total amount of Transfer Taxes incurred in connection with this Agreement, taking into account the effect of any exemption from such Transfer Taxes available to Sellers by virtue of Sellers’ general exemption from Tax. The Party that has the primary obligation to file any Tax Return that is required to be filed in respect of any Transfer Taxes shall prepare and file such return after providing the other Party the opportunity to review and approve the return, which approval shall not be unreasonably withheld, conditioned or delayed. The Parties agree to cooperate with each other in connection with the preparation and filing of any such Tax Returns, in obtaining all available exemptions from such Transfer Taxes, and in timely providing each other with resale certificates or other documents necessary to satisfy any such exemptions.

(b) The Company, each Company Subsidiary (as applicable) and Sellers shall deliver to the Title Company the RE Tax Returns. If the procedures required by the state, county, or municipality require that any RE Tax Returns be filed, reviewed or approved prior to the Closing Date, the Company, Company Subsidiaries and Sellers shall complete, sign and swear to the RE Tax Returns and deliver same to the Title Company for delivery to the appropriate authority sufficiently in advance of the Closing Date so as to permit the sale contemplated hereby to be consummated by the Closing Date. The Company, Company Subsidiaries and Sellers shall cooperate in preparing the RE Tax Returns in a manner that

maximizes the benefit of any exemption from or reduction of Tax available as a result of Sellers' tax-exempt status.

12.4 Cooperation on Tax Matters. The Parties shall furnish or cause to be furnished to each other, as promptly as practicable following the request therefor, such information and assistance relating to the Purchased Assets and the Assumed Liabilities as is reasonably necessary for the preparation and filing of any Tax Return, claim for refund or other filings relating to Tax matters, for the preparation for and defense of any Tax audit, for the preparation of any Tax protest, or for the prosecution or defense of any suit or other proceeding relating to Tax matters.

ARTICLE XIII ADDITIONAL COVENANTS

13.1 Noncompetition; Non-Solicitation. For a period of five (5) years after the Closing Date, Sellers shall not, directly or indirectly (disregarding for these purposes the ownership interest to be held by the Seller Member in the Company as of and following the Closing Date), and Seller shall cause its Affiliates not to, in any capacity: (i) own, lease, manage, operate, control, participate in the management or control of, be employed by, or maintain or continue any interest whatsoever in any enterprise engaged in the business of providing healthcare goods or services, including hospitals and outpatient surgery or diagnostic facilities, within a 25 miles radius of any of the Facilities (other than through the Company and the Company Subsidiaries); (ii) employ, recruit or solicit the employment of any Transferred Employee unless (x) such employee resigns voluntarily (without any solicitation from Sellers or any of its Affiliates), (y) the Company consents in writing to such employment or solicitation, or (z) such employee is terminated by the Company, a Company Subsidiary, or an Affiliate thereof after the Closing Date; (iii) induce, cause or attempt to induce or cause any Person (including any physician employee or medical staff member) to replace or terminate any Contract for the provision or arrangement of health care services from a Facility with products or services of any other Person after the Closing Date; or (iv) request, induce or cause any physician employee or medical staff member to terminate any Contract with or change practice patterns at the Facilities.

13.2 Confidentiality. All confidential information provided or made available by the Parties in connection with or under this Agreement shall be subject to the Confidentiality Agreement, and the Confidentiality Agreement shall remain in full force and effect in accordance with its terms and shall survive the Closing.

13.3 Remedies. In the event of a breach of Section 13.1 or Section 13.2 the Parties recognize that monetary damages shall be inadequate to compensate the non-breaching Party, and the non-breaching Party shall be entitled, without the posting of a bond or similar security, to an injunction restraining such breach, with the costs (including reasonable attorneys' fees) of successfully securing such injunction to be borne by the breaching Party. Nothing contained herein shall be construed as prohibiting the non-breaching Party from pursuing any other remedy available to it for such breach or threatened breach. The Parties hereby acknowledge the necessity of protection described in Section 13.1 and Section 13.2 and that the nature and scope of such protection has been carefully considered by them. The period provided and the area covered in Section 13.1 are expressly represented and agreed to be fair, reasonable and

necessary. The consideration and benefits provided for herein are deemed to be sufficient and adequate to compensate Sellers for agreeing to the restrictions contained in Section 13.1. If any court determines that the foregoing restrictions are not reasonable, then such restrictions shall be modified, rewritten or interpreted to include as much of their nature and scope as will render them enforceable.

13.4 Assumed Contracts. To the extent that any Assumed Contract is not capable of being assigned without the consent of a third party or if such assignment or attempted assignment would constitute a breach thereof or a violation of any Law (any such Assumed Contract being referred to herein as a “Nonassignable Contract”), nothing in this Agreement shall constitute an assignment or an attempted assignment thereof prior to the time at which all consents necessary for such assignment shall have been obtained. Sellers shall use commercially reasonable efforts to obtain the consent to the assignment of any Nonassignable Contracts, and the Company and the Company Subsidiaries shall reasonably cooperate with their efforts. To the extent that any of the consents are not obtained, (a) the Company shall not be required to close the Transactions if such consents pertain to any of the Assumed Contracts denoted with an asterisk as Material Consents on Schedule 4.12(e), and (b) if the Company nevertheless elects to close the Transactions, then to the extent requested by the Company, Sellers shall, during the term of the affected Nonassignable Contract, use commercially reasonable efforts to (i) provide to the Company or a Company Subsidiary (as applicable) the benefits under any such Nonassignable Contract, (ii) cooperate in any reasonable and lawful arrangement designed to provide such benefits to the Company or a Company Subsidiary, and (iii) enforce for the account of the Company or a Company Subsidiary, any rights of Sellers under the affected Nonassignable Contract (including the right to elect to terminate such Nonassignable Contract in accordance with the terms thereof upon the direction of the Company) and for the period that the Company or a Company Subsidiary is receiving the benefit that would otherwise inure to Sellers under the Nonassignable Contract, the Company or such Company Subsidiary will be responsible for the obligations under the Nonassignable Contract relating to such period. The Company and the Company Subsidiaries shall cooperate with Sellers to enable Sellers to provide to the Company and the Company Subsidiaries the benefits contemplated by the immediately preceding sentence.

13.5 Additional Acts.

(a) Generally. From time to time after Closing, the Parties shall execute and deliver such other instruments of conveyance and transfer, and take such other actions as any other Party reasonably may request, to convey and transfer full right, title and interest to, vest in and place the Company and the Company Subsidiaries (as applicable) in legal and actual possession and benefit of, any and all of the Purchased Assets.

(b) Accounts Receivable. Sellers shall provide the Company and the Company Subsidiaries with all information in their possession or under their control that is reasonably necessary to bill and collect Accounts Receivable. After the Closing, Sellers shall: (i) permit, and hereby authorize, the Company and the Company Subsidiaries to collect, in the name of Sellers, all Accounts Receivable constituting part of the Purchased Assets and to endorse with the name of the applicable Seller for deposit in the Company’s or a Company Subsidiary’s account any checks or drafts received in payment thereof and not cause any Accounts Receivable

to be deposited in any account other than the A/R Bank Accounts; (ii) pay over, or cause to be paid over, to the Company or a Company Subsidiary, without right of set-off, within three (3) Business Days of receipt (and until so paid, shall hold in trust for the Company or such Company Subsidiary) all amounts received by Sellers and their Affiliates in respect of the Accounts Receivable; (iii) provide the Company or a Company Subsidiary with all information available to permit the Company and such Company Subsidiary to correctly apply such amounts; and (iv) cooperate with the Company or a Company Subsidiary to cause all future payments and reimbursements to be paid directly to the Company or such Company Subsidiary.

(c) Other Assistance. From time to time after Closing, as reasonably requested by Sellers, the Company shall administratively assist Sellers, at no additional cost, in disposing of the Excluded Assets and/or discharging the Excluded Liabilities retained by Sellers subsequent to the Closing.

13.6 Sellers' Cost Reports and RAC Audits.

(a) Sellers shall timely prepare and submit all Cost Reports relating to Sellers for cost report periods ending on or prior to the Closing Date or that are required as a result of the consummation of the Transactions, including terminating Cost Reports for the Government Reimbursement Programs ("Sellers' Cost Reports"). Such Sellers' Cost Reports shall be prepared in accordance with applicable Law. Upon reasonable advance notice, the Company and the Company Subsidiaries shall provide Sellers during normal business hours with the assistance of their respective personnel and access to such documents and information, as reasonably requested by Sellers to enable Sellers to timely prepare and file Sellers' Cost Reports. Neither the Company nor any Company Subsidiary shall be deemed to be the "preparer" of Sellers' Cost Reports as a result of such assistance. Sellers shall furnish to the Company copies of Sellers' Cost Reports, correspondence, work papers and other documents relating to Sellers' Cost Reports.

(b) From and after the Closing Date, the Company shall be responsible for the conduct of any and all RAC audits that may be conducted with respect to the Business, including with respect to the provision of services or the submission of claims by Sellers relating to periods prior to the Closing Date. The Company, either directly or through the pertinent Company Subsidiary: (i) shall timely respond to any and all requests made in connection with any such RAC audit; (ii) shall be responsible for the payment of any amounts to be paid or offset as a result of any such RAC audit; (iii) shall have the right to dispute and appeal any such offsets or amounts alleged to be owed in connection with any such RAC audit; and (iv) shall be entitled to any refunds resulting from any such RAC audit.

13.7 Post-Closing Access to Information. The Parties acknowledge that, after the Closing, the Company and Sellers may each need access to information, documents or computer data in the control or possession of the other concerning the Purchased Assets, Facilities or Assumed Liabilities for purposes of concluding the Transactions and for audits, investigations, compliance with governmental requirements, regulations and requests, and the prosecution or defense of third party claims. Accordingly, the Company and the Company Subsidiaries agree that, at the sole cost and expense of Sellers, at Sellers' request, they will make available to Sellers and their agents, independent auditors and/or Governmental Entities such documents and

information as may be available relating to the Purchased Assets, Facilities and Assumed Liabilities in respect of periods prior to Closing and will permit Sellers to make copies of such documents and information. Sellers agree that, at the sole cost and expense of the Company, Sellers will make available to the Company and the Company Subsidiaries and their agents, independent auditors and/or Governmental Entities such documents and information as may be in the possession of any Sellers or their Affiliates relating to the Purchased Assets, Facilities and Assumed Liabilities in respect of periods prior to the Closing and will permit the Company and the Company Subsidiaries to make copies of such documents and information. After the Closing Date, the Company and the Company Subsidiaries (as applicable) shall retain for a period consistent with the Company's record-retention policies and practices, those records of Sellers delivered to the Company or any Company Subsidiary.

13.8 Sellers' Remedial Actions. If Sellers have failed to fulfill prior to Closing any of their obligations set forth herein, and the Company has elected to close notwithstanding such deficiency or deficiencies, Sellers shall nevertheless use their commercially reasonable efforts to correct such deficiency or deficiencies as promptly as practicable after Closing, and their non-fulfillment shall not be deemed waived by the Company unless specifically so stated in writing by the Company.

13.9 Seller Intellectual Property. Sellers shall take any and all reasonable actions and shall cause their Employees, contractors and consultants, as applicable, to take any and all reasonable actions (including executing documents) necessary to effectuate the transfer of the Seller Intellectual Property to the Company or a Company Subsidiary and, following the Closing, Sellers shall take any and all reasonable actions to allow the Company or such Company Subsidiary to prosecute, maintain and defend the Seller Intellectual Property, other than with respect to the Intellectual Property described in Schedule 4.9(c).

13.10 Use of Controlled Substances Permits. To the extent permitted by applicable law, the Company and the Company Subsidiaries (as applicable) shall have the right, for a period not to exceed one hundred twenty (120) days following the Closing Date, to operate under the licenses and registrations of Sellers relating to controlled substances and the operations of pharmacies and laboratories, until the Company or such Company Subsidiaries are able to obtain such licenses and registrations for themselves, pursuant to an agreement in the form annexed hereto as Exhibit J (the "Limited Power of Attorney"), which Sellers agree to execute and deliver at the Closing.

13.11 Use of Names. On or before the Closing Date, each Seller other than SJHSRI shall (a) amend its certificate of incorporation, bylaws and any other organizational documents and take all other actions necessary to change its name to one sufficiently dissimilar to such Seller's present name, in the Company's judgment, to avoid confusion, and (b) take all actions requested by the Company to enable the Company and the Company Subsidiaries to change their legal names to the present names of Sellers. After the Closing, (x) the Company and the Company Subsidiaries shall continue to operate the Business using, to the extent practicable, the names of the Seller entities (except for SJHSRI), including the present name of CCHP as immediately prior to Closing, and (y) Sellers will not adopt any trademarks or service marks that are confusingly similar to the trademarks and service marks assigned hereunder. After the Closing Date, neither Sellers nor any of their Affiliates will challenge the use of, or the validity

and enforceability of, any Intellectual Property assigned to the Company or the Company Subsidiaries hereunder.

13.12 Public Statements. Any public announcement, press release or similar publicity with respect to this Agreement or the Transactions will be issued, if at all, at such time and in such manner as the Parties mutually determine. Except with the prior consent of the Company or as permitted by this Agreement, neither Sellers nor any of their Representatives shall disclose to any Person (a) the fact that any confidential information of Sellers has been disclosed to the Company or its Representatives, that the Company or its Representatives have inspected any portion of such confidential information, that any confidential information of the Company has been disclosed to Sellers or their Representatives or that Sellers or their Representatives have inspected any portion of the such confidential information, or (b) any information about the Transactions, including the status (or existence) of such discussions or negotiations, the execution of any documents (including this Agreement) or any of the terms of the Transactions or the related documents (including this Agreement). Sellers and the Company will consult with each other concerning the means by which Sellers' Employees, customers, suppliers and others having dealings with Sellers will be informed of the Transactions, and the Company will have the right to be present for any such communication.

13.13 Strategic Initiatives. Immediately following the Closing Date, the Parties shall cause the Company's governing board to collaboratively examine Sellers' existing strategic initiatives, with consideration given to: (i) growth and development of clinical centers of excellence (cancer, geriatric continuum, behavioral health, digestive disease, bariatrics, and diabetes); (ii) pursuit of opportunities in neurological sciences, dermatology and wound care, and orthopedics; (iii) clinical integration; and (iv) medical staff-system alignment and engagement. Within the first one hundred eighty (180) days immediately following the Closing Date, the Company shall prepare (through its manager) and adopt (through its governing board) a three (3)- to five (5)-year strategic plan addressing the short-term and long-term priorities for the Business, the Facilities, and strategic objectives.

13.14 Operating Commitments. From and after the Closing Date, Prospect and the Prospect Member shall ensure that the Company and the Company Subsidiaries operate the Business and the Facilities consistent with the same commitments to charity care and serving the local community, and the same dedication to quality, safety and patient satisfaction, as historically demonstrated by Sellers. In furtherance of the foregoing, Prospect and the Prospect Member shall cause the Company and the Company Subsidiaries to do or ensure all of the following:

(a) The Company and the Company Subsidiaries shall cause their respective Facilities, including without limitation the Hospitals, to accept and to continue to participate in the Medicare and Medicaid programs, including by maintaining appropriate accreditations necessary to receive reimbursement under such programs;

(b) The Company and the Company Subsidiaries shall endeavor to maintain and enhance the quality and safety of patient care services provided at the Hospitals;

(c) The Company and the Company Subsidiaries shall adopt as their policy concerning charity care/financial assistance policy the same such policy maintained by Sellers as in effect immediately prior to the Closing Date, attached as Exhibit K hereto; the Company and the Company Subsidiaries may from time to time amend, restate or supplement such policy provided that the charity care/financial assistance program of the Company and each Company Subsidiary remains at least as favorable to the indigent and uninsured as the policy attached hereto;

(d) The Company and the Company Subsidiaries shall continue to provide care through sponsorship and support of community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and work to improve the health status of the elderly, poor and at-risk populations in the community;

(e) The Company and the Company Subsidiaries shall continue to support nursing and staff education;

(f) The Company and the Company Subsidiaries shall, at a minimum, continue the current medical education and research programs in place at the Business immediately prior to the Closing Date, unless there occur reductions in grants or other governmental funding that offset the cost of such medical education and research, in which case the Company or the Company Subsidiaries (as applicable) may reduce such programs in proportion to the reduction in support;

(g) The Company and the Company Subsidiaries shall at all times conduct their respective activities and operations in material compliance with all applicable Law;

(h) The Company and the Company Subsidiaries shall at all times maintain a compliance officer whose responsibilities shall include regulatory compliance and organizational compliance, and who shall be responsible for establishing and overseeing an ethics committee to include community board members; and

(i) The Company and the Company Subsidiaries shall at all times cause the Transferred Restricted Funds to be used in a manner consistent with their stated purposes; provided, that such stated purposes and restrictions do not cause the Company or the Company Subsidiaries to breach or violate, or be reasonably likely to breach or violate, any provision contained in the Company's Credit Agreement or any other agreements the Company or the Company Subsidiaries may be subject to from time to time; provided, further, that any different or additional conditions or limitations that may be imposed by third parties in connection with their consent to the transfer of such amounts hereunder shall be subject to the consent of the Company, which consent shall not be unreasonably withheld.

13.15 Essential Services.

(a) Except as otherwise provided in Section 13.15(b) below, Prospect and the Prospect Member shall cause the Company and the Company Subsidiaries to maintain both Hospitals and to continue to provide, collectively, the full complement of essential clinical services set forth on Exhibit L ("Essential Services") for a period of at least five (5) years

immediately following the Closing Date. The Parties hereby acknowledge and agree that the foregoing commitment regarding the provision of Essential Services is intended to ensure continued choice and access to hospital and non-acute health care services providers. For a period of at least five (5) years immediately following the Closing Date, in the event that the Company or a Company Subsidiary sells the Business and/or either Hospital, Prospect and the Prospect Member shall cause the Company or the Company Subsidiary (as applicable) to require the purchaser thereof to assume the foregoing obligations in their entirety.

(b) Notwithstanding Section 13.15(a) above, if any of the following contingencies occurs with regard to any particular Essential Service, the Company or the Company Subsidiary (as applicable) may suspend, terminate, discontinue or materially and substantially modify, limit, or reduce (as applicable) the Essential Service:

(i) The Essential Service is Not Financially Viable;

(ii) The medical staff of the facilities then owned or operated by the Company or the Company Subsidiary do not include qualified physicians necessary to support the provision of the Essential Service;

(iii) An Essential Service experiences a significant decrease in patient volumes for any reason not within the reasonable control of the Company or a Company Subsidiary, including technological obsolescence, changes in method, techniques or sites for delivery of the Essential Service, pharmaceutical advancements, failure of the Essential Service to qualify for reimbursement under Medicare (or any successor program) or a material portion of other payors, demographic and other market changes, or other competitive/marketplace factors; or

(iv) The actual or projected volume or clinical staffing for an Essential Service is or will be insufficient to achieve or maintain the level of quality for such Essential Service that is at least equal to, or better than, the level of quality at which the Essential Service is provided at any other general acute care community hospital in the region.

13.16 Catholic Identity and Covenants. At all times following the Closing Date, Prospect and the Prospect Member shall cause the Company and the Company Subsidiaries to maintain the Catholic identity of all legacy SJHSRI locations and to ensure that all services at SJHSRI locations are rendered in full compliance with the Ethical and Religious Directives for Catholic Health Care Services, as promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, Rhode Island, as the same may be amended from time to time (the "ERDs"). In furtherance of and consistent with the foregoing, Prospect and the Prospect Member shall cause the Company and the Company Subsidiaries to do or ensure all of the following:

(a) Each and every legacy SJHSRI location, as identified on Exhibit M, shall at all times be operated by the Company or a Company Subsidiary consistent with the Catholicity standards set forth on Exhibit M;

(b) Each and every facility owned or operated by the Company or a Company Subsidiary (other than the legacy SJHSRI locations identified on Exhibit M), and all programs

and services provided thereat or thereby, shall be operated by the Company or such Company Subsidiary so as to comply with the service restrictions set forth on Exhibit N;

(c) Pastoral care programs shall be maintained at all hospital facilities owned by the Company or a Company Subsidiary;

(d) The Company and the Company Subsidiaries shall provide pastoral care education curriculum sufficient to meet the needs of the hospital facilities owned by the Company or such Company Subsidiaries; and

(e) The Company and the Company Subsidiaries shall maintain chapels in all hospital facilities owned by the Company or such Company Subsidiaries.

13.17 Medical Staff Matters. In recognition of the key role to be played by members of the medical staffs at the Hospitals in ensuring the growth and long-term success of the Business, following the Closing Date, Prospect and the Prospect Member shall cause the Company and the Company Subsidiaries to do or ensure all of the following:

(a) The Company and the Company Subsidiaries shall invest in the medical staff of each Hospital in an effort to retain existing staff and recruit new staff. In addition, the Company and the Company Subsidiaries shall commit to properly position the Business to compete in Rhode Island (and regionally as necessary), consistent with emerging health care regulatory and reimbursement environments.

(b) The Company and the Company Subsidiaries shall involve physicians in the strategic and capital planning process for each of the Hospitals, insuring that the critical needs of the medical staff are met and that strategic initiatives and investment into the Hospital facility can be prioritized to better meet the needs of physicians practicing at the Hospital.

(c) The Company and the Company Subsidiaries shall recognize the medical staffs of both Hospitals in place as of the Closing Date and shall ensure that, for a period of at least two (2) years immediately following the Closing, there shall be no change or modification to the current medical staff privileges for physicians on staff at either Hospital, nor any change or modification to either Hospital's medical staff by-laws, rules and regulations, except for those routine medical staff functions and procedures set forth in the existing by-laws, rules and regulations of each Hospital's medical staff or except as required by Law.

(d) For a period of at least two (2) years immediately following the Closing Date, the Company and the Company Subsidiaries shall recognize and sustain the Hospital medical staff leadership structures in place as of the Closing Date, as set forth in the existing by-laws, rules and regulations of each Hospital's medical staff, including the positions of all medical staff officers, directors and chiefs of service (both sitting and elected) as described therein.

13.18 Restrictions and Rights Upon Sale of Interests in the Company. The Parties hereby agree to all of the following, which commitments shall be further reflected in the Amended and Restated Agreement:

(a) At any time, the Company and/or the Prospect Member may cause the assets of the Company or equity interests in the Company Subsidiaries to be pledged to lenders of Prospect and/or its Affiliates. However, if at any time a lender of Prospect or a Prospect Affiliate attempts to foreclose on any assets of the Company or any equity interest in a Company Subsidiary previously pledged to such lender, the Seller Member shall have a right to put its entire interest in the Company to the Prospect Member, on terms and condition more fully set forth in the Amended and Restated Agreement.

(b) For a period of at least five (5) years immediately following the Closing Date, the Prospect Member shall not sell its interest in the Company to an unaffiliated third party, nor shall Prospect sell its interest in the Prospect Member to an unaffiliated third party; provided, however, that such restriction: (i) shall not limit the Prospect Member's or Prospect's ability to transfer such interest to an Affiliate thereof; (ii) shall not be implicated by a change of control of Prospect or any direct or indirect parent thereof; and (iii) shall not limit the exercise of remedies pursuant to the Indenture or the Credit Agreement (each as defined in the Amended and Restated Agreement) or other indebtedness of Prospect and/or its Affiliates. In the event that, after the expiration of the five (5)-year period described above, the Prospect Member agrees to sell its interest in the Company to an unaffiliated third party, the Seller Member shall have the option to sell its interest in the Company to such buyer under the same terms and conditions, as more fully set forth in the Amended and Restated Agreement. In any event, the buyer of the Prospect Member's interest in the Company shall be required to expressly assume or reaffirm the obligations of Prospect and the Company under this Agreement.

(c) Commencing on the fifth (5th) anniversary of the Closing Date, the Seller Member shall have a right to put its entire interest in the Company to the Prospect Member, on terms and conditions set forth in the Amended and Restated Agreement. Notwithstanding the foregoing, at any time (whether during or after such five (5)-year period), the Seller Member shall have a right to put its entire interest in the Company to the Prospect Member (i) if necessary to protect the tax-exempt status of the Seller Member or any Affiliate thereof, or (ii) in the event of an attempted foreclosure on assets of the Company or a Company Subsidiary as described in Section 13.18(a) above. The terms and conditions for the exercise of the Seller Member's put right in such circumstances shall be as more fully set forth in the Amended and Restated Agreement.

(d) Other rights of the Parties (including rights of first offer, rights of first refusal, and tag-along rights) shall be as set forth in the Amended and Restated Agreement.

ARTICLE XIV INDEMNIFICATION

14.1 Survival of Representations and Warranties.

(a) Except as otherwise provided in this ARTICLE XIV, all representations and warranties of each of the Sellers, the Company and Prospect contained in this Agreement shall survive until the two (2)-year anniversary of the Closing Date (the "Survival Date"). Notwithstanding the foregoing, any covenants of any Party that by their terms are to be performed or observed on or following the Closing shall survive the Closing until fully

performed or observed in accordance with their terms. Except as expressly provided in the immediately preceding sentence, (i) any claim for indemnification made hereunder before the Survival Date of such claim will not terminate before final determination and satisfaction of such claim, and (ii) no claim for indemnification hereunder may be made after the expiration of the applicable Survival Date.

(b) Notwithstanding anything to the contrary contained herein:

(i) the representations and warranties set forth in Section 4.1 (Incorporation, etc.), Section 4.2 (Powers, etc.), Section 4.3 (Binding Effect), Section 4.5 (Title; Purchased Assets), Section 4.30 (Brokers, etc.), Section 5.1 (Incorporation, etc.), Section 5.2 (Powers, etc.), Section 5.3 (Binding Effect), Section 5.5 (Brokers, etc.), Section 6.1 (Incorporation, etc.), Section 6.2 (Powers, etc.), Section 6.3 (Binding Effect), and Section 6.5 (Brokers, etc.) shall survive indefinitely; and

(ii) the representations and warranties set forth in Section 4.11 (Regulatory Compliance), Section 4.13 (Tax Matters), Section 4.17 (Employee Benefit Plans), Section 4.23 (Environmental Matters) and Section 9.13 (Freezing of Seller Plans) shall survive until ninety (90) days following the expiration of the applicable statute of limitations, but in no event longer than six (6) years immediately following the Closing.

14.2 Indemnification by Sellers. Sellers, jointly and severally, shall indemnify, defend and hold harmless Prospect, the Prospect Member, the Company, the Company Subsidiaries and their respective Affiliates, officers, directors, trustees, employees, stockholders, partners, members, agents, representatives, successors and permitted assigns (collectively, the "Company/Prospect Indemnified Persons"), from and against any loss, Liability, claim, damage or expense (including costs of investigation and defense and reasonable attorneys' fees and expenses), whether or not involving a Third-Party Claim (collectively, "Damages"), arising from or in connection with:

(a) any breach of or any inaccuracy in any of the representations and warranties made herein of by Sellers (giving effect to any amended Applicable Disclosure Schedules provided pursuant to Section 7.11(a) hereto but not giving effect to any updated schedules provided pursuant to Section 7.11(b) hereto) or in any certificate delivered by or on behalf of the Sellers hereunder at or prior to the Closing;

(b) any breach of or failure to perform any of the covenants or agreements made herein by Sellers;

(c) the Excluded Assets and Excluded Liabilities; and

(d) Sellers' operation of the Business prior to the Closing Date to the extent not contained in the calculation of Final Net Working Capital, including (i) Environmental, Health and Safety Liabilities for acts or failures to act occurring prior to the Closing Date, (ii) Liabilities for funding of, or tax or ERISA penalties or any other liabilities with respect to, the Retirement Plan, (iii) Healthcare Program Liabilities and Private Health Plan Liabilities pertaining to any period prior to the Closing Date, (iv) Tax Liabilities, and (v) medical

malpractice, negligence, employment discrimination and employment-related liabilities or general liability claims for acts or failures to act occurring prior to the Closing Date.

14.3 Indemnification by Prospect. Prospect shall indemnify, defend and hold harmless Sellers and their respective Affiliates, officers, directors, trustees, employees, stockholders, partners, members, agents, representatives, successors and permitted assigns (collectively, the "Seller Indemnified Persons"), from and against any Damages arising from or in connection with:

(a) any breach of or any inaccuracy in any of the representations and warranties made herein by Prospect or the Company (giving effect to any amended Applicable Disclosure Schedules provided pursuant to Section 7.11(a) hereto but not giving effect to any updated schedules provided pursuant to Section 7.11(b) hereto) or in any certificate delivered by or on behalf of Prospect, the Prospect Member, the Company or the Company Subsidiaries hereunder at or prior to the Closing; and

(b) any breach of or failure to perform any of the covenants or agreements made herein by Prospect, the Prospect Member, the Company or the Company Subsidiaries.

14.4 Limitation of Liability.

(a) No Company/Prospect Indemnified Persons shall make a claim against Sellers under Section 14.2(a) unless the amount of such claim (or group of related claims) exceeds Twenty-Five Thousand Dollars (\$25,000) (the "De Minimis Threshold") and, except as otherwise expressly provided below, until the total amount of all claims for which the Company/Prospect Indemnified Persons seeking indemnification hereunder exceeds Six Hundred Thousand Dollars (\$600,000) (the "Basket") (not counting any claims or group of related claims that do not exceed the De Minimis Threshold), in which event Sellers shall be liable for the full amount of all Damages (including the first dollar of such Damages). Further, except as expressly provided below, Sellers shall not have any liability for indemnification under Section 14.2(a) to the extent such liability exceeds an amount equal to the Cash Purchase Price (the "Cap"). Notwithstanding the foregoing:

(i) The Basket and the Cap shall not apply with respect to indemnification claims for any fraudulent acts by Sellers;

(ii) The Basket and the Cap shall not apply with respect to indemnification claims pursuant to Section 14.2(a) based on the breach or inaccuracy of the representations and warranties made by Sellers pursuant to Section 9.13 above; and

(iii) A special basket shall apply with respect to indemnification claims pursuant to Section 14.2(a) based on updated disclosures made by Sellers pursuant to Section 7.11(b) above, such that the Company/Prospect Indemnified Persons may make a claim against Sellers pursuant thereto once the total amount of all such claims exceeds Two Hundred Thousand Dollars (\$200,000) (the "Special Basket") (not counting any claims or group of related claims that do not exceed the De Minimis Threshold); any indemnification claims pursuant to this Section 14.4(a)(iii) shall be disregarded up to the amount of the Special Basket for purposes

of the \$600,000 Basket applicable to claims for indemnification by the Company/Prospect Indemnified Persons pursuant to Section 14.4(a) above.

(b) No Seller Indemnified Persons shall make a claim against Prospect under Section 14.3(a) unless the amount of such claim or group of related claims exceeds the De Minimis Threshold and until the total amount of all claims for which Seller Indemnified Persons is seeking indemnification hereunder, exceeds the Basket (not counting any claims or group of related claims that do not exceed the De Minimis Threshold), in which event Prospect shall be liable for the full amount of all Damages (including the first dollar of such Damages). Further, Prospect shall not have any liability for indemnification under Section 14.3(a) to the extent such liability exceeds an amount equal to the Cap. Notwithstanding the foregoing:

(i) The Basket and the Cap shall not apply with respect to indemnification claims for any fraudulent acts by Prospect, the Prospect Member, the Company or the Company Subsidiaries; and

(ii) The Special Basket shall apply with respect to indemnification claims pursuant to Section 14.3(a) based on updated disclosures made by the Company or Prospect pursuant to Section 7.11(b) above; any indemnification claims pursuant to this Section 14.4(b)(ii) shall be disregarded for purposes of the \$600,000 Basket applicable to other claims for indemnification by the Seller Indemnified Persons pursuant to Section 14.4(b) above.

(c) In determining the amount of any Damages under this ARTICLE XIV, materiality and other similar qualifiers contained in such representation, warranty or covenant will be disregarded.

14.5 Third-Party Claims.

(a) Promptly after receipt by a Person entitled to indemnity under Section 14.2 or Section 14.3 (an “Indemnified Person”) of notice of the assertion of a Third-Party Claim against it, such Indemnified Person shall give notice to the Person or Persons obligated to indemnify under such Section (each, an “Indemnifying Person”) of the assertion of such Third-Party Claim, provided that the failure to notify an Indemnifying Person will not relieve the Indemnifying Person of any Liability that it may have to any Indemnified Person, except to the extent that the Indemnifying Person demonstrates actual loss and that the defense of such Third-Party Claim is materially prejudiced by the Indemnified Person’s failure to give such notice.

(b) If an Indemnified Person gives notice to the Indemnifying Person pursuant to Section 14.5(a) of the assertion of a Third-Party Claim, the Indemnifying Person shall be entitled to participate in the defense of such Third-Party Claim and, to the extent that it wishes (unless (i) the Indemnifying Person is also a Person against whom the Third-Party Claim is made and the Indemnified Person determines in good faith that joint representation would be inappropriate or (ii) the Indemnifying Person fails to provide reasonable assurance to the Indemnified Person of its financial capacity to defend such Third-Party Claim and provide indemnification with respect to such Third-Party Claim), to assume the defense of such Third-Party Claim with counsel reasonably satisfactory to the Indemnified Person. After notice from the Indemnifying Person to the Indemnified Person of its election to assume the defense of such

Third-Party Claim, the Indemnifying Person shall not, so long as it diligently conducts such defense, be liable to the Indemnified Person under this ARTICLE XIV for any fees of other counsel or any other expenses with respect to the defense of such Third-Party Claim, in each case subsequently incurred by the Indemnified Person in connection with the defense of such Third-Party Claim, other than reasonable costs of investigation. If the Indemnifying Person assumes the defense of a Third-Party Claim, (i) such assumption will conclusively establish for purposes of this Agreement that the claims made in that Third-Party Claim are within the scope of and subject to indemnification, and (ii) no compromise or settlement of such Third-Party Claims may be effected by the Indemnifying Person without the Indemnified Person's consent unless (A) there is no finding or admission of any violation of Law or any violation of the rights of any Person; (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Person; and (C) the Indemnified Person shall have no Liability with respect to any compromise or settlement of such Third-Party Claims effected without its consent. If notice is given to an Indemnifying Person of the assertion of any Third-Party Claim and the Indemnifying Person does not, within ten (10) days after the Indemnified Person's notice is given, give notice to the Indemnified Person of its election to assume the defense of such Third-Party Claim, the Indemnifying Person will be bound by any determination made in such Third-Party Claim or any compromise or settlement effected by the Indemnified Person.

(c) Notwithstanding the foregoing, if an Indemnified Person determines in good faith that there is a reasonable probability that a Third-Party Claim may adversely affect it or its Affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the Indemnified Person may, by notice to the Indemnifying Person, assume the exclusive right to defend, compromise or settle such Third-Party Claim, but the Indemnifying Person will not be bound by any determination of any Third-Party Claim so defended for the purposes of this Agreement or any compromise or settlement effected without its consent (which may not be unreasonably withheld).

(d) Notwithstanding the provisions of Section 15.1: (i) Sellers hereby consent to the nonexclusive jurisdiction of any court in which a Legal Proceeding in respect of a Third-Party Claim is brought against any Company/Prospect Indemnified Person for purposes of any claim that a Company/Prospect Indemnified Person may have under this Agreement with respect to such Legal Proceeding or the matters alleged therein; and (ii) Prospect hereby consents to the nonexclusive jurisdiction of any court in which a Legal Proceeding in respect of a Third-Party Claim is brought against any Seller Indemnified Person for purposes of any claim that a Seller Indemnified Person may have under this Agreement with respect to such Legal Proceeding or the matters alleged therein.

(e) With respect to any Third-Party Claim subject to indemnification under this ARTICLE XIV: (i) both the Indemnified Person and the Indemnifying Person, as the case may be, shall keep the other Person fully informed of the status of such Third-Party Claim and any related Legal Proceedings at all stages thereof where such Person is not represented by its own counsel; and (ii) the Parties agree (each at its own expense) to render to each other such assistance as they may reasonably require of each other and to cooperate in good faith with each other in order to ensure the proper and adequate defense of any Third-Party Claim.

(f) With respect to any Third-Party Claim subject to indemnification under this ARTICLE XIV, the Parties agree to cooperate in such a manner as to preserve in full (to the extent possible) the confidentiality of all confidential information and the attorney-client and work-product privileges. In connection therewith, each Party agrees that: (i) it will use its commercially reasonable best efforts, in respect of any Third-Party Claim in which it has assumed or participated in the defense, to avoid production of confidential information (consistent with applicable law and rules of procedure); and (ii) all communications between any party hereto and counsel responsible for or participating in the defense of any Third-Party Claim shall, to the extent possible, be made so as to preserve any applicable attorney-client or work-product privilege.

(g) Notwithstanding anything to the contrary in this Section 14.5, the Company, upon reasonable advance written notice to Sellers, may in its sole discretion assume control of any Remediation, Legal Proceeding or Third-Party Claim relating to an Environmental, Health and Safety Liability without releasing or waiving any Indemnifying Person's obligations hereunder to indemnify and hold the Company or a Company Subsidiary harmless and the Company's or such Company Subsidiary's rights to indemnification and being held harmless.

14.6 Other Claims. A claim for indemnification for any matter not involving a Third-Party Claim may be asserted by notice to the Party from whom indemnification is sought and, unless the matter is the subject of a good faith dispute between the Parties (in which case the Dispute resolution provisions of Section 15.1 shall apply), shall be paid promptly after such notice.

14.7 Benefit of Sellers' Indemnity. The Parties agree that any payments required to be made by Sellers pursuant to the provisions of Section 14.2 will be for the benefit of Prospect, the Prospect Member, the Company and the Company Subsidiaries, as applicable.

14.8 Right of Recoupment or Setoff. In the event that Sellers fail to indemnify or reimburse any Company/Prospect Indemnified Persons in accordance with this ARTICLE XIV for any Damages incurred by such Company/Prospect Indemnified Person (the "Unpaid Indemnification Amount"), Prospect may, in its sole and absolute discretion, recoup or offset, as applicable, on a dollar-for-dollar basis, all or a portion of the Unpaid Indemnification Amount in the following order of priority to the extent amounts are available in each such category: (x) by causing the Prospect Member to receive distributions from the Company otherwise due to the Seller Member in respect of the Seller Member's Units; (y) by reducing the Long-Term Capital Commitment; or (z) by treating such amount as an additional capital contribution by the Prospect Member to the Company and adjusting the Prospect Member's and the Seller Members' respective "Sharing Percentages" (as such term is defined in the Amended and Restated Agreement), or any combination of the foregoing, all pursuant to the terms of the Amended and Restated Agreement.

14.9 Tax Treatment of Indemnity Payments. The Parties agree to treat any payment for indemnity made pursuant to this ARTICLE XIV as an adjustment to the Cash Purchase Price for all tax purposes relating to any Tax, unless otherwise required by applicable Law, and any

such adjustments shall be allocated among the Facilities and the Purchased Assets in accordance with the principles of Section 2.11.

ARTICLE XV
GENERAL

15.1 Choice of Law; Dispute Resolution; Venue.

(a) Choice of Law. The Parties agree that this Agreement shall be governed by and construed in accordance with the Laws of the State of Rhode Island, without giving effect to any choice or conflict of law provision or rule thereof that would require the application of any other law.

(b) Dispute Resolution. In the event that any dispute, controversy or claim arises among the Parties, including any dispute, controversy or claim arising out of this Agreement or any other relevant document, or the breach, termination or invalidity thereof (a “Dispute”), the Parties shall attempt in good faith to resolve such Dispute promptly by negotiation (including at least one in-person meeting) over a period of not less than thirty (30) days, commencing upon one Party’s delivery of a written notice of Dispute to the other Party.

(c) Venue. In the event that any Dispute is not resolved through good faith negotiations as provided in Section 15.1(b) above, either Party may submit the matter to a court of law or equity through the filing of a claim. The Parties agree that, except as otherwise expressly provided in Section 15.2 below, venue for any and all claims associated with a Dispute between the Parties shall rest with the state courts of the State of Delaware; provided, however, that such court shall construe and apply the Laws of the State of Rhode Island as provided in Section 15.1(a) above.

(d) Waiver of Jury Trial. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE RELATED AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

15.2 Specific Performance. Notwithstanding anything to the contrary contained herein, each Party acknowledges and agrees that the non-breaching Parties would be irreparably damaged if any of the provisions of this Agreement are not performed in accordance with their specific terms and that any breach of this Agreement by a Party could not be adequately compensated in all cases by monetary damages alone. Accordingly, in addition to any other right or remedy to which the non-breaching Parties may be entitled, at law or in equity, they shall be entitled to enforce any provision of this Agreement by seeking, from a court of competent jurisdiction in the State of Rhode Island, a decree of specific performance and temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of any of the provisions of this Agreement, without posting any bond or other undertaking.

15.3 Assignment.

(a) No Party may assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of the other Parties, except as follows: (i) each of Prospect, the Prospect Member, the Company and the Company Subsidiaries may assign any of its respective rights and delegate any of its respective obligations under this Agreement to any Affiliate thereof, as applicable; (ii) each of Prospect, the Prospect Member, the Company and the Company Subsidiaries may collaterally assign their rights hereunder to any financial institutions and noteholders (and any agent or trustee acting on their behalf) providing financing to the Company and/or Prospect and its Affiliates; and (iii) any Seller may assign any of its respective rights and delegate any of its respective obligations under this Agreement to any other Seller or to CharterCARE Health Partners Foundation (f/k/a St. Joseph Health Services Foundation). Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the Parties.

(b) Nothing expressed or referred to in this Agreement shall be construed to give any Person other than the Parties any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement, except such rights as shall inure to a successor or permitted assignee pursuant to this Section 15.3, or as expressly provided pursuant to Section 15.5 below.

15.4 Cost of Transaction. Whether or not the Transactions shall be consummated and except as otherwise provided herein, the Parties agree as follows:

(a) Except as provided otherwise elsewhere herein, Sellers will pay the fees, expenses and disbursements of Sellers and their Representatives incurred in connection with the subject matter hereof and any amendments hereto.

(b) Except as provided otherwise elsewhere herein, Prospect shall pay the fees, expenses and disbursements of Prospect and its Representatives incurred in connection with the subject matter hereof and any amendments hereto. Prospect also shall pay the fees, expenses and disbursements associated with the organization of the Company and the Company Subsidiaries as Rhode Island limited liability companies.

(c) The Company and/or the Company Subsidiaries shall be responsible for and shall pay any sales, use, stamp, realty transfer and documentary stamp taxes, and any and all other costs or expenses incident to the Closing or the recordation of the Deeds and the Leasehold Assignments. The Company and/or the Company Subsidiaries shall be responsible for and pay (i) the costs of examination of title and any title insurance policy to be issued insuring the Company's or Company Subsidiaries' title to the Real Property, and (ii) title charges and survey fees.

(d) The Company and/or the Company Subsidiaries shall be responsible for and pay any fees, expenses or costs pertaining to any inspections, studies, test, review and analyses of the Purchased Assets.

(e) Notwithstanding the foregoing, and notwithstanding any other provision of this Agreement, Sellers and Prospect shall share equally (on a 50/50 basis) the costs associated with obtaining all Approvals other than Church Approvals. Such costs shall include legal fees

only to the extent associated with (i) the compilation of documents required in connection with the HCA Initial Application and the HCFLA Change in Effective Control Application, and (ii) the assistance provided by legal counsel in connection with the preparation and prosecution of such applications.

15.5 Third-Party Beneficiaries.

(a) Except as provided in Section 15.5(b) below, the terms and provisions of this Agreement are intended solely for the benefit of the Prospect, the Prospect Member, the Company, the Company Subsidiaries, Sellers, Company/Prospect Indemnified Persons, Seller Indemnified Persons and their respective permitted successors or assigns, and it is not the intention of the Parties to confer, and this Agreement shall not confer, third-party beneficiary rights upon any other Person.

(b) Notwithstanding Section 15.5(a) above, the Parties hereby acknowledge and agree that the provisions of Section 13.16 hereof, including the accompanying Exhibits M and N, are for the specific benefit of the Bishop of the Roman Catholic Diocese of Providence, Rhode Island. The Parties further acknowledge and agree that any breach or violation of such provisions shall cause irreparable harm as to which no adequate remedy at law exists and that the Bishop may seek specific performance and injunctive relief in addition to all other remedies in equity or at law. If, in such circumstances, the Bishop is unsuccessful in obtaining specific performance and/or injunctive relief, the Company and the Company Subsidiaries shall, if requested by the Bishop in his sole discretion, cease operating under the names "St. Joseph" or "Our Lady of Fatima" or any other name that implies Catholicity.

15.6 Waiver. Except where a specific period for action or inaction is provided herein, neither the failure nor any delay on the part of any Party hereto in exercising any right, power or privilege under this Agreement or the documents referred to in this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any Party hereto of any such right, power or privilege, nor any single or partial exercise of any such right, power or privilege, preclude any other or further exercise thereof or the exercise of any other such right, power or privilege. The failure of a Party hereto to exercise any right conferred herein within the time required shall cause such right to terminate with respect to the transaction or circumstances giving rise to such right, but not to any such right arising as a result of any other transactions or circumstances.

15.7 Notices. All notices, consents, waivers and other communications required or permitted by this Agreement shall be in writing and shall be deemed given to a Party (i) when delivered or sent if delivered in person or sent by facsimile transmission (provided confirmation of facsimile transmission is obtained), (ii) on the fifth (5) Business Day after dispatch by registered or certified mail, (iii) on the next Business Day if transmitted by national overnight courier, in each case to the following addresses and marked to the attention of the person (by name or title) designated below (or to such other address as a Party may designate by notice to the other Parties):

If to Sellers: CharterCARE Health Partners
825 Chalkstone Avenue
Providence, RI 02908

with a copy to: Drinker Biddle & Reath LLP
191 North Wacker Drive, Suite. 3700
Chicago, IL 60606-1699
Attention: Keith R. Anderson, Esq.

If to Company Prospect CharterCare, LLC
or the Company 825 Chalkstone Avenue
Subsidiaries: Providence, RI 02908
 Attention: Kenneth Belcher, Chief Executive Officer

with a copy to: Sills Cummis & Gross P.C.
One Riverfront Plaza
Newark, NJ 07102
Attention: Gary W. Herschman, Esq.

and to: Prospect Medical Holdings, Inc.
10780 Santa Monica Boulevard, Suite 400
Los Angeles, CA 90025
Attention: Samuel S. Lee, Chief Executive Officer

If to Prospect Prospect Medical Holdings, Inc.
or the Prospect 10780 Santa Monica Boulevard, Suite 400
Member: Los Angeles, CA 90025
 Attention: Samuel S. Lee, Chief Executive Officer

with a copy to: Sills Cummis & Gross P.C.
One Riverfront Plaza
Newark, NJ 07102
Attention: Gary W. Herschman, Esq.

15.8 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of Law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the extent possible.

15.9 Representative of Sellers.

(a) Each Seller hereby irrevocably constitutes and appoints CCHP (“Sellers’ Representative”) as its agent and such Seller’s sole representative and true and lawful attorney in fact, and the Sellers’ Representative hereby accepts such appointment, with full powers of

substitution and re-substitution, in such Seller's name, place and stead, in any and all capacities, in connection with the transactions contemplated by this Agreement and/or the other Transaction Documents, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection with the transfer of such Seller's Purchased Assets and Assumed Liabilities as full to all intents and purposes as such Seller might or could do in person. Each Seller hereby appoints the Sellers' Representative as its agent for the purpose of receiving service of process or other legal summons in connection with any proceeding brought by Prospect or the Company in any court in connection with or relating to this Agreement and/or the other Transaction Documents. The power-of attorney granted in this Section 15.9 is coupled with an interest and is irrevocable. Prospect, the Prospect Member, the Company and the Company Subsidiaries shall be entitled to deal exclusively with the Sellers' Representative on behalf of any and all Sellers in connection with all matters relating to this Agreement and/or the other Transaction Documents and shall be entitled to rely conclusively (without further evidence of any kind whatsoever) on any document executed or purported to be executed on behalf of any Seller by the Sellers' Representative, as fully binding upon such Seller. The Sellers' Representative shall notify the Sellers within a reasonable time of all material actions taken by it pursuant to this Section 15.9.

(b) Without limiting the generality of the foregoing Section 15.9(a), the Sellers' Representative, acting alone without the consent of any other Seller, is hereby authorized by each of the Sellers to (i) take any and all actions under this Agreement and/or the other Transaction Documents without any further consent or approval from any other Person, (ii) effect payments to Sellers hereunder or thereunder, (iii) receive or give notices hereunder or thereunder, (iv) receive or make payment hereunder or thereunder, (v) execute waivers or amendments hereof, and/or (vi) execute and deliver documents, releases and/or receipts hereunder or thereunder.

15.10 Divisions and Headings of this Agreement. The divisions of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

15.11 No Inferences. Each Party has participated in the drafting of this Agreement, which each Party acknowledges is the result of extensive negotiations between the Parties. If an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision.

15.12 Tax and Regulatory Advice and Reliance. Except as expressly provided in this Agreement, none of the Parties (nor any of the Parties' respective counsel, accountants or other representatives) has made or is making any representations to any other Party (or to any other Party's counsel, accountants or other representatives) concerning the consequences of the Transactions under applicable Laws (including applicable tax Laws and any Medical Reimbursement Program Laws), and each Party has relied solely upon the advice of its own employees or of representatives engaged by such Party and not on any such advice provided by any other Party.

15.13 Entire Agreement; Amendment. This Agreement and the Confidentiality Agreement supersede all previous Contracts and constitute the entire agreement of whatsoever kind or nature existing between or among the Parties representing the within subject matter, and no Party shall be entitled to benefits other than those specified herein. As between or among the Parties, no oral statement or prior written material not specifically incorporated herein shall be of any force and effect. This Agreement may not be amended, supplemented or otherwise modified except by a written agreement executed by the Party to be charged with the amendment.

15.14 Execution of this Agreement. This Agreement may be executed in multiple counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument. A signature delivered by facsimile or PDF will be sufficient for all purposes among the Parties.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized representatives, all as of the date and year first above written.

SELLERS:

CHARTERCARE HEALTH PARTNERS

ROGER WILLIAMS MEDICAL CENTER

By: [Signature]
Name:
Title:

By: [Signature]
Name:
Title:

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

ROGER WILLIAMS REALTY CORPORATION

By: [Signature]
Name:
Title:

By: [Signature]
Name:
Title:

RWGH PHYSICIANS OFFICE BUILDING, INC.

ELMHURST EXTENDED CARE FACILITIES, INC.

By: [Signature]
Name:
Title:

By: [Signature]
Name:
Title:

ROGER WILLIAMS MEDICAL ASSOCIATES, INC.

ROGER WILLIAMS PHO, INC.

By: [Signature]
Name:
Title:

By: [Signature]
Name:
Title:

ELMHURST HEALTH ASSOCIATES, INC.


OUR LADY OF FATIMA ANCILLARY SERVICES, INC.


By: [Signature]
Name:
Title:

By: [Signature]
Name:
Title:


THE CENTER FOR HEALTH AND HUMAN SERVICES

SJI ENERGY, LLC

By: 
Name:
Title:

By: 
Name:
Title:

ROSEBANK CORPORATION

By: 
Name:
Title:

PROSPECT:

PROSPECT MEDICAL HOLDINGS, INC.

By: _____
Name: _____
Title: _____

PROSPECT MEMBER:

PROSPECT EAST HOLDINGS, INC.

By: _____
Name: _____
Title: _____

THE COMPANY:

PROSPECT CHARTERCARE, LLC

By: PROSPECT EAST HOSPITAL
ADVISORY SERVICES, LLC,
its Manager

By: PROSPECT MEDICAL HOLDINGS,
INC., its Sole Member

By: _____
Name: _____
Title: _____

COMPANY SUBSIDIARIES:

PROSPECT CHARTERCARE RWMC, LLC

By: PROSPECT CHARTERCARE, LLC,
its Sole Member

By: PROSPECT EAST HOSPITAL
ADVISORY SERVICES, LLC,
its Manager

By: PROSPECT MEDICAL HOLDINGS,
INC., its Sole Member

By: _____
Name: _____
Title: _____

PROSPECT CHARTERCARE SJHSRI, LLC

By: PROSPECT CHARTERCARE, LLC,
its Sole Member

By: PROSPECT EAST HOSPITAL
ADVISORY SERVICES, LLC,
its Manager

By: PROSPECT MEDICAL HOLDINGS,
INC., its Sole Member

By: _____
Name: _____
Title: _____

PROSPECT CHARTERCARE ELMHURST, LLC

By: PROSPECT CHARTERCARE, LLC,
its Sole Member

By: PROSPECT EAST HOSPITAL
ADVISORY SERVICES, LLC,
its Manager

By: PROSPECT MEDICAL HOLDINGS,
INC., its Sole Member

By: 
Name:
Title:

PROSPECT CHARTERCARE PHYSICIANS, LLC

By: PROSPECT CHARTERCARE, LLC,
its Sole Member

By: PROSPECT EAST HOSPITAL
ADVISORY SERVICES, LLC,
its Manager

By: PROSPECT MEDICAL HOLDINGS,
INC., its Sole Member

By: 
Name:
Title:

**ACCEPTANCE AND AGREEMENT OF
SELLERS' REPRESENTATIVE**

The undersigned, being the Sellers' Representative designated in Section 15.9 of the foregoing Asset Purchase Agreement, agrees to serve as the Sellers' Representative and to be bound by the terms of such Asset Purchase Agreement pertaining thereto.

CharterCARE Health Partners ("CCHP")

Signed: _____

Print Name: _____

Print Title: _____

Dated: _____ 2013

Annex A

Definitions

“20-Day Period” has the meaning set forth in Section 2.9(c).

“Accountants’ Determination” has the meaning set forth in Section 2.9(c).

“Accounts Receivable” means all accounts and notes receivable, pledges and grants receivable, unbilled invoices, rights to settlement and positive retroactive adjustments, if any, for open cost reporting periods, other rights to receive payment for goods and services provided by Sellers in connection with the Business, whether recorded or unrecorded, including any amounts due from patients, Private Health Plans, Governmental Entities and Government Reimbursement Programs or any other source.

“Affiliate” means, as to the Person in question, any Person that directly or indirectly controls, is controlled by, or is under common control with, the Person in question and any successors or assigns of such Person; and the term “control” means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person whether through ownership of voting securities, by appointment of trustees, directors, and/or officers, by Contract or otherwise.

“Agreement” has the meaning set forth in the Preamble and shall include all Annexes, Exhibits and Schedules attached or delivered with respect hereto or expressly incorporated herein by reference.

“Allocation” has the meaning set forth in Section 2.11.

“Amended and Restated Agreement” means the Company’s Amended and Restated Limited Liability Company Agreement, in the form of Exhibit A, to be entered into between the Prospect Member and the Seller Member at Closing.

“Ancillary Agreements” means, as to any Party hereto, all of the documents and instruments required to be executed pursuant to this Agreement by such Party in connection with this Agreement or the transactions contemplated hereby.

“Antitrust Laws” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Sherman Act, the Clayton Act, the Federal Trade Commission Act and any other United States federal or Rhode Island Law, administrative or judicial doctrines or other Laws that are designed to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

“Applicable Disclosure Schedules” means (i) with respect to Sellers, Schedule 1.1(a), Schedule 2.1(f)(2), Schedule 2.2(b) and those disclosure schedules contemplated by ARTICLE IV; (ii) with respect to the Company, those disclosure schedules contemplated by ARTICLE V; and (iii) with respect to Prospect, those disclosure schedules contemplated by ARTICLE IV.

“Approval” means any Healthcare Regulatory Consent or any other approval, authorization, certificate of need, exemption, consent, notice, qualification or registration, or any extension, modification, amendment or waiver of any of the foregoing, of or from, or any notice, statement, filing or other communication to be filed with or delivered to, any Governmental Entity, but excludes Environmental Permits.

“A/R Bank Accounts” has the meaning set forth in Section 4.28(a).

“Arbitrating Accountants” has the meaning set forth in Section 2.9(c).

“Architectural Plans” means site plans, architectural renderings, blueprints, plans and specifications, engineering plans, as-built drawings, floor plans and other similar plans or diagrams, if any, held or used by Sellers in connection with the Business.

“Assumed Capital Lease Excess Amount” means the excess, if any, of (i) the aggregate amount, in dollars, of the net book value of all outstanding Capital Lease Obligations of Sellers at Closing pursuant to Assumed Contracts (but not including the current obligations under the Capital Leases included in Net Working Capital and not including the Cath Lab Capital Lease), over (ii) the sum of \$635,854 plus the aggregate amount of the net book value of any capital leases entered into by Sellers after the date hereof which are consented to in writing by the Company pursuant to Section 7.3(b) hereof.

“Assumed Contracts” has the meaning set forth in Section 2.1(f).

“Assumed Employment Agreements” has the meaning set forth in Section 2.1(f).

“Assumed Leases” has the meaning set forth in Section 2.1(f).

“Assumed Liabilities” has the meaning set forth in Section 2.3.

“Assumed Physician Agreements” has the meaning set forth in Section 2.1(f).

“Audited Balance Sheet” has the meaning set forth in Section 4.7(a).

“Basket” has the meaning set forth in Section 14.4(a).

“Buildings and Systems” has the meaning set forth in Section 4.14(c).

“Business” means the business, operation or ownership of the Facilities and the Purchased Assets.

“Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks in Rhode Island are authorized or required by Law to close.

“Cap” has the meaning set forth in Section 14.4(a).

“Capital Lease Obligations” means those capital lease obligations of Sellers, including those described in Schedule 4.7(d) hereto.

“Capital Projects” has the meaning set forth in Section 2.5(b)

“Cash Purchase Price” has the meaning set forth in Section 2.6(a).

“Cath Lab Capital Lease” means that certain Capital Lease Obligation entered into by and between RWMC and Philips Medical dated December 27, 2012, with respect to Sellers’ cardiac catheterization laboratory, the long-term portion of which, as of the date of this Agreement (*i.e.*, \$558,288), shall be treated as partial satisfaction of the Long-Term Capital Commitment pursuant to Sections 4.2(b) and 4.2(c) of the Amended and Restated Agreement and Section 2.5(b) hereof.

“CCHP” has the meaning set forth in the introductory paragraph.

“Church” has the meaning set forth in Section 7.5(e).

“Church Approvals” has the meaning set forth in Section 7.5(e).

“Church Plan” has the meaning set forth in Section 4.17(i).

“Closing” has the meaning set forth in Section 3.1.

“Closing Cash Amount” has the meaning set forth in Section 2.6(a).

“Closing Date” has the meaning set forth in Section 3.1.

“CMS” means the Centers for Medicare & Medicaid Services.

“COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended, as further defined in Section 4.17(g).

“Code” means the Internal Revenue Code of 1986 and the rules and regulations promulgated thereunder.

“Commitment” has the meaning set forth in Section 12.1(a).

“Company” has the meaning set forth in the introductory paragraph.

“Company Locations” has the meaning set forth in Exhibit N.

“Company Subsidiaries” has the meaning set forth in the introductory paragraph.

“Company/Prospect Indemnified Persons” has the meaning set forth in Section 14.2.

“Confidentiality Agreement” means that certain Confidentiality Agreement, dated as of August 2, 2012, between CCHP and Prospect.

“Contract” means any written or oral contract, commitment, instrument, license, lease or agreement, currently in effect, including renewals, extensions, assignments and amendments made in accordance therewith.

“Controlled Group” has the meaning set forth in Section 4.17(c).

“Cost Reports” means all cost and other reports related to a health care facility filed pursuant to the requirements of the Government Reimbursement Programs for cost-based payments or reimbursement due to or claimed by Sellers from the Government Reimbursement Programs or their MACs (or other fiscal intermediaries), including all appeals and appeal rights.

“DAG” means the Rhode Island Department of the Attorney General.

“Damages” has the meaning set forth in Section 14.2.

“De Minimis Threshold” has the meaning set forth in Section 14.4(a).

“Deed” means a deed in the form of Exhibit B.

“Delivery Date” means the date upon which all Applicable Disclosure Schedules have been delivered by both Parties and accepted by such other Party (as applicable), but in no event shall the Delivery Date be later than the twenty-first (21st) day after the date of this Agreement.

“Dispute” has the meaning set forth in Section 15.1(a).

“DOH” means the Rhode Island Department of Health.

“DOJ” means the United States Department of Justice.

“Effective Time” has the meaning set forth in Section 3.2.

“Elmhurst ECF” has the meaning set forth in the introductory paragraph.

“Elmhurst HA” has the meaning set forth in the introductory paragraph.

“Elmhurst SMLLC” has the meaning set forth in the introductory paragraph.

“Employee List” has the meaning set forth in Section 4.18(a).

“Employees” means all individuals who are employed by Sellers in the conduct of the Business, including residents and fellows, together with individuals who are hired in respect of the conduct of the Business after the date hereof and prior to the Closing.

“Employment Agreements” has the meaning set forth in Section 2.1(f).

“Employment Loss” means (i) an employment termination, other than a discharge for cause, voluntary departure or retirement, (ii) a layoff exceeding six (6) months or (iii) a reduction in hours of work of more than 50%.

“Encumbrance” means any claim, charge, easement, encumbrance, liability, encroachment, security interest, mortgage, lien, pledge or restriction, whether imposed by Contract, Law, equity or otherwise.

“Environmental, Health and Safety Liabilities” means any claim (including for personal injury), demand, assessment, Encumbrance, investigation, action or cause of action, complaint, citation, directive, information request or notice of potential violation or potential responsibility issued by a Governmental Entity, Legal Proceedings, damages (including punitive and consequential damages, property damage and natural resources damages), obligations (including Remediation obligations, or financial responsibility therefor, pursuant to any Environmental Laws), losses, penalties, fines, liabilities, encumbrances, liens, violations, costs and expenses (including attorneys and consultants fees and Remediation costs): (a) which are incurred as a result of (i) the existence or alleged existence of Hazardous Material in, on, over, under, at or emanating from any Facility, Real Property or Former Real Property, (ii) Hazardous Activity or (iii) the violation or alleged violation of any Environmental Laws or Occupational Safety and Health Laws; or (b) which arise under the Environmental Laws or Occupational Safety and Health Laws.

“Environmental Law” means any applicable Law (including any judgment or administrative interpretations, guidances, directives, policy statements or opinions) of any Governmental Entity relating to injury to, or the pollution or protection of, human health and safety (to the extent relating to exposure to Hazardous Materials) or the environment.

“Environmental Permit” means any permit, registration, license, approval, identification number, exemption or other authorization required under or issued pursuant to any applicable Environmental Law.

“ERDs” has the meaning set forth in Section 13.16.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“Essential Services” has the meaning set forth in Section 13.15(a) and Exhibit L.

“Estimated Final Settlements” means estimates of the dollar amounts of final settlements owed by Sellers to third party payors.

“ETO” shall mean earned time off, as accrued by Employees pursuant to the applicable Seller Plans for periods prior to the Effective Time.

“Exceptions” has the meaning set forth in Section 12.1(a).

“Excluded Assets” has the meaning set forth in Section 2.2.

“Excluded Contracts” has the meaning set forth in Section 2.2(b).

“Excluded Liabilities” has the meaning set forth in Section 2.4.

“Facilities” means the Hospitals and all nursing homes, diagnostic, surgical and/or treatment facilities, medical office buildings, pharmacies, physician practice sites and/or other health care service and educational sites or facilities, and related health care business in Providence, Rhode Island and surrounding communities, each of which listed on Schedule 1.1(a), as well as the businesses conducted therein or thereby.

“Final Adjustment Amount” has the meaning set forth in Section 2.9(a).

“Final Determination Date” has the meaning set forth in Section 2.9(d).

“Final Net Working Capital” has the meaning set forth in Section 2.9(a).

“Final Working Capital Statement” has the meaning set forth in Section 2.9(a).

“Financial Statements” has the meaning set forth in Section 4.7(a).

“FIRPTA Certificate” means a certificate required by United States Treasury Department Regulation Section 1.1445-2, to the effect that Seller is not a foreign person (as defined in the Code), which would subject the Company or a Company Subsidiary to the withholding provisions of Section 1445 of the Code.

“Former Real Property” means any Real Property formerly owned, leased or operated by any of Sellers or any of their predecessors-in-interest.

“FTC” means the Federal Trade Commission.

“GAAP” means United States generally accepted accounting principles as in effect from time to time.

“Governmental Entity” means any government or any administrative agency or authority, bureau, board, directorate, commission, court, department, office, political subdivision, tribunal, recovery audit contractor or other instrumentality of any government, whether federal, state or local, domestic or foreign.

“Government Reimbursement Programs” means the Medicare program, the Rhode Island Medicaid program, the federal TRICARE program, and any other similar or successor federal or state healthcare payment programs with or sponsored by a Governmental Entity.

“Ground Lease” has the meaning set forth in Section 9.9.

“Ground Lease Property” means any real property that is the subject of a Ground Lease.

“Hazardous Activity” means the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, storage, transfer, transportation, disposal, treatment, use or Remediation of Hazardous Material or Release in, on, under, about or from any of the Facilities or any off-site disposal facilities.

“Hazardous Materials” means: (i) any chemical, substance, material, or waste listed, defined, or classified as a “pollutant,” “contaminant,” “hazardous substance,” “toxic substance,” “solid waste,” “hazardous waste,” “hazardous material,” or “special waste” under any applicable Environmental Law; (ii) any substance regulated under any applicable Environmental Law; (iii) petroleum or any derivative or by-product thereof; (iv) urea formaldehyde foam insulation, polychlorinated biphenyls, methyl tertiary butyl ethyl, radioactive material, or radon; (v) mold; (vi) any “asbestos-containing materials;” and (vii) greenhouse gases.

“HCA” means the Rhode Island Hospital Conversions Act, R.I. Gen. Laws §§ 23-17.14-1, et seq.

“HCFLA” means the Health Care Facility Licensing Act of Rhode Island, R.I. Gen. Laws §§ 23-17-1, et seq.

“Healthcare Program Liabilities” means all Liabilities under any Laws relating to Government Reimbursement Programs, including any obligations for settlement and retroactive adjustments under the Medicare and Medicaid programs for open cost report periods.

“Healthcare Regulatory Consents” means in respect of Sellers or the Company or a Company Subsidiary, as the case may be, such consents, approvals, authorizations, waivers, Orders, licenses or Permits of any Governmental Entity as shall be required to be obtained and such notifications to any Governmental Entity as shall be required to be given by such Party in order for it to consummate the Transactions in compliance with all applicable Laws relating to health care or healthcare services of any kind and shall include obtaining any such consents, approvals, authorizations, waivers, Orders, licenses or Permits from, or notices to, the DAG, DOH and the public in accordance with the HCA and the HCFLA, and CMS.

“Historical Working Capital Position” means the average Net Working Capital (excluding cash and the current portion of long-term debt and Estimated Final Settlements) of Sellers for each of the 12 monthly periods prior to Closing, as of the month end most recently occurring before the Closing Date for which financial statements are available (but in no event as of a month end more than forty-five (45) days prior to the Closing); provided, however, that if the foregoing calculation results in a negative number, the Historical Working Capital Position shall be deemed to be zero (\$0) for purposes of Section 2.9.

“Hospitals” means the hospitals known as (i) Roger Williams Medical Center, located at 825 Chalkstone Avenue, Providence, Rhode Island, and (ii) Our Lady of Fatima Hospital, located at 200 High Service Avenue, North Providence, Rhode Island.

“Immigration Act” means the Immigration and Nationality Act of 1952 and the Immigration Reform and Control Act of 1986.

“Improvements” has the meaning set forth in Section 2.1(a).

“Indebtedness” means all Liabilities of any Seller to any Person for borrowed money, including any loan or credit agreement, notes payable, Capital Lease Obligations, guaranties, letters of credit and similar arrangements, and including all interest, fees, penalties, charges or other amounts thereon.

“Indemnified Person” has the meaning set forth in Section 14.5(a).

“Indemnifying Person” has the meaning set forth in Section 14.5(a).

“Intellectual Property” means any trademarks, trade names, service marks, logos and other source identifiers and all applications, registrations and renewals in connection therewith; computer programs (in object code form and, as to software programs that are Seller Intellectual

Property, the source code therefor); writings, copyrights, and works of authorship (whether or not copyrightable) and all applications, registrations and renewals in connection therewith; data, technology, trade secrets, designs, patents, innovations, discoveries, inventions and improvements (whether or not patentable) and all patent applications and patent disclosures, together with all reissuances, continuations, revisions, extensions and re-examinations thereof; and any other intellectual property.

“Interim Balance Sheet” has the meaning set forth in Section 4.7(a).

“Interim Balance Sheet Date” means July 31, 2013.

“Interim Financial Statements” has the meaning set forth in Section 4.7(a).

“Inventory” means all useable inventories of supplies, pharmaceuticals, food, janitorial and office supplies and other disposables and consumables located at the Facilities or held for use in the Business.

“JV Proceed Deficiency” has the meaning set forth in Section 2.1(z).

“Landlord Estoppels” has the meaning set forth in Section 3.3(e).

“Law” means any federal, state, local, municipal, foreign or other law, common law, statute, ordinance, rule, regulation, requirement, interpretation, judgment, ruling, order or writ of any Governmental Entity, including Medical Reimbursement Program Laws, the Immigration Act and the Antitrust Laws.

“Leased Real Property” has the meaning set forth in Section 2.1(b).

“Leasehold Assignment” means an assignment and assumption of the Leased Real Property, in the form of Exhibit E.

“Leases” means any and all real property leases, subleases, tenancies, concessions, licenses, occupancy agreements or similar agreements (including any and all modifications, amendments, supplements extensions or renewals thereof) to which any Seller is a party with respect to the Facilities, and (subject to the terms of this Agreement) together with refundable deposits and prepaid rent, if any, relating to any of the foregoing.

“Legal Proceeding” means any action, suit, litigation, arbitration, proceeding or claim (whether at law or in equity) before a Governmental Entity or before any arbitrator or mediator or similar party, or any investigation, audit or review by any Governmental Entity.

“Liability” means any debt, liability or obligation (whether direct or indirect, known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, or due or to become due), and including all fines, penalties, costs and expenses relating thereto.

“Limited Power of Attorney” has the meaning set forth in Section 13.10.

“Long-Term Capital Commitment” has the meaning set forth in Section 2.5(b).

“MACs” means Medicare Administrative Contractors.

“Management Group” means the following Employees of Sellers: Kenneth H. Belcher, Otis Brown, Susan Cerrone-Abely, Michael Conklin, Jr., Joanne Dooley, Richard Gamache, Patricia Nadle, Kimberly A. O’Connell and Darleen Souza.

“Mandatory Removal Exceptions” has the meaning set forth in Section 12.1(a).

“Material Adverse Development” means any event, occurrence, condition, change or circumstance that, individually or together with any other event, occurrence, condition, change or circumstance, would be reasonably expected: (a) to have a material adverse impact on the business, operations, property, results of operations or financial condition of the Facilities or the Purchased Assets, taken as a whole, on the one hand, or Prospect, on the other hand (as applicable), including as a result of weather, flood or other natural disasters, whether or not covered by insurance; (b) materially impair the ability of Sellers, on the one hand, or Prospect, the Prospect Member, the Company and the Company Subsidiaries, on the other hand (as applicable), to consummate the Transactions contemplated by, or to perform their obligations under, this Agreement; or (c) materially impair the ability of the Company and the Company Subsidiaries to operate the Business after the Closing in substantially the same manner as Sellers operate the Business as of the date hereof. Notwithstanding the foregoing, a Material Adverse Development shall not include: (i) changes in the financial or operating performance of the Business due to or caused by the announcement of the Transactions contemplated by this Agreement or seasonal changes; (ii) changes or proposed changes to any Law, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or health care facilities; (iii) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities; (iv) general business, industry or economic conditions, including such conditions related to the Parties, that do not disproportionately affect the applicable Parties, taken as a whole; (v) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack, that do not disproportionately affect the applicable Parties, taken as a whole; (vi) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index) that do not disproportionately affect the applicable Parties, taken as a whole; or (vii) changes in GAAP.

“Material Consents” has the meaning set forth in Section 3.3(o).

“Material Contracts” has the meaning set forth in Section 4.12(a).

“Material Indebtedness” means all Indebtedness other than Capital Lease Obligations.

“Medicaid” means the state health insurance program established under Title XIX of the Social Security Act.

“Medical Reimbursement Program Laws” means the Laws governing the Government Reimbursement Programs, including: 42 U.S.C. §§ 1320a-7, 1320a-7a, 1320a-7b and 1395nn; the False Claims Act (31 U.S.C. § 3729 et seq.); the False Statements Act (18 U.S.C. § 1001);

the Program Fraud Civil Penalties Act (31 U.S.C. § 3801 et seq.); the anti-fraud and abuse provisions of the Health Insurance Portability and Accountability Act of 1996 (18 U.S.C. § 1347, 18 U.S.C. § 669, 18 U.S.C. § 1035, 18 U.S.C. § 1518; and the corresponding fraud and abuse, false claims and anti self-referral Laws of any other Governmental Body.

“Medical Staff List” has the meaning set forth in Section 4.20.

“Medicare” means the federal health insurance program for the aged and disabled established under Title XVIII of the Social Security Act.

“Net Working Capital” means the value of Sellers’ Inventory, Accounts Receivable, Transferred Restricted Funds, useable prepaid expenses and deposits which have continuing value to the operations of the Business, less the value of trade accounts payable, accrued expenses (excluding any deferred revenues related to restricted research) and employee benefit accruals (including sick time and vacation); provided, however, that Net Working Capital: (w) shall include the current portion of capital leases; (x) shall not include any Accounts Receivable with respect to Transitional Patient Services; (y) shall not include Estimated Final Settlements; and (z) shall include such items and other adjustments pursuant to the methodology reflected on Annex B hereto, including without limitation an adjustment for all amounts paid by Sellers in connection with terminating Sellers’ outstanding interest rate swaps; provided, further, that, Net Working Capital and its components shall be determined in accordance with GAAP.

“Nonassignable Contract” has the meaning set forth in Section 13.4.

“Non-A/R Bank Accounts” has the meaning set forth in Section 4.28(a).

“Non-Permitted Exceptions” has the meaning set forth in Section 12.1(a).

“Not Financially Viable” means that both of the following are true: (i) over any period of 12 consecutive months, an Essential Service has suffered a cumulative net loss, meaning that the actual aggregate revenue associated with such Essential Service over such 12-month period was less than the actual aggregate expense of providing the Essential Service over such 12-month period (considering direct and indirect facility costs, the costs of obtaining or maintaining the physician support necessary to provide the Essential Service, and capital investments that were required in order for the Essential Service to be provided in accordance with the prevailing standard of care); and (ii) for the subsequent 12-month period immediately thereafter, the Essential Service is projected to suffer a cumulative net loss, meaning that the projected aggregate revenue associated with such Essential Service over such 12-month period (considering anticipated future reimbursement levels and volume, in light of demographics and competitive factors) is anticipated to be less than the projected aggregate expense of providing the Essential Service over such 12-month period (considering direct and indirect facility costs, the costs of obtaining or maintaining the physician support necessary to provide the Essential Service, and the capital investment necessary to continue to provide the Essential Service in accordance with the prevailing standard of care).

“Objection Notice” has the meaning set forth in Section 2.9(c).

“Occupational Safety and Health Law” means any Law designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards, including OSHA, and any program, whether governmental or private (such as those promulgated or sponsored by industry associations and insurance companies), designed to provide safe and healthful working conditions.

“Off-the-Shelf Software” means off-the-shelf operating system, browser and common desktop or server-based office productivity computer software (word processing, spreadsheet, presentation and the like).

“Order” means any order, injunction, judgment, decree, directive, ruling, consent, approval, writ, assessment or arbitration award of a Governmental Entity.

“Ordinary Course of Business” means the ordinary and usual course of normal day-to-day operations of the Business through the date hereof consistent with past practice.

“OSHA” means the Occupational Safety and Health Act, 29 U.S.C. § 651 et seq.

“Our Lady” has the meaning set forth in the introductory paragraph.

“Outside Date” means the one (1)-year anniversary of the date of this Agreement; provided, however, that the Company or Prospect on the one hand, or the Sellers, on the other hand, shall have the right, exercisable upon prior written notice to such other Party, to extend the Outside Date by up to an additional ninety (90) days if the approvals under the HCA and HCFLA are pending as of the time of such exercise.

“Owned Real Property” has the meaning set forth in Section 2.1(a)

“Parties” has the meaning set forth in the introductory paragraph.

“Permit” means any application, approval, license, identification number, permit, franchise, accreditation, registration, waiver or certificate of need of any kind, of any Governmental Entity, but excludes Environmental Permits.

“Permitted Exceptions” has the meaning set forth in Section 12.2.

“Person” means an association, a corporation, a limited liability company, an individual, a partnership, a limited liability partnership, a trust or any other entity or organization, including a Governmental Entity.

“Personal Property” has the meaning set forth in Section 2.1(c).

“PHO” has the meaning set forth in the introductory paragraph.

“Physician Agreements” has the meaning set forth in Section 2.1(f).

“Physicians SMLLC” has the meaning set forth in the introductory paragraph.

“Pre-Closing Permitted Exceptions” has the meaning set forth in Section 4.5(a).

“Private Health Plan Liabilities” means all Liabilities relating to Private Health Plans in connection with reimbursement for the provision of health care services to enrolled or covered beneficiaries.

“Private Health Plans” means insurers, third party payors, health maintenance organizations, preferred provider organizations, third party administrators for self-insured employers and similar arrangements, other than Government Reimbursement Programs, but including those situations where, pursuant to a contract with a Government Reimbursement Program, the Private Health Plan provides coverage under a managed care product to persons obtaining their Medicare, Medicaid, or similar benefits from the Private Health Plan rather than directly from Medicare or Medicaid.

“Prospect” has the meaning set forth in the introductory paragraph.

“Prospect Advance” has the meaning set forth in Section 2.7.

“Prospect Benefit Plans” has the meaning set forth in Section 6.6.

“Prospect Contribution” has the meaning set forth in Section 2.5(a).

“Prospect Member” has the meaning set forth in the introductory paragraph.

“Provider Agreements” has the meaning set forth in Section 2.1(f).

“Purchased Assets” has the meaning set forth in Section 2.1.

“RE Tax Returns” means all Tax Returns, questionnaires, certificates, affidavits and other documents required in connection with the payment of any Transfer Taxes in respect of the Owned Real Property.

“Real Estate Taxes” has the meaning set forth in Section 12.2.

“Real Property” means the Owned Real Property and the Leased Real Property.

“Rejected Physician Agreements” has the meaning set forth in Section 2.1(f).

“Related Venture” and “Related Ventures” mean, individually and collectively (i) Rhode Island PET Services, LLC, a Rhode Island limited liability company, (ii) Roger Williams Radiation Therapy, LLC, a Rhode Island limited liability company, and (iii) Chemosynergy, LLC, a Rhode Island limited liability company.

“Release” means any spilling, leaking, pumping, emitting, emptying, discharging, injecting, escaping, leaching, dumping, migrating, or disposing of Hazardous Materials into the environment, including the ambient air, surface and subsurface soils, surface water and groundwater.

“Remediation” means any investigation, clean-up, removal action, remedial action, restoration, repair, response action, containment, corrective action, monitoring, sampling and

analysis, reclamation, closure, or post-closure activity in connection with the suspected, threatened or actual Release of Hazardous Materials.

“Representatives” means with respect to any Person, any of its Affiliates, directors, trustees, officers, members, shareholders, employees, counsel, accountants, consultants, agents, advisors and other representatives.

“Residents and Fellows List” has the meaning set forth in Section 4.19.

“Retirement Plan” means the St. Joseph Health Services of Rhode Island Retirement Plan.

“Retirement Plan Assets” shall mean the assets, cash and investments of the Retirement Plan.

“Revenue Procedure” has the meaning set forth in Section 8.2(c).

“Rosebank” has the meaning set forth in the introductory paragraph.

“RWMA” has the meaning set forth in the introductory paragraph.

“RWMC” has the meaning set forth in the introductory paragraph.

“RWMC SMLLC” has the meaning set forth in the introductory paragraph.

“RWOB” has the meaning set forth in the introductory paragraph.

“RWRC” has the meaning set forth in the introductory paragraph.

“Second 20-Day Period” has the meaning set forth in Section 2.9(c).

“Seller Indemnified Persons” has the meaning set forth in Section 14.3.

“Seller Intellectual Property” means Intellectual Property that is not Third Party Intellectual Property.

“Seller Member” has the meaning set forth in the Recitals.

“Seller Plans” has the meaning set forth in Section 4.17(a).

“Sellers” has the meaning set forth in the introductory paragraph.

“Sellers’ Cost Reports” has the meaning set forth in Section 13.6.

“Sellers’ Knowledge” (and similar expressions) means the actual knowledge of any member of the Management Group, after making diligent inquiry of those employees of any of Sellers with principal day-to-day operational responsibility with respect to a particular matter.

“Sellers’ Representative” has the meaning set forth in Section 15.9(a).

“Service Contracts” means contractual rights with respect to the operation, maintenance, repair and improvement of the Real Property, including service and maintenance agreements, construction, material and labor contracts, utility agreements and other contractual arrangements, and warranties of any contractor, manufacturer or materialman.

“Settlement Agreement” has the meaning set forth in Section 2.9(c).

“SJHE” has the meaning set forth in the introductory paragraph.

“SJHSRI” has the meaning set forth in the introductory paragraph.

“SJHSRI Locations” has the meaning set forth in Exhibit M.

“SJHSRI SMLLC” has the meaning set forth in the introductory paragraph.

“Special Basket” has the meaning set forth in Section 14.4(a)(iii).

“Survey Update” has the meaning set forth in Section 12.1(a).

“Surveys” means those certain surveys of the Owned Real Property prepared by InSite Engineering Services, LLC, a surveyor registered in the State of Rhode Island, and certified to the Company and to Sellers by such surveyor as having been prepared in accordance with the Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys adopted in 2011, which have been provided by the Company to Sellers.

“Survival Date” has the meaning set forth in Section 14.1(a).

“Tax” means (a) any tax, assessment, duty, fee, levy or similar charge assessed by any Governmental Entity, including any income tax, ad valorem tax, excise tax, escheat or unclaimed property liability, sales tax, use tax, capital tax, franchise tax, real or personal property tax, transfer tax, realty transfer tax, gross receipts tax, withholding tax, social security tax, payroll tax or employment tax, together with and including any and all interest, fines, penalties, assessments and additions to Tax resulting from, relating to or incurred in connection with any of those or any contest or dispute thereof, and (b) any liability of any Person for the payment of the amounts described in clause (a) as a transferee, successor or pursuant to any contractual obligation or pursuant to Treasury Regulations Section 1.1502-6 (or any similar provision of state or local Law).

“Tax Return” means any report, statement, form, return or other document or information supplied or required to be supplied to a Governmental Entity or any other Person in connection with Taxes, including any schedule or attachment thereto and any amendment thereof, and including any return required by an organization exempt from any Tax.

“TCHHS” has the meaning set forth in the introductory paragraph.

“Tenant Estoppels” has the meaning set forth in Section 3.3(c).

“Tenants” means tenants in occupancy of portions of the Real Property as of the Closing under Leases, as listed on the Rent Roll attached as Schedule 4.14(c).

“Third-Party Claim” means a claim by a third-party that is subject to indemnification hereunder.

“Third Party Intellectual Property” has the meaning set forth in Section 4.9(a).

“Title Company” means First American Title Insurance Company.

“Title Notice” has the meaning set forth in Section 12.1(a).

“Transaction” or “Transactions” means the purchase and sale of the Facilities and Purchased Assets, and consummation of the other transactions set forth herein or contemplated hereby.

“Transaction Documents” means this Agreement and the Ancillary Agreements.

“Transfer Taxes” means all transfer, conveyance, documentary, sales, use, stamp, registration, value added and other such Taxes and fees (including any penalties and interest).

“Transferred Employees” has the meaning set forth in Section 8.1(a).

“Transferred Residents and Fellows” has the meaning set forth in Section 8.1(b).

“Transferred Restricted Funds” means, to the extent transferable, and subject to receipt by Sellers of any required third party consents (including, as applicable, approval of the pertinent federal agency, the original donor or the heirs thereof, or a court exercising jurisdiction in a *cy pres* action) as of the Closing Date, all research grant funds and any deferred liabilities associated with such funds and all endowed or donor-restricted funds (whether current or non-current) that have been specifically designated for use by, at or in connection with the operation of the Business.

“Transitional Patient Services” has the meaning set forth in Section 2.1(x).

“TRICARE” means the Department of Defense’s managed healthcare program for active duty military, active duty service families, retirees and their families and other beneficiaries.

“Units” has the meaning set forth in Section 2.6(b).

“UMG” means University Medical Group, Inc., a Rhode Island 501(c)(3) corporation.

“Unpaid Indemnification Amount” has the meaning set forth in Section 14.8.

“Update” has the meaning set forth in Section 12.1(a).

“WARN Act” means the Worker Adjustment and Retraining Notification Act of 1988 and the rules and regulations promulgated thereunder, and any local or state statute, rules or regulations providing for notice in the advance of or benefits of any kind as a result of

employment termination or other employment loss, as defined in the WARN Act or by such local or state statutes.

Exhibit M
Catholicity Standards for Legacy SJHSRI Locations

SJHSRI Locations:

Any and all facilities owned or operated by SJHSRI immediately prior to Closing, including without limitation Our Lady of Fatima Hospital ("SJHSRI Locations").

Standards:

1. Each SJHSRI Location (as defined above) shall be operated in full compliance with the Ethical and Religious Directives for Catholic Health Care Services as promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, Rhode Island (the "Bishop"), as the same may be amended from time to time (the "ERDs"). The Bishop shall be the sole arbiter with respect to matters relating to compliance with the ERDs at the SJHSRI Locations.
2. At Our Lady of Fatima Hospital, the existing chapel shall be maintained in good condition and repair as a Catholic Chapel with the Blessed Sacrament, and the Roman Catholic priest chaplaincy program shall be maintained. Both of the foregoing shall be financially supported from budgeted revenues.
3. The existing signs, symbols and images of Catholic identity at each SJHSRI Location, both interior and exterior to the facilities, shall be maintained and financially supported from budgeted revenues.
4. The Company's chief executive shall meet with the Bishop on an annual basis to report on compliance with the foregoing.
5. Notwithstanding any provision in this Agreement to the contrary, the obligations set forth in this Exhibit M are for the specific benefit of the Bishop. The parties acknowledge and agree that any breach of the foregoing covenants shall cause irreparable harm as to which no adequate remedy at law exists and that the Bishop may seek specific performance and injunctive relief in addition to all other remedies in equity or at law. As provided in Section 15.5(b) of this Agreement, if, in such circumstances, the Bishop is unsuccessful in obtaining specific performance and/or injunctive relief, the Company and the Company Subsidiaries shall, if requested by the Bishop in his sole discretion, cease operating under the names "St. Joseph" or "Our Lady of Fatima" or any other name that implies Catholicity.
6. Notwithstanding the foregoing, no provision of this Agreement shall be effective or enforceable if and to the extent that it may cause the Company or a Company Subsidiary, or any facility owned or operated thereby, to be in violation of applicable law or regulations or to be out of compliance with Medicare or Medicaid certification or participation requirements or The Joint Commission's standards of accreditation. The provision of such laws, regulations or participation criteria shall supersede the covenants set forth in this Exhibit M to the minimum extent necessary to comply with such laws, regulations and participation criteria.

SCHEDULE 2.4

Certain Excluded Liabilities

- All amounts due to related parties of the Sellers
- All amounts due to any third party related to the evaluation, negotiation, or consummation of the transaction described in the Agreement and all ancillary documents
- All third party settlements including all Medicare and Medicaid cost reports, DSH or other settlements for all periods prior to the Closing Date, except as provided in Section 13.6(b)
- All Liabilities related to the Retirement Plan
- All amounts related to Sellers' Taxes
- All Liabilities (including all related reserves recorded on Sellers' financial statements) related to Sellers' medical malpractice, negligence, workers compensation, employment discrimination and employment related liabilities, business or other contractual disputes or general liability claims for acts or failures to act prior to the Closing Date
- All Liabilities related to any Material Indebtedness including principal, interest, SWAPS)
- All other reserves reflected on Sellers' financial statements and the related underlying Liabilities that are not Assumed Liabilities

EXHIBIT 12



ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND
Special-Purpose Consolidated Financial Statements
September 30, 2010 and 2009

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KPMG LLP
8th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Report

Board of Trustees
St. Joseph Health Services of Rhode Island:

We have audited the special-purpose consolidated balance sheet of St. Joseph Health Services of Rhode Island (SJHSRI) as of September 30, 2010, and the related special-purpose consolidated statements of operations and changes in net assets (deficit), and cash flows for the year ended September 30, 2010. These special-purpose consolidated financial statements are the responsibility of the SJHSRI management. Our responsibility is to express an opinion on these special purpose financial statements based on our audit. The consolidated financial statements of SJHSRI as and for the year ended September 30, 2009 were audited by other auditors whose report dated February 25, 2010 expressed an unqualified opinion on those special-purpose consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the SJHSRI's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SJHSRI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 special-purpose consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph Health Services of Rhode Island as of September 30, 2010 and the results of its operations, changes in net assets (deficit), and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

February 18, 2011

KPMG LLP is a Delaware limited liability partnership
and a U.S. member firm of KPMG International Cooperative
(KPMG International), a Swiss entity.

PCEC001522

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Balance Sheets

September 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents (restricted cash of \$1,296,532 in 2010 and \$2,673,243 in 2009)	\$ 7,744,323	14,130,629
Investments	—	640,493
Patient accounts receivable, less allowance for doubtful accounts of \$8,800,400 in 2010 and \$8,460,373 in 2009	16,470,022	20,919,971
Inventories	1,911,052	1,940,884
Prepaid expenses and other current assets	1,911,974	2,944,921
Current portion of funds held by trustee under bond indenture (note 3 and 6)	1,058,095	1,046,865
Current portion of third party receivable (note 2)	2,758,274	—
Amounts due from related parties (note 15)	14,170	—
Total current assets	<u>31,317,910</u>	<u>41,623,763</u>
Assets limited or restricted as to use (note 3, 6, 12 and 13):		
Funds held by trustee under bond indenture	1,625,446	1,625,496
Funds held by trustee for insurance	361,563	1,044,227
Restricted investments:		
Interest in perpetual trusts	5,962,326	5,370,447
By donor	1,213,910	1,262,953
By spending policy	197,072	204,442
Total assets limited or restricted as to use	<u>9,062,317</u>	<u>9,447,565</u>
Property, plant and equipment, net (note 4)	42,992,019	46,118,170
Other assets	737,529	827,787
Total assets	<u>\$ 84,129,975</u>	<u>98,027,285</u>
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,256,059	20,384,584
Current obligations under capital lease (note 6)	1,715,977	1,400,714
Current portion of long-term debt (note 6)	674,796	618,776
Estimated final settlements due to third-party payors (note 2)	1,426,130	1,374,156
Total current liabilities	<u>25,542,886</u>	<u>23,698,227</u>
Capital lease obligations, less current portion (note 6)	1,356,973	2,472,949
Long-term debt, less current portion (note 6)	18,195,754	18,814,380
Pension liability (note 10)	51,074,155	50,871,072
Asset retirement obligations	2,026,795	3,038,454
Insurance and other liabilities	9,512,862	9,254,210
Total liabilities	<u>108,540,402</u>	<u>105,319,292</u>
Commitments and contingencies (notes 6, 7, 10 and 16)		
Net assets (deficit):		
Unrestricted	(2,482,467)	(7,261,664)
Temporarily restricted (notes 2 and 13)	1,196,604	3,876,197
Permanently restricted (notes 2 and 13)	6,878,456	6,377,400
Total net deficit	<u>(24,410,427)</u>	<u>(7,092,007)</u>
Total liabilities and net deficit	<u>\$ 84,129,975</u>	<u>98,027,285</u>

See accompanying notes to special-purpose consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Statements of Operations

Years ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service revenues (notes 2 and 8)	\$ 153,338,486	175,305,996
Net assets released from restrictions for operations	1,764,763	631,916
Other operating revenues	6,531,515	5,819,126
Total operating revenues	<u>161,634,764</u>	<u>181,757,038</u>
Operating expenses (note 14):		
Employee compensation and benefits	103,895,335	104,402,235
Supplies and other	51,721,611	52,155,418
License fee (note 9)	7,932,954	8,352,297
Interest	1,215,287	1,322,812
Depreciation, amortization and accretion	6,050,733	6,117,629
Provision for bad debts	10,810,416	12,658,529
Total operating expenses	<u>181,626,316</u>	<u>185,008,920</u>
Deficiency of revenues over expenses	<u>(19,971,552)</u>	<u>(3,251,882)</u>
Other changes in unrestricted net assets:		
Change in net unrealized (losses) gains on investments	(6,385)	35,130
Adjustment to pension liability (note 10)	3,056,263	(15,523,033)
Effect of the adoption of the pension measurement provisions of ASC 715 (note 10)	—	(872,500)
Funds released from temporarily restricted net assets for purchase of property, plant, and equipment	2,180,811	440,745
Decrease in unrestricted net assets	<u>\$ (14,250,863)</u>	<u>(19,171,540)</u>

See accompanying notes to special-purpose consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Statements of Cash Flows

Years ended September 30, 2009 and 2009

	2010	2009
Cash flows from operating activities:		
Decrease in net assets	\$ (17,118,420)	(18,182,552)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,850,914	5,948,267
Loss on disposal		
Accretion for asset retirement obligation costs	185,799	163,296
Amortization of deferred financing costs	14,019	13,307
Accretion of original issue discount	19,898	18,988
Net realized and unrealized gains on investments	(2,305)	(39,987)
Change in market value of perpetual trusts	(292,079)	145,579
Provision for bad debts	10,810,416	12,658,329
Adjustment to pension liability	(3,056,263)	16,395,553
Changes in operating assets and liabilities:		
Patient accounts receivable	(6,310,467)	(13,223,098)
Other current assets and other assets	1,110,932	1,934,517
Accounts payable, accrued expenses and other liabilities	8,135,016	11,742,877
Estimated final settlements due to third-party payors	(2,206,300)	(6,827,256)
Net cash (used in) provided by operating activities	<u>(2,858,840)</u>	<u>9,848,000</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,724,263)	(7,171,624)
Purchases of investments	—	134,025
Sales of investments	1,326,780	7,727,914
Advances to related parties	(14,170)	—
Net cash (used in) provided by investing activities	<u>(1,412,153)</u>	<u>541,865</u>
Cash flows from financing activities:		
Repayment of long-term debt and capital leases	(2,115,313)	(2,062,289)
Net cash used in financing activities	<u>(2,115,313)</u>	<u>(2,062,289)</u>
Net change in cash and cash equivalents	<u>(6,386,300)</u>	<u>8,327,576</u>
Cash and cash equivalents at beginning of year	<u>14,130,625</u>	<u>5,803,053</u>
Cash and cash equivalents at end of year	<u>\$ 7,744,323</u>	<u>14,130,629</u>

See accompanying notes to special-purpose consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND
 Special-Purpose Consolidated Financial Statements
 September 30, 2010 and 2009

Uncompensated care (charity care and bad debt) totaled approximately \$18,249,000 and \$18,113,000 for the years ended September 30, 2010 and 2009, respectively.

(9) License Fee

The State of Rhode Island assesses a license fee to all Rhode Island hospitals based on each Hospital's gross patient service revenue. The 2010 fee is based on 2008 gross patient service revenue. The 2009 fee is based on 2007 gross patient revenue. SJHSRI's license fee expense was \$7,932,934 and \$8,352,297 for each of the years ended September 30, 2010 and 2009.

(10) Pension Plan

SJHSRI has a defined benefit pension plan which covers substantially all of the SJHSRI's employees. Plan participants' benefits are computed as a percentage of final average earnings (five highest consecutive rates of annual earnings over the last ten years of employment) less a percentage of Social Security benefits, proportionately reduced for services less than 30 years.

Effective October 1, 2007, SJHSRI froze participation in the defined benefit pension plan for all new Nonunion and Federation of Nurses and Healthcare Professionals (FNHP) Bargaining Unit employees. In addition on October 1, 2008, SJHSRI froze participation for all new hires in the United Nurses and Allied Health Professionals (UNAP) Bargaining Unit. These new employees will be eligible to participate in a 403(b) defined contribution plan once certain requirements are met.

On September 30, 2009, the Board of Trustees of SJHSRI adopted a resolution to freeze the Plan for all nonunion employees effective September 30, 2009. As a result of this resolution to freeze the Plan, unrecognized prior service costs were reduced resulting in a curtailment loss of \$1,639,940. This loss is included in salaries and benefits expense in the accompanying special-purpose consolidated statements of operations for the year ended September 30, 2009. All nonunion employees will be eligible to participate in a 403(b) defined contribution pension plan that carries a matching formula if certain criteria are met.

The components of the net periodic benefit cost for the plan for the years ended September 30, 2010 and 2009 are as follows:

	2010	2009
Service cost	\$ 1,813,071	3,059,713
Interest cost	7,962,618	8,179,787
Expected return on plan assets	(9,276,451)	(8,827,093)
Prior service cost amortization	219,477	362,761
Amortization of actuarial loss	1,372,651	514,838
Net periodic cost	\$ 3,189,346	3,289,997

(Continued)

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

The weighted average assumptions used to determine net periodic benefit cost as of September 30, 2010 and 2009, are as follows:

	2010	2009
Discount rates	5.58%	6.25%
Rates of increase in future compensation levels	2.50	3.50
Expected long-term rate of return on plan assets	8.75	8.75

A reconciliation of the changes in SJHSRI Retirement Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2010 and 2009, and a statement of funded status of the Plans as of September 30 for both years, follows:

	2010	2009
Changes in benefit obligations:		
Projected benefit obligations at beginning of year	\$ 136,905,485	132,262,854
Service cost	1,813,077	3,821,641
Interest cost	7,062,618	10,274,754
Benefits paid	(5,663,347)	(6,233,745)
Effect of curtailment	—	(16,714,817)
Experience (gain) loss	(299,137)	13,541,818
Projected benefit obligation at end of year	\$ 139,818,590	136,905,485
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 86,034,417	102,917,252
Actual return on plan assets	8,745,369	(10,619,094)
Benefits paid	(5,663,447)	(6,233,745)
Fair value of plan assets at end of year	\$ 88,814,435	85,654,413
Funded status:		
Funded status of the plan	\$ (51,004,155)	(50,871,072)
Accumulated benefit obligation	138,640,356	126,218,962

The weighted average assumptions used to determine the pension benefit obligation at September 30, 2010 and 2009, are as follows:

	2010	2009
Discount rates	5.58%	6.25%
Rates of increase in future compensation levels	2.50	3.50
Expected long-term rate of return on plan assets	8.75	8.75

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

Included in unrestricted net assets at September 30, 2010 and 2009, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: prior service cost of \$829,010 and \$1,048,487 and unrecognized actuarial losses of \$35,180,658 and \$38,017,444. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2011, are \$219,477 and \$1,703,631 respectively.

Plan Assets

The primary investment objective of SJHSRI defined benefit pension plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan.

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and provide liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.0%, over a long-term horizon.

The Plan aims to diversify its holdings among sectors, industries and companies.

A periodic review is performed of the Plan's investment in various asset classes. The current asset allocation target is 56% equities, 24% fixed income, and 20% alternative investments.

Plan asset allocations at September 30, 2010 and 2009, by asset category are as follows:

	Plan assets at September 30	
	2010	2009
Marketable equity securities	\$ 56%	59%
U.S. government obligations and corporate bonds	18	26
Other	26	15
Total	\$ 100%	100%

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

The following tables summarize SJHSRI investments in the Plan by major category in the fair value hierarchy as of September 30, 2010 and 2009, as well as related strategy, liquidity and funding commitments:

	September 30, 2010			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 158,303	—	—	158,303
Money market funds	4,647,331	—	—	4,647,331
Mutual funds:				
Domestic equities	—	28,903,499	—	28,903,499
Fixed income	5,750,896	—	—	5,750,896
International equities	9,413,096	—	—	9,413,096
Fixed income securities:				
U.S. Treasuries	6,427,762	346,067	—	6,773,829
Asset backed	—	890,055	—	890,055
Other	—	921,810	—	921,810
Bonds:				
Asset backed corporate bonds	—	2,001,756	—	2,001,756
Municipal bonds	—	462,995	—	462,995
Corporate bonds	—	5,114,174	—	5,114,174
International bonds	—	1,644,817	—	1,644,817
Multi-strategy hedge funds	—	12,066,421	9,135,453	22,131,874
Total	\$ 26,397,388	53,281,594	9,135,453	88,814,435

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2010:

	Fair value measurements using significant unobservable inputs	
	Multi-strategy hedge funds	Total
Fair value at October 1, 2009	\$ —	—
Purchases	9,051,104	9,051,104
Net realized and unrealized gains	84,288	84,288
Fair value at September 30, 2010	\$ 9,135,453	9,135,453

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

	September 30, 2009			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 223,544	—	—	223,544
Money market funds	6,367,533	—	—	6,367,533
Mutual funds:				
Domestic equities	—	30,102,761	—	30,102,761
Fixed income	4,949,576	—	—	4,949,576
International equities	8,511,895	—	—	8,511,895
Fixed income securities:				
U.S. Treasuries	10,242,849	766,897	—	11,009,746
Asset backed	—	777,756	—	777,756
Other	—	795,837	—	795,837
Bonds:				
Asset backed corporate bonds	—	1,212,763	—	1,212,763
Municipal bonds	—	271,276	—	271,276
Corporate bonds	—	8,865,628	—	8,865,628
International bonds	—	1,297,382	—	1,297,382
Private equity and venture capital funds	—	11,648,716	—	11,648,716
Total	\$ 30,295,397	55,739,016	—	86,034,413

U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 2 because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 are fixed incomes securities or consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of SJHSRI interest therein, the level in which a fund's fair value measurement is classified is based on the SJHSRI's ability to redeem its interest at or near the date of the special-purpose consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Special-Purpose Consolidated Financial Statements

September 30, 2010 and 2009

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid during the fiscal year ending September 30:

Fiscal year:	Pension benefits
2011	\$ 5,654,000
2012	5,958,000
2013	6,339,000
2014	6,716,000
2015	7,150,000
Years 2016 – 2020	42,387,000

In September 2006, the FASB issued ASC 715, *Compensation—Retirement Benefits*. ASC 715 requires an employer without publicly traded equity securities to adopt the requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position, and is effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of ASC 715 increased the net pension liability and decreased unrestricted net assets as of September 30, 2009 by \$872,500.

(11) Concentrations of Credit Risk

Financial instruments that potentially subject SJHSRI to concentration of credit risk consist of patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry or with any single counterparty. See notes 3 and 9.

SJHSRI’s receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Managed Care Payers (Blue Cross of Rhode Island and United Healthcare). Revenue from self pay and third-party payors are as follows:

	2010	2009
Medicare	51%	50%
Managed care	24	25
Medicaid	16	15
Self pay	4	4
Other	5	6
	100%	100%

EXHIBIT 13



ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Auditors' Reports as Required by Office of Management and Budget (OMB)
Circular A-133 and *Government Auditing Standards* and Related Information

September 30, 2010

(With Independent Auditors' Report Thereon)

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Auditors' Reports as Required by Office of Management and Budget (OMB)
Circular A-133 and *Government Auditing Standards* and Related Information

September 30, 2010

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Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	Exhibit III
Schedule of Findings and Questioned Costs	Exhibit IV



KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Exhibit I

**Auditors' Report on Consolidated Financial Statements and
Supplementary Schedule of Expenditures of Federal Awards**

The Board of Directors
St. Joseph Health Services of Rhode Island:

We have audited the consolidated balance sheet of St. Joseph Health Services of Rhode Island (SJHSRI) as of September 30, 2010, and the related consolidated statements of operations, changes in net assets (deficit), and cash flows for the year ended September 30, 2010. These consolidated financial statements are the responsibility of the SJHSRI management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of SJHSRI as of and for the year ended September 30, 2009 were audited by other auditors whose report dated February 25, 2010 expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the SJHSRI's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SJHSRI as of September 30, 2010, and the results of their operations, changes in net assets (deficit), and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2011 on our consideration of the SJHSRI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2010 audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2010 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic 2010 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2010 consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 2010 consolidated financial statements taken as a whole.

KPMG LLP

February 18, 2011

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KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

PCEC001403

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Balance Sheets

September 30, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
Current assets:		
Cash and cash equivalents (restricted cash of \$1,296,532 in 2010 and \$2,673,243 in 2009)	\$ 7,744,323	14,130,629
Investments	—	640,493
Patient accounts receivable, less allowance for doubtful accounts of \$8,800,400 in 2010 and \$8,460,373 in 2009	16,420,022	20,919,971
Inventories	1,911,052	1,940,884
Prepaid expenses and other current assets	1,911,974	2,944,921
Current portion of funds held by trustee under bond indenture (note 3 and 6)	1,058,095	1,046,865
Current portion of third party receivable (note 2)	2,258,274	—
Amounts due from related parties (note 15)	14,170	—
Total current assets	<u>31,317,910</u>	<u>41,623,763</u>
Assets limited or restricted as to use (note 3, 6, 12 and 13):		
Funds held by trustee under bond indenture	1,625,446	1,625,496
Funds held by trustee for insurance	361,563	1,044,227
Restricted investments:		
Interest in perpetual trusts	5,662,526	5,370,447
By donor	1,215,910	1,202,953
By spending policy	197,072	204,442
Total assets limited or restricted as to use	<u>9,062,517</u>	<u>9,447,565</u>
Property, plant and equipment, net (note 4)	42,992,019	46,118,170
Other assets	757,529	837,787
Total assets	<u>\$ 84,129,975</u>	<u>98,027,285</u>
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,266,059	20,384,584
Current obligations under capital lease (note 6)	1,215,977	1,490,711
Current portion of long-term debt (note 6)	634,720	618,776
Estimated final settlements due to third-party payors (note 2)	1,426,130	1,374,156
Total current liabilities	<u>25,542,886</u>	<u>23,868,227</u>
Capital lease obligations, less current portion (note 6)	1,256,973	2,472,949
Long-term debt, less current portion (note 6)	18,193,731	18,814,380
Pension liability (note 10)	51,004,155	50,871,072
Asset retirement obligations	3,029,795	3,038,454
Insurance and other liabilities	9,512,862	6,254,210
Total liabilities	<u>108,540,402</u>	<u>105,319,292</u>
Commitments and contingencies (notes 6, 7, 10 and 16)		
Net assets (deficit):		
Unrestricted	(32,482,467)	(17,741,604)
Temporarily restricted (notes 2 and 13)	1,193,604	3,876,197
Permanently restricted (notes 2 and 13)	6,878,436	6,573,400
Total net deficit	<u>(24,410,427)</u>	<u>(7,292,007)</u>
Total liabilities and net deficit	<u>\$ 84,129,975</u>	<u>98,027,285</u>

See accompanying notes to consolidated financial statements.

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Operations

Years ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Net patient service revenues (notes 2 and 8)	\$ 153,358,486	175,305,996
Net assets released from restrictions for operations	1,764,763	631,916
Other operating revenues	<u>6,531,515</u>	<u>5,819,126</u>
Total operating revenues	<u>161,654,764</u>	<u>181,757,038</u>
Operating expenses (note 14):		
Employee compensation and benefits	103,895,335	104,402,235
Supplies and other	51,721,611	52,155,418
License fee (note 9)	7,932,934	8,352,297
Interest	1,215,287	1,322,812
Depreciation, amortization and accretion	6,050,733	6,117,629
Provision for bad debts	<u>10,810,416</u>	<u>12,658,529</u>
Total operating expenses	<u>181,626,316</u>	<u>185,008,920</u>
Deficiency of revenues over expenses	<u>(19,971,552)</u>	<u>(3,251,882)</u>
Other changes in unrestricted net assets:		
Change in net unrealized (losses) gains on investments	(6,385)	35,130
Adjustment to pension liability (note 10)	3,056,263	(15,523,033)
Effect of the adoption of the pension measurement provisions of ASC 715 (note 10)	—	(872,500)
Funds released from temporarily restricted net assets for purchase of property, plant, and equipment	<u>2,180,811</u>	<u>440,745</u>
Decrease in unrestricted net assets	<u>\$ (14,740,863)</u>	<u>(19,171,540)</u>

See accompanying notes to consolidated financial statements.

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Cash Flows
Years ended September 30, 2009 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (17,118,420)	(18,182,552)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,850,914	5,948,267
Loss on disposal		
Accretion for asset retirement obligation costs	185,799	163,296
Amortization of deferred financing costs	14,019	13,307
Accretion of original issue discount	19,898	18,988
Net realized and unrealized gains on investments	(2,305)	(39,987)
Change in market value of perpetual trusts	(292,079)	145,579
Provision for bad debts	10,810,416	12,658,529
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Other current assets and other assets	1,110,932	1,034,517
Accounts payable, accrued expenses and other liabilities	8,135,016	11,742,877
Estimated final settlements due to third-party payors	(2,206,300)	(6,827,256)
Net cash (used in) provided by operating activities	<u>(2,858,840)</u>	<u>9,848,000</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,724,763)	(7,171,624)
Purchases of investments	—	(14,425)
Sales of investments	1,326,780	7,727,914
Advances to related parties	(14,170)	—
Net cash (used in) provided by investing activities	<u>(1,412,153)</u>	<u>541,865</u>
Cash flows from financing activities:		
Repayment of long-term debt and capital leases	(2,115,313)	(2,062,289)
Net cash used in financing activities	<u>(2,115,313)</u>	<u>(2,062,289)</u>
Net change in cash and cash equivalents	(6,386,306)	8,327,576
Cash and cash equivalents at beginning of year	14,130,629	5,803,053
Cash and cash equivalents at end of year	\$ <u>7,744,323</u>	<u>14,130,629</u>

See accompanying notes to consolidated financial statements.

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

Uncompensated care (charity care and bad debt) totaled approximately \$18,249,000 and \$18,113,000 for the years ended September 30, 2010 and 2009, respectively.

(9) License Fee

The State of Rhode Island assesses a license fee to all Rhode Island hospitals based on each Hospital's gross patient service revenue. The 2010 fee is based on 2008 gross patient service revenue. The 2009 fee is based on 2007 gross patient revenue. SJHSRI's license fee expense was \$7,932,934 and \$8,352,297 for each of the years ended September 30, 2010 and 2009.

(10) Pension Plan

SJHSRI has a defined benefit pension plan which covers substantially all of the SJHSRI's employees. Plan participants' benefits are computed as a percentage of final average earnings (five highest consecutive rates of annual earnings over the last ten years of employment) less a percentage of Social Security benefits, proportionately reduced for services less than 30 years.

Effective October 1, 2007, SJHSRI froze participation in the defined benefit pension plan for all new Nonunion and Federation of Nurses and Healthcare Professionals (FNHP) Bargaining Unit employees. In addition on October 1, 2008, SJHSRI froze participation for all new hires in the United Nurses and Allied Health Professionals (UNAP) Bargaining Unit. These new employees will be eligible to participate in a 403(b) defined contribution plan once certain requirements are met.

On September 30, 2009, the Board of Trustees of SJHSRI adopted a resolution to freeze the Plan for all nonunion employees effective September 30, 2009. As a result of this resolution to freeze the Plan, unrecognized prior service costs were reduced resulting in a curtailment loss of \$1,639,940. This loss is included in salaries and benefits expense in the accompanying consolidated statements of operations for the year ended September 30, 2009. All nonunion employees will be eligible to participate in a 403(b) defined contribution pension plan that carries a matching formula if certain criteria are met.

The components of the net periodic benefit cost for the plan for the years ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 1,813,071	3,059,713
Interest cost	7,062,618	8,179,787
Expected return on plan assets	(7,278,451)	(8,827,098)
Prior service cost amortization	219,477	562,761
Amortization of actuarial loss	1,372,631	514,834
Net periodic cost	<u>\$ 3,189,346</u>	<u>3,489,997</u>

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

The weighted average assumptions used to determine net periodic benefit cost as of September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Discount rates	5.58%	6.25%
Rates of increase in future compensation levels	2.50	3.50
Expected long-term rate of return on plan assets	8.75	8.75

A reconciliation of the changes in SJHSRI Retirement Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2010 and 2009, and a statement of funded status of the Plans as of September 30 for both years, follows:

	<u>2010</u>	<u>2009</u>
Changes in benefit obligations:		
Projected benefit obligations at beginning of year	\$ 136,905,485	132,262,854
Service cost	1,813,071	3,824,641
Interest cost	7,062,618	10,224,734
Benefits paid	(5,663,447)	(6,233,745)
Effect of curtailment	—	(16,714,817)
Experience (gain) loss	(299,137)	13,541,818
Projected benefit obligation at end of year	<u>\$ 139,818,590</u>	<u>136,905,485</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 86,034,413	102,917,252
Actual return on plan assets	8,443,469	(10,649,094)
Benefits paid	(5,663,447)	(6,233,745)
Fair value of plan assets at end of year	<u>\$ 88,814,435</u>	<u>86,034,413</u>
Funded status:		
Funded status of the plan	\$ (51,004,155)	(50,871,072)
Accumulated benefit obligation	138,640,856	126,218,962

The weighted average assumptions used to determine the pension benefit obligation at September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Discount rates	\$ 5.00%	5.58%
Rates of increase in future compensation levels	2.50	3.50
Expected long-term rate of return on plan assets	8.75	8.75

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

Included in unrestricted net assets at September 30, 2010 and 2009, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: prior service cost of \$829,010 and \$1,048,487 and unrecognized actuarial losses of \$35,180,658 and \$38,017,444. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2011, are \$219,477 and \$1,703,631 respectively.

Plan Assets

The primary investment objective of SJHSRI defined benefit pension plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan.

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and provide liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.0%, over a long-term horizon.

The Plan aims to diversify its holdings among sectors, industries and companies.

A periodic review is performed of the Plan's investment in various asset classes. The current asset allocation target is 56% equities, 24% fixed income, and 26% alternative investments.

Plan asset allocations at September 30, 2010 and 2009, by asset category are as follows:

	Plan assets at September 30	
	2010	2009
Marketable equity securities	\$ 56%	59%
U.S. government obligations and corporate bonds	18	26
Other	26	15
Total	\$ 100%	100%

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

The following tables summarize SJHSRI investments in the Plan by major category in the fair value hierarchy as of September 30, 2010 and 2009, as well as related strategy, liquidity and funding commitments:

	September 30, 2010			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 158,303	—	—	158,303
Money market funds	4,647,331	—	—	4,647,331
Mutual funds:				
Domestic equities	—	28,903,499	—	28,903,499
Fixed income	5,750,896	—	—	5,750,896
International equities	9,413,096	—	—	9,413,096
Fixed income securities:				
U.S. Treasuries	6,427,762	346,067	—	6,773,829
Asset backed	—	890,055	—	890,055
Other	—	921,810	—	921,810
Bonds:				
Asset backed corporate bonds	—	2,001,756	—	2,001,756
Municipal bonds	—	462,995	—	462,995
Corporate bonds	—	5,114,174	—	5,114,174
International bonds	—	1,644,817	—	1,644,817
Multi-strategy hedge funds	—	12,996,421	9,135,453	22,131,874
Total	\$ 26,397,388	53,281,594	9,135,453	88,814,435

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30, 2010:

	Fair value measurements using significant unobservable inputs	
	Multi-strategy hedge funds	Total
Fair value at October 1, 2009	\$ —	—
Purchases	9,051,165	9,051,165
Net realized and unrealized gains	84,288	84,288
Fair value at September 30, 2010	\$ 9,135,453	9,135,453

Exhibit I

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

	September 30, 2009			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 223,544	—	—	223,544
Money market funds	6,367,533	—	—	6,367,533
Mutual funds:	—	—	—	—
Domestic equities	—	30,102,761	—	30,102,761
Fixed income	4,949,576	—	—	4,949,576
International equities	8,511,895	—	—	8,511,895
Fixed income securities:				
U.S. Treasuries	10,242,849	766,897	—	11,009,746
Asset backed	—	777,756	—	777,756
Other	—	795,837	—	795,837
Bonds:				
Asset backed corporate bonds	—	1,212,763	—	1,212,763
Municipal bonds	—	271,276	—	271,276
Corporate bonds	—	8,865,628	—	8,865,628
International bonds	—	1,297,382	—	1,297,382
Private equity and venture capital funds	—	11,648,716	—	11,648,716
Total	\$ 30,295,397	55,739,016	—	86,034,413

U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 2 because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 are fixed incomes securities or consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of SJHSRI interest therein, the level in which a fund's fair value measurement is classified is based on the SJHSRI's ability to redeem its interest at or near the date of the consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2010 and 2009

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid during the fiscal year ending September 30:

Fiscal year:	<u>Pension benefits</u>
2011	\$ 5,654,000
2012	5,958,000
2013	6,339,000
2014	6,716,000
2015	7,130,000
Years 2016 – 2020	42,387,000

In September 2006, the FASB issued ASC 715, *Compensation—Retirement Benefits*. ASC 715 requires an employer without publicly traded equity securities to adopt the requirement to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position, and is effective for fiscal years ending after December 15, 2008. The adoption of the measurement provisions of ASC 715 increased the net pension liability and decreased unrestricted net assets as of September 30, 2009 by \$872,500.

(11) Concentrations of Credit Risk

Financial instruments that potentially subject SJHSRI to concentration of credit risk consist of patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry or with any single counterparty. See notes 3 and 9.

SJHSRI’s receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Managed Care Payors (Blue Cross of Rhode Island and United Healthcare). Revenue from self pay and third-party payors are as follows:

	<u>2010</u>	<u>2009</u>
Medicare	51%	50%
Managed care	24	25
Medicaid	16	15
Self pay	4	4
Other	5	6
	<u>100%</u>	<u>100%</u>

EXHIBIT 14



ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2011 and 2010

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KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Report

Board of Trustees
St. Joseph Health Services of Rhode Island:

We have audited the consolidated balance sheets of St. Joseph Health Services of Rhode Island (SJHSRI) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of SJHSRI management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SJHSRI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph Health Services of Rhode Island as of September 30, 2011 and 2010 and the results of its operations, changes in net assets (deficit), and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 6, 2012

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"KPMG International"), a Swiss entity.

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ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Balance Sheets

September 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents (restricted cash of \$926,204 in 2011 and \$996,532 in 2010)	\$ 5,765,741	7,744,323
Patient accounts receivable, less allowance for doubtful accounts of \$9,050,100 in 2011 and \$8,800,400 in 2010	14,292,230	16,420,022
Inventories	1,654,851	1,911,052
Prepaid expenses and other current assets	2,648,655	1,911,974
Current portion of funds held by trustee under bond indenture (note 3 and 5)	1,113,661	1,058,095
Current portion of third party receivable (note 2)	—	2,258,274
Amounts due from related parties (note 14)	—	14,170
Total current assets	<u>27,475,138</u>	<u>31,317,910</u>
Assets limited or restricted as to use (note 3, 5, 11 and 12):		
Funds held by trustee under bond indenture	1,584,471	1,625,446
Funds held by trustee for insurance	305,338	361,563
Restricted investments:		
Interest in perpetual trusts	5,460,375	5,662,536
By donor	1,249,311	1,215,910
By spending policy	181,292	197,072
Total assets limited or restricted as to use	<u>8,780,787</u>	<u>9,062,517</u>
Property, plant and equipment, net (note 4)	38,868,011	42,992,014
Amounts due from related parties (note 14)	340,161	—
Other assets	894,259	757,529
Total assets	<u>\$ 76,358,356</u>	<u>\$ 84,129,975</u>
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,144,250	22,266,059
Amounts due to related parties (note 14)	186,267	—
Current obligations under capital lease (note 5)	1,338,190	1,215,977
Current portion of long-term debt (note 5)	543,334	634,720
Estimated final settlements due to third-party payors (note 2)	2,635,533	1,426,130
Total current liabilities	<u>27,847,483</u>	<u>25,542,886</u>
Capital lease obligations, less current portion (note 5)	324,852	1,256,971
Long-term debt, less current portion (note 5)	17,730,776	18,193,751
Pension liability (note 9)	12,228,987	11,004,155
Asset retirement obligations	3,115,622	3,029,795
Insurance and other liabilities	8,345,889	9,512,867
Total liabilities	<u>129,593,609</u>	<u>108,540,402</u>
Commitments and contingencies (notes 5, 6 and 15)		
Net assets (deficit):		
Unrestricted	(61,161,763)	(23,482,467)
Temporarily restricted (notes 2 and 12)	1,102,496	1,193,604
Permanently restricted (notes 2 and 12)	6,289,012	6,378,464
Total net deficit	<u>(53,235,253)</u>	<u>(24,410,427)</u>
Total liabilities and net deficit	<u>\$ 76,358,356</u>	<u>\$ 84,129,975</u>

See accompanying notes to consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Operations

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Net patient service revenues (notes 2 and 7)	\$ 152,076,930	153,358,486
Net assets released from restrictions for operations	357,636	1,764,763
Other operating revenues	<u>4,854,293</u>	<u>6,531,515</u>
Total operating revenues	<u>157,288,859</u>	<u>161,654,764</u>
Operating expenses (note 13):		
Employee compensation and benefits	97,918,034	103,895,335
Supplies and other	44,858,058	51,721,611
License fee (note 8)	8,377,921	7,932,934
Interest	1,141,164	1,229,306
Depreciation, amortization and accretion	6,065,460	6,036,714
Write-down of assets	1,387,282	
Provision for bad debts	<u>9,311,524</u>	<u>10,810,416</u>
Total operating expenses	<u>169,059,443</u>	<u>181,626,316</u>
Deficiency of revenues over operating expenses	(11,770,584)	(19,971,552)
Other changes in unrestricted net assets:		
Change in net unrealized losses on investments	—	(6,385)
Adjustment to pension liability (note 9)	(17,367,763)	3,056,263
Funds released from temporarily restricted net assets for purchase of property, plant, and equipment	<u>519,051</u>	<u>2,180,811</u>
Decrease in unrestricted net assets	<u>\$ (28,619,296)</u>	<u>(14,740,863)</u>

See accompanying notes to consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Cash Flows

Years ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Decrease in net assets	\$ (28,865,045)	(17,118,420)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,935,530	5,850,914
Loss on disposal	35,933	—
Write-down of assets	1,387,282	—
Accretion for asset retirement obligation costs	93,996	185,799
Amortization of deferred financing costs	14,816	14,019
Accretion of original issue discount	19,898	19,898
Net realized and unrealized gains on investments	—	(2,305)
Change in market value of perpetual trusts	242,370	(392,079)
Provision for bad debts	9,311,524	10,810,416
Adjustment to pension liability	17,367,763	(3,056,263)
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,183,732)	(6,310,467)
Other current assets and other assets	(632,027)	1,110,932
Accounts payable, accrued expenses and other liabilities	3,560,116	8,135,016
Estimated final settlements due to third-party payors	3,467,677	(2,206,309)
Net cash provided by (used in) operating activities	<u>2,756,101</u>	<u>(2,858,840)</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(2,792,737)	(2,724,763)
Sales of investments	24,014	1,326,780
Advances to related parties	(139,724)	(14,170)
Net cash used in investing activities	<u>(2,908,447)</u>	<u>(1,412,153)</u>
Cash flows from financing activities:		
Repayment of long-term debt and capital leases	(1,826,236)	(2,115,313)
Net cash used in financing activities	<u>(1,826,236)</u>	<u>(2,115,313)</u>
Net change in cash and cash equivalents	<u>(1,978,582)</u>	<u>(6,386,306)</u>
Cash and cash equivalents at beginning of year	7,744,323	14,130,629
Cash and cash equivalents at end of year	\$ <u>5,765,741</u>	<u>7,744,323</u>
Supplemental disclosure:		
Capital expenditures financed through capital leases	\$ 442,000	—
Interest paid	1,156,545	1,229,057

See accompanying notes to consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Charity care is measured using established charge rates and represented approximately \$11,116,000 and \$7,438,000 in charges foregone for the years ended September 30, 2011 and 2010, respectively.

Uncompensated care (charity care and bad debt) totaled approximately \$20,428,000 and \$18,249,000 for the years ended September 30, 2011 and 2010, respectively.

(8) License Fee

The State of Rhode Island assesses a license fee to all Rhode Island hospitals based on each Hospital's gross patient service revenue. The 2011 fee is based on 2009 gross patient service revenue. The 2010 fee is based on 2008 gross patient revenue. SJHSRI's license fee expense was \$8,377,921 and \$7,932,934 for each of the years ended September 30, 2011 and 2010.

(9) Pension Plan

SJHSRI has a defined benefit pension plan which covers substantially all of the SJHSRI's employees. The Plan is a nonselecting church plan under the Internal Revenue Service and is not subject to the participation, vesting, and provisions of the Internal Revenue Service code. Plan participants' benefits are computed as a percentage of final average earnings (five highest consecutive rates of annual earnings over the last ten years of employment) less a percentage of Social Security benefits, proportionately reduced for services less than 30 years.

Effective October 1, 2007, SJHSRI froze participation in the defined benefit pension plan for all new Non-Union and Federation of Nurses and Healthcare Professionals (FNHP) Bargaining Unit employees. In addition on October 1, 2008, SJHSRI froze participation for all new hires in the United Nurses and Allied Health Professionals (UNAP) Bargaining Unit. These new employees will be eligible to participate in a 403(b) defined contribution plan once certain requirements are met. All nonunion employees will be eligible to participate in a 403(b) defined contribution pension plan that carries a matching formula if certain criteria are met. Effective September 30, 2009, benefits for nonunion participants were frozen. Lastly, benefits for union participants who are covered under the collective bargaining agreement with the Federation of Nurses and Health Professionals were frozen effective September 30, 2011.

The components of the net periodic benefit cost for the plan for the years ended September 30, 2011 and 2010 are as follows:

	2011	2010
Service cost	\$ 1,821,091	\$ 1,813,171
Interest cost	6,096,676	7,062,618
Expected return on plan assets	(7,108,473)	(7,278,454)
Prior service cost amortization	219,377	219,377
Amortization of actuarial loss	1,925,295	1,372,631
Net periodic cost	\$ 3,857,067	\$ 3,189,346

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

The weighted average assumptions used to determine net periodic benefit cost as of September 30, 2011 and 2010, are as follows:

	<u>2011</u>	<u>2010</u>
Discount rates	5.00%	5.58%
Rates of increase in future compensation levels	2.50	2.50
Expected long-term rate of return on plan assets	8.25	8.75

A reconciliation of the changes in SJHSRI Retirement Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2011 and 2010, and a statement of funded status of the Plans as of September 30 for both years, follows:

	<u>2011</u>	<u>2010</u>
Changes in benefit obligations:		
Projected benefit obligations at beginning of year	\$ 139,818,590	136,905,485
Service cost	1,821,091	1,813,071
Interest cost	6,996,676	7,062,618
Benefits paid	(5,982,156)	(5,663,447)
Actuarial loss (gain)	12,076,607	(299,137)
Projected benefit obligation at end of year	<u>\$ 154,730,808</u>	<u>139,818,590</u>

	<u>2011</u>	<u>2010</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 88,814,435	86,034,413
Actual return on plan assets	(330,458)	8,413,469
Benefits paid	(5,982,156)	(5,663,447)
Fair value of plan assets at end of year	<u>\$ 82,501,821</u>	<u>88,814,435</u>
Funded status:		
Funded status of the plan	\$ (72,228,987)	(51,004,155)
Accumulated benefit obligation	\$ 151,947,811	138,640,856

The weighted average assumptions used to determine the pension benefit obligation at September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Discount rates	5.00%	5.00%
Rates of increase in future compensation levels	2.50	2.50
Expected long-term rate of return on plan assets	8.25	8.75

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Included in unrestricted net assets at September 30, 2011 and 2010, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: prior service cost of \$609,531 and \$829,010 and unrecognized actuarial losses of \$52,767,900 and \$35,180,658. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012, are \$219,477 and \$3,070,000 respectively.

(a) Plan Assets

The primary investment objective of SJHSRI defined benefit pension plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan.

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and provide liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.0%, over a long-term horizon.

The Plan aims to diversify its holdings among sectors, industries and companies.

A periodic review is performed of the Plan's investment in various asset classes. The current asset allocation target is 26% U.S. stocks, 24% international stocks, 3% emerging markets, 21% fixed income, 20% hedge funds, and 6% real assets.

Plan asset allocations at September 30, 2011 and 2010, by asset category are as follows:

	Plan assets at September 30	
	2011	2010
U.S. stocks	26%	36%
International stocks	23	21
Emerging markets	-	16
Fixed income	24	27
Hedge funds	21	-
Real assets	6	-
Total	100%	100%

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

The following tables summarize SJHSRI investments in the Plan by major category in the fair value hierarchy as of September 30, 2011 and 2010, as well as related strategy, liquidity and funding commitments:

	September 30, 2011				Redemption or liquidation	
	Level 1	Level 2	Level 3	Total	Period	Days notice
Cash and cash equivalents	\$ 103,481	—	—	103,481	Daily	None
Money market funds	545,449	—	—	545,449	Daily	None
Mutual funds:						
Domestic equities	11,969,151	—	—	11,969,151	Daily	None
Domestic equities	—	2,067,376	—	2,067,376	Daily	2
Domestic equities	—	6,912,470	—	6,912,470	Quarterly	60
Emerging market debt	2,627,951	—	—	2,627,951	Daily	None
Emerging market equities	—	3,105,740	—	3,105,740	Monthly	15 (2)
Fixed income	15,715,259	—	—	15,715,259	Daily	None
Fixed income	—	2,419,057	—	2,419,057	Daily	10 (1)
International equities	19,070,190	—	—	19,070,190	Daily	None
Hedge funds:						
Multi-strategy hedge funds	—	—	4,432,568	4,432,568	Quarterly	90
Multi-strategy hedge funds	—	—	6,815,849	6,815,849	Quarterly (3)	100
Multi-strategy hedge funds	—	—	6,717,280	6,717,280	Illiquid (4)	95
Total	\$ 50,051,481	14,504,643	17,965,697	82,501,821		

(1) Days notice is 10 business days

(2) Days notice is by the 15th of the prior month

(3) Redemptions may be limited to 25% of the fund's net assets or shares in each series or class

(4) Illiquid: Annually after initial two-year lock-ups end on September 30, 2012, June 30, 2013, and September 30, 2015

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

	September 30, 2010				Redemption or liquidation	
	Level 1	Level 2	Level 3	Total	Period	Days notice
Cash and cash equivalents	\$ 158,303	—	—	158,303	Daily	None
Money market funds	4,647,331	—	—	4,647,331	Daily	None
Mutual funds:						
Domestic equities	—	8,886,213	—	8,886,213	Monthly	30 to 45 (1)
Domestic equities	—	4,983,213	—	4,983,213	Semi-Monthly	5
Domestic equities	—	4,616,083	—	4,616,083	Monthly	30
Domestic equities	—	10,417,890	—	10,417,890	Monthly	None
Domestic equities	—	12,996,421	—	12,996,421	Quarterly	60
Fixed income	5,750,896	—	—	5,750,896	Daily	None
International equities	9,413,096	—	—	9,413,096	Daily	None
Fixed income securities:						
U.S. Treasuries	6,427,762	346,067	—	6,773,829	Daily	None
Asset backed	—	890,055	—	890,055	Daily	None
Other	—	921,810	—	921,810	Daily	None
Bonds:						
Asset backed corporate bonds	—	2,001,756	—	2,001,756	Daily	None
Municipal bonds	—	462,995	—	462,995	Daily	None
Corporate bonds	—	5,114,174	—	5,114,174	Daily	None
International bonds	—	1,644,817	—	1,644,817	Daily	None
Hedge funds:						
Multi-strategy hedge funds	—	—	4,584,288	4,584,288	Illiquid (2)	90
Multi-strategy hedge funds	—	—	4,551,165	4,551,165	Illiquid (3)	95
Total	\$ 26,397,363	53,281,594	9,135,453	88,814,410		

- (1) 30 days notice for 90%, remaining 10% in 45 days
- (2) Illiquid; Quarterly after initial one-year lock-up ends on August 2, 2011
- (3) Illiquid; Annually after initial two-year lock-up ends on September 30, 2012

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2011 and 2010:

	Fair value measurements using significant unobservable inputs	
	Multi-strategy hedge funds	Total
Fair value at October 1, 2009	\$ —	—
Purchases	9,051,165	9,051,165
Net realized and unrealized gains	84,288	84,288
Fair value at September 30, 2010	\$ 9,135,453	9,135,453
Fair value at October 1, 2010	\$ 9,135,453	9,135,453
Purchases	8,800,000	8,800,000
Net realized and unrealized gains	30,244	30,244
Fair value at September 30, 2011	\$ 17,965,697	17,965,697

U.S. Treasuries and registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 2 because their fair values are based on quoted prices for identical securities. Most

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

investments classified in Levels 2 and 3 are fixed incomes securities or consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of SJHSRI interest therein, the level in which a fund's fair value measurement is classified is based on the SJHSRI's ability to redeem its interest at or near the date of the consolidated balance sheet. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

(b) Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid during the fiscal year ending September 30:

Fiscal year:	Pension benefits
2012	\$ 6,284,000
2013	6,661,000
2014	7,012,000
2015	7,399,000
2016	7,796,000
Years 2017 – 2021	45,317,000

(10) Concentrations of Credit Risk

Financial instruments that potentially subject SJHSRI to concentration of credit risk consist of patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry or with any single counterparty. See notes 3 and 8.

SJHSRI's receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Managed Care Payors (Blue Cross of Rhode Island and United Healthcare). Revenue from self pay and third-party payors are as follows:

	2011	2010
Medicare	51%	51%
Managed care	23	24
Medicaid	15	16
Self pay	7	4
Other	4	5
	100%	100%

EXHIBIT 15



ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Financial Statements

September 30, 2012 and 2011

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KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Report

The Board of Trustees
St. Joseph Health Services of Rhode Island:

We have audited the accompanying consolidated balance sheets of St. Joseph Health Services of Rhode Island (SJHSRI) as of September 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of SJHSRI management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SJHSRI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph Health Services of Rhode Island as of September 30, 2012 and 2011, and the results of their operations, changes in net assets (deficit), and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

March 15, 2013

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

PCEC001453

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Balance Sheets

September 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents (restricted cash of \$767,989 in 2012 and \$926,204 in 2011)	\$ 5,251,234	5,765,741
Patient accounts receivable, less allowance for doubtful accounts of \$9,298,000 in 2012 and \$9,050,000 in 2011	15,666,217	16,292,230
Inventories	1,535,001	1,654,851
Prepaid expenses and other current assets	3,564,924	2,556,680
Current portion of funds held by trustee under bond indenture	1,132,642	1,113,661
Malpractice and professional receivables	6,500,131	6,291,975
Total current assets	<u>33,650,149</u>	<u>33,675,138</u>
Assets limited or restricted as to use:		
Funds held by trustee under bond indenture	1,584,000	1,584,471
Funds held by trustee for insurance	968,535	305,338
Restricted investments:		
Interest in perpetual trusts	6,098,135	5,460,375
By donor	1,151,799	1,249,311
By spending policy	74,359	181,292
Total assets limited or restricted as to use	<u>9,876,828</u>	<u>8,780,787</u>
Property, plant and equipment, net	35,574,945	38,868,011
Malpractice and professional receivables	8,477,902	11,745,492
Amounts due from related parties	91,762	340,161
Other assets	683,302	894,259
Total assets	<u>\$ 88,354,888</u>	<u>94,303,848</u>
Liabilities and Net Deficit		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,491,451	23,144,250
Amounts due to related parties	1,850,882	186,267
Current obligations under capital lease	178,093	1,338,199
Current portion of long-term debt	576,342	543,234
Malpractice and professional liabilities	8,490,000	7,700,000
Estimated final settlements due to third-party payors	3,126,885	2,635,533
Total current liabilities	<u>32,713,653</u>	<u>35,547,483</u>
Capital lease obligations, less current portion	393,348	324,852
Long-term debt, less current portion	17,154,435	17,730,776
Pension liability	87,536,553	72,228,987
Asset retirement obligations	3,314,141	3,115,622
Malpractice and professional liabilities	13,981,869	18,455,573
Other liabilities	47,236	135,808
Total liabilities	<u>155,141,235</u>	<u>147,539,101</u>
Commitments and contingencies		
Net assets (deficit):		
Unrestricted	(74,903,820)	(61,101,763)
Temporarily restricted	842,349	1,107,496
Permanently restricted	7,275,124	6,759,014
Total net deficit	<u>(66,786,347)</u>	<u>(53,235,253)</u>
Total liabilities and net deficit	<u>\$ 88,354,888</u>	<u>94,303,848</u>

See accompanying notes to consolidated financial statements

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Operations

Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenues	\$ 146,205,130	152,076,930
Net assets released from restrictions for operations	393,925	357,636
Other operating revenues	<u>6,952,987</u>	<u>4,854,293</u>
Total operating revenues	<u>153,552,042</u>	<u>157,288,859</u>
Operating expenses:		
Employee compensation and benefits	93,952,713	97,918,034
Supplies and other	40,076,267	44,858,058
License fee	7,222,776	8,377,921
Interest	1,109,357	1,141,164
Depreciation, amortization and accretion	5,841,207	6,065,460
Write-down of assets	—	1,387,282
Provision for bad debts	<u>9,746,459</u>	<u>9,311,524</u>
Total operating expenses	<u>157,948,779</u>	<u>169,059,443</u>
Deficiency of revenues over operating expenses	(4,396,737)	(11,770,584)
Other changes in unrestricted net assets:		
Adjustment to pension liability	(9,656,651)	(17,367,763)
Funds released from temporarily restricted net assets for capital	<u>251,331</u>	<u>519,051</u>
Decrease in unrestricted net assets	<u>\$ (13,802,057)</u>	<u>(28,619,296)</u>

See accompanying notes to consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Consolidated Statements of Cash Flows

Years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (13,551,094)	(28,824,826)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,640,915	5,971,463
Gain on disposal	(769)	(500)
Write-down of assets	—	1,387,282
Accretion for asset retirement obligation costs	200,292	93,996
Amortization of deferred financing costs	15,638	14,816
Accretion of original issue discount	23,457	19,898
Net realized and unrealized gains on investments	(178)	—
Change in market value of perpetual trusts	(637,760)	202,151
Provision for bad debts	9,746,459	9,311,524
Adjustment to pension liability	9,656,651	17,367,763
Changes in operating assets and liabilities:		
Patient accounts receivable	(9,120,446)	(9,183,732)
Other current assets and other assets	2,366,359	(632,027)
Accounts payable, accrued expenses and other liabilities	(2,775,933)	3,560,116
Estimated final settlements due to third-party payors	491,352	3,467,677
Net cash provided by operating activities	<u>2,054,943</u>	<u>2,755,601</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,966,917)	(2,792,737)
Sales of investments	(477,084)	24,014
Proceeds from sale of fixed assets	1,863	500
Receipts (advances) to related parties, net	1,913,014	(139,724)
Net cash used in investing activities	<u>(529,124)</u>	<u>(2,907,947)</u>
Cash flows from financing activities:		
Repayment of long-term debt and capital leases	(2,040,326)	(1,826,236)
Net cash used in financing activities	<u>(2,040,326)</u>	<u>(1,826,236)</u>
Net change in cash and cash equivalents	(514,507)	(1,978,582)
Cash and cash equivalents at beginning of year	5,765,741	7,744,323
Cash and cash equivalents at end of year	<u>\$ 5,251,234</u>	<u>5,765,741</u>
Supplemental disclosure:		
Capital expenditures financed through capital leases	\$ 382,026	442,000
Interest paid	1,097,703	1,156,545

See accompanying notes to consolidated financial statements.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Total rental expense amounted to \$1,493,864 and \$2,367,072 for the years ended September 30, 2012 and 2011, respectively.

(7) Disproportionate Share Program and Charity Care

SJHSRI is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including SJHSRI, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to SJHSRI under the Disproportionate Share Program of approximately \$8,276,000 and \$5,429,000 for the years ended September 30, 2012 and 2011, respectively, are included in net patient service revenues in the accompanying consolidated statements of operations.

SJHSRI estimates the cost of providing charity care by calculating a ratio of cost to gross charges and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. For the years ended September 30, 2012 and 2011, SJHSRI recorded approximately \$4,690,000 and \$3,465,000 in charity care costs, respectively.

(8) License Fee

The State of Rhode Island assesses a license fee to all Rhode Island hospitals based on each Hospital's gross patient service revenue. The 2012 fee is based on 2010 gross patient service revenue. The 2011 fee is based on 2009 gross patient service revenue. SJHSRI's license fee expense was \$7,222,776 and \$8,377,921 for the years ended September 30, 2012 and 2011, respectively.

(9) Pension Plan

SJHSRI has a defined benefit pension plan which covers substantially all of the SJHSRI's employees. The Plan is a non-lecting church plan under the Internal Revenue Service and is not subject to the participation, vesting, and provisions of the Internal Revenue Service code. Plan participants' benefits are computed as a percentage of final average earnings (five highest consecutive rates of annual earnings over the last ten years of employment) less a percentage of Social Security benefits, proportionately reduced for services less than 30 years.

Effective October 1, 2007, SJHSRI froze participation in the defined benefit pension plan for all new Non-Union and Federation of Nurses and Healthcare Professionals (FNHP) Bargaining Unit employees. In addition on October 1, 2008, SJHSRI froze participation for all new hires in the United Nurses and Allied Health Professionals (UNAP) Bargaining Unit. These new employees will be eligible to participate in a 403(b) defined contribution plan once certain requirements are met. All nonunion employees will be eligible to participate in a 403(b) defined contribution pension plan that carries a matching formula if certain criteria are met. Effective September 30, 2009, benefits for nonunion participants were frozen. Lastly, benefits for union participants who are covered under the collective bargaining agreement with the Federation of Nurses and Health Professionals were frozen effective September 30, 2011.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The components of the net periodic benefit cost for the plan for the years ended September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Service cost	\$ 1,740,312	1,821,091
Interest cost	6,895,516	6,996,676
Expected return on plan assets	(6,327,848)	(7,105,472)
Prior service cost amortization	219,477	219,477
Amortization of actuarial loss	3,122,836	1,925,295
Net periodic cost	<u>\$ 5,650,293</u>	<u>3,857,067</u>

The weighted average assumptions used to determine net periodic benefit cost as of September 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Discount rates	4.54%	5.00%
Rates of increase in future compensation levels	2.50	2.50
Expected long-term rate of return on plan assets	8.00	8.25

A reconciliation of the changes in SJHSRI Retirement Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2012 and 2011, and a statement of funded status of the Plans as of September 30 for both years, follows:

	<u>2012</u>	<u>2011</u>
Changes in benefit obligations:		
Projected benefit obligations at beginning of year	\$ 154,730,808	139,818,590
Service cost	1,740,312	1,821,091
Interest cost	6,895,516	6,996,676
Benefits paid	(6,585,864)	(5,982,156)
Actuarial loss	19,021,488	12,076,607
Projected benefit obligation at end of year	<u>\$ 175,802,360</u>	<u>154,730,808</u>

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 82,501,821	88,814,435
Actual return on plan assets	12,350,372	(330,458)
Benefits paid	<u>(6,585,864)</u>	<u>(5,982,156)</u>
Fair value of plan assets at end of year	<u>\$ 88,266,329</u>	<u>82,501,821</u>
Funded status:		
Funded status of the plan	\$ (87,536,553)	(72,228,987)
Accumulated benefit obligation	173,070,428	151,947,811

The weighted average assumptions used to determine the pension benefit obligation at September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rates	3.69%	4.54%
Rates of increase in future compensation levels	2.50	2.50
Expected long-term rate of return on plan assets	8.00	8.25

Included in unrestricted net assets at September 30, 2012 and 2011, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: prior service cost of \$390,056 and \$609,531 and unrecognized actuarial losses of \$62,644,026 and \$52,767,900. The prior service cost and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2013, are \$219,477 and \$3,803,110 respectively.

(a) Plan Assets

The primary investment objective of SJHSRI defined benefit pension plan is to provide pension benefits for its members and their beneficiaries by ensuring a sufficient pool of assets to meet the Plan's current and future benefit obligations. These funds are managed as permanent funds with disciplined longer-term investment objectives and strategies designed to meet cash flow requirements of the plan.

Management of the assets is designed to maximize total return while preserving the capital values of the fund, protecting the fund from inflation, and provide liquidity as needed for plan benefits. The objective is to provide a rate of return that meets inflation, plus 5.0%, over a long-term horizon.

The Plan aims to diversify its holdings among sectors, industries and companies.

A periodic review is performed of the Plan's investment in various asset classes. The current asset allocation target is 26% U.S. stocks, 24% international stocks, 3% emerging markets, 21% fixed income, 20% hedge funds, and 6% real assets.

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Plan asset allocations at September 30, 2012 and 2011, by asset category are as follows:

	Plan assets at September 30	
	2012	2011
U.S. stocks	26%	26%
International stocks	17	23
Emerging markets	7	—
Fixed income	22	24
Cash	2	—
Hedge funds	20	21
Real assets	6	6
Total	100%	100%

The following tables summarize SJHSRI investments in the Plan by major category in the fair value hierarchy as of September 30, 2012 and 2011, as well as related strategy, liquidity and funding commitments:

	September 30, 2012				Redemption or liquidation	
	Level 1	Level 2	Level 3	Total	Period	Days notice
Cash and cash equivalents	\$ 25,882	—	—	25,882	Daily	None
Money market funds	1,750,695	—	—	1,750,695	Daily	None
Mutual funds:						
Domestic equities	11,422,222	—	—	11,422,222	Daily	None
Domestic equities	—	2,612,429	—	2,612,429	Daily	2
Domestic equities	—	9,464,386	—	9,464,386	Quarterly	60
Emerging market debt	2,626,021	—	—	2,626,021	Daily	None
Emerging market equities	—	3,341,044	—	3,341,044	Monthly	15 (2)
Fixed income	14,474,736	—	—	14,474,736	Daily	None
Fixed income	—	2,365,187	—	2,365,187	Daily	10 (1)
International equities	20,187,704	—	—	20,187,704	Daily	None
Hedge funds:						
Multi-strategy hedge funds	—	—	8,532,092	8,532,092	Quarterly (3)	100
Multi-strategy hedge funds	—	—	8,866,144	8,866,144	Illiquid (4)	95
Real assets:						
Real estate funds	—	2,597,787	—	2,597,787	Daily	None
Total	\$ 50,487,260	20,380,833	17,398,236	88,266,329		

(1) Days notice is 10 business days

(2) Days notice is by the 15th of the prior month

(3) Redemptions may be limited to 25% of the fund's net assets or shares in each series or class

(4) Illiquid; Annually after initial two-year lock-ups end on September 30, 2012, June 30, 2013, and September 30, 2013

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

	September 30, 2011			Total	Redemption or liquidation	
	Level 1	Level 2	Level 3		Period	Days notice
Cash and cash equivalents	\$ 103,481	—	—	103,481	Daily	None
Money market funds	545,449	—	—	545,449	Daily	None
Mutual funds:						
Domestic equities	11,969,151	—	—	11,969,151	Daily	None
Domestic equities	—	2,067,376	—	2,067,376	Daily	2
Domestic equities	—	6,912,470	—	6,912,470	Quarterly	60
Emerging market debt	2,627,951	—	—	2,627,951	Daily	None
Emerging market equities	—	3,105,740	—	3,105,740	Monthly	15 (2)
Fixed income	15,715,259	—	—	15,715,259	Daily	None
Fixed income	—	2,419,057	—	2,419,057	Daily	10 (1)
International equities	19,070,190	—	—	19,070,190	Daily	None
Hedge funds:						
Multi-strategy hedge funds	—	—	4,432,568	4,432,568	Quarterly	90
Multi-strategy hedge funds	—	—	6,815,849	6,815,849	Quarterly (3)	100
Multi-strategy hedge funds	—	—	6,717,280	6,717,280	Illiquid (4)	95
Total	\$ 50,031,481	14,504,643	17,965,697	82,501,821		

- (1) Days notice is 10 business days
- (2) Days notice is by the 15th of the prior month
- (3) Redemptions may be limited to 25% of the fund's net assets or shares in each series or class
- (4) Illiquid; Annually after initial two-year lock-ups end on September 30, 2012, June 30, 2013, and September 30, 2013.

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2012 and 2011:

	Multi-strategy hedge funds
Fair value at October 1, 2010	\$ 9,135,453
Purchases	8,800,000
Net realized and unrealized gains	30,244
Fair value at September 30, 2011	\$ 17,965,697
Purchases	2,950,000
Sales	(4,275,000)
Net realized and unrealized gains	757,539
Fair value at September 30, 2012	\$ 17,398,236

There were no significant transfers between the levels of the fair value hierarchy during the years ended September 30, 2012 and 2011.

Registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 2 because their fair values are based on quoted prices for identical securities. Most investments classified in Levels 2 and 3 are fixed incomes securities or consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, some of which are marketable or not difficult to value. Because each fund's reported NAV is used as a practical expedient to estimate the fair value of SJHSRI interest therein, the level in which a fund's fair value

ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

measurement is classified is based on the SJHSRI's ability to redeem its interest at or near the date of the consolidated balance sheet. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

(b) Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid during the fiscal year ending September 30:

Fiscal year:	<u>Pension benefits</u>
2013	\$ 6,904,000
2014	7,236,000
2015	7,013,000
2016	7,931,000
2017	7,796,000
Years 2018 – 2022	47,192,000

(10) Concentrations of Credit Risk

Financial instruments that potentially subject SJHSRI to concentration of credit risk consist of patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks and corporate bonds, are not concentrated in any corporation or industry or with any single counterparty. See notes 3 and 9.

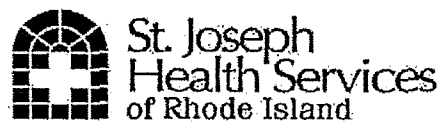
SJHSRI's receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Managed Care Payers (Blue Cross of Rhode Island and United Healthcare). Revenue from self pay and third-party payors are as follows:

	<u>2012</u>	<u>2011</u>
Medicare	50%	51%
Managed care	23	23
Medicaid	16	15
Self pay	5	7
Other	6	4
	<u>100%</u>	<u>100%</u>

SJHSRI maintains several bank accounts at one institution, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2012, SJHSRI had cash balances of \$6,583,545 in excess of the insured limits at such institutions.

EXHIBIT 16

St. Joseph's Health Services of Rhode Island
Unaudited Year end September 30, 2013
Financial Statements





Interim Financial Statements

Balance Sheet

	DRAFT - UNAUDITED			
	2013	2012	\$ Change	% Change
Current assets:				
Cash and cash equivalents	\$ 7,271,265	5,251,234	2,020,031	38.5%
Patient accounts receivable, less allowance for doubtful accounts	15,556,045	15,666,217	(110,172)	-0.7%
Inventories	1,668,626	1,535,001	133,625	8.7%
Malpractice and professional receivables	1,607,851	6,500,131	(4,892,280)	-75.3%
Prepaid expenses and other current assets	2,421,739	3,564,924	(1,143,185)	-32.1%
Current portion of funds held by trustee under bond indenture	1,150,955	1,132,642	18,313	1.6%
Amounts due from related parties	205,301	—	—	0.0%
Total current assets	29,881,782	33,650,149	(3,768,367)	-11.2%
Assets limited or restricted as to use				
Funds held by trustee under bond indenture	1,584,000	1,584,000	—	0.0%
Funds held by trustee for insurance	743,475	968,535	(225,060)	-23.2%
Restricted investments:				
Interest in perpetual trusts	6,299,046	6,098,136	200,910	3.3%
By donor	1,199,130	1,151,799	47,331	4.1%
By spending policy	100,559	74,359	26,200	35.2%
Total assets limited or restricted as to use	9,926,210	9,876,829	49,381	0.5%
Property, plant and equipment, net	31,936,536	35,574,945	(3,638,409)	-10.2%
Malpractice and professional receivables	4,617,340	8,477,902	(3,860,562)	-45.5%
Amounts due from related parties	710,242	91,762	618,480	674.0%
Other assets	670,444	683,301	(12,857)	-1.9%
Total assets	\$ 77,742,554	88,354,888	(10,612,334)	-12.0%
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 18,585,256	18,491,452	93,804	0.5%
Amount due to affiliate	1,380,669	1,850,882	(470,213)	-25.4%
Current obligations under capital lease	241,970	178,093	63,877	35.9%
Current portion of long-term debt	610,106	576,342	33,764	5.9%
Current insurance reserves	1,575,192	8,490,000	(6,914,808)	-81.4%
Estimated final settlements due to third-party payors	2,987,204	3,126,885	(139,681)	-4.5%
Total current liabilities	25,380,397	32,713,654	(7,333,257)	-22.4%
Capital lease obligations, less current portion	428,973	393,348	35,625	9.1%
Long-term debt, less current portion	16,544,329	17,154,435	(610,106)	-3.6%
Pension liability	92,962,281	87,536,553	5,425,728	6.2%
Asset retirement obligations	3,527,549	3,314,141	213,408	6.4%
Malpractice and professional liabilities	8,954,113	13,981,869	(5,027,756)	-36.0%
Other liabilities	38,380	47,236	(8,856)	-18.7%
Total liabilities	147,836,022	155,141,236	(7,305,214)	-4.7%
Net assets:				
Unrestricted	(78,693,387)	(74,903,820)	(3,789,567)	5.1%
Temporarily restricted	1,101,168	842,348	258,820	30.7%
Permanently restricted	7,498,751	7,275,124	223,627	3.1%
Total net assets	(70,093,468)	(66,786,348)	(3,307,120)	5.0%
Total liabilities and net assets	\$ 77,742,554	88,354,888	(10,612,334)	-12.0%

Note: Final actuarial pension adjustment is not included in these numbers.

Statement of Operations - YTD

DRAFT - UNAUDITED

	YEAR TO DATE						
	Actual	Budget	Last Year	Variance to Budget - Fav/(Unfav)		Variance to LY - Over/(Under)	
				\$ Var	%	\$ Var	%
Revenue							
Total Net Patient Service Revenue	133,059,449	143,658,676	136,458,671	(10,599,227)	-7.4%	(3,399,222)	-2.49%
Assets Rel. from Restrictions	182,218	23,750	393,925	158,468	667.2%	(211,707)	-53.74%
Meaningful Use	1,642,552	1,953,912	2,511,803	(311,360)	-15.9%	(869,251)	100.00%
Other Operating Revenue	5,228,384	4,859,053	4,441,184	369,331	7.6%	787,200	17.73%
Total Revenue	\$ 140,112,603	150,495,391	143,805,583	(10,382,788)	-6.9%	(3,692,980)	-2.57%
Expense							
Salaries & Wages	69,012,902	69,516,099	69,785,726	503,197	0.7%	(772,824)	-1.11%
Fringe Benefits	24,238,198	27,529,504	24,166,987	3,291,306	12.0%	71,211	0.29%
Medical Supplies	15,814,428	16,899,769	16,659,093	1,085,341	6.4%	(844,665)	-5.07%
Supplies & Services	20,915,790	24,590,157	23,417,172	3,674,367	14.9%	(2,501,382)	-10.68%
Hospital License Fee	7,165,632	7,165,632	7,222,776	-	0.0%	(57,144)	-0.79%
Depreciation & Amortization	5,775,430	5,738,239	5,841,207	(37,191)	-0.6%	(65,777)	-1.13%
Interest	1,045,574	1,106,384	1,109,357	60,810	5.5%	(63,783)	-5.75%
Total Expenses	143,967,954	152,545,784	148,202,318	8,577,830	5.6%	(4,234,364)	-2.86%
Loss from operations	\$ (3,855,351)	(2,050,393)	(4,396,735)	(1,804,958)	88.0%	541,384	-12.31%
Operating Margin %	-2.8%	-1.4%	-3.1%				

Statement of Cash Flow

DRAFT - UNAUDITED	FYE 9/30/2013	FYE 9/30/2012
Cash flows from operating activities:		
Decrease in net assets	\$ (3,307,120)	(13,551,094)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,562,022	5,640,915
(Gain) Loss of Disposal	—	(769)
Accretion for asset retirement obligation costs	213,408	200,292
Amortization of deferred financing costs	15,638	15,638
Accretion of original issue discount	23,658	23,457
Net realized and unrealized (gains) losses on sale of investments	1,759	(178)
Change in market value of perpetual trusts	(200,910)	(637,760)
Provision for bad debts	11,137,334	9,746,459
Adjustments to pension liability	—	9,656,651
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,027,162)	(9,120,446)
Other current assets and other assets	9,759,622	2,366,359
Accounts payable, accrued expenses and other liabilities	(6,431,889)	(2,775,933)
Estimated final settlements due to third-party payors	(139,681)	491,352
Net cash provided by operating activities	<u>5,606,679</u>	<u>2,054,943</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,923,613)	(1,966,917)
Net purchases and sales of investments	131,457	(477,084)
Proceeds from sale of fixed assets	—	1,863
Receipts (advances) to related parties	(1,293,994)	1,913,014
Net cash used in investing activities	<u>(3,086,150)</u>	<u>(529,124)</u>
Cash flows from financing activities:		
Repayment of long-term debt and capital leases	(905,251)	(2,040,326)
Net cash used in financing activities	<u>(500,498)</u>	<u>(2,040,326)</u>
Net change in cash and cash equivalents	2,020,031	(514,507)
Cash and cash equivalents at beginning of year	<u>5,251,234</u>	<u>5,765,741</u>
Cash and cash equivalents at end of year	<u>\$ 7,271,265</u>	<u>5,251,234</u>

EXHIBIT 17

**STATE OF RHODE ISLAND
DEPARTMENT OF ATTORNEY GENERAL**

May 16, 2014

DECISION

Re: Initial Hospital Conversion Application of Prospect Medical Holdings, Inc., Prospect East Holdings, Inc., Prospect East Hospital Advisory Services, LLC, Prospect CharterCARE, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, and Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, CharterCARE Health Partners

The Department of Attorney General has considered the above-referenced application pursuant to R.I. Gen. Laws §§ 23-17.14-1, *et seq.*, the Hospital Conversions Act. In accordance with the reasons outlined herein, the application is **APPROVED WITH CONDITIONS**.

I. BACKGROUND

The first step in traversing the Hospital Conversions Act is the filing of an initial application with the Department of Attorney General (the “Attorney General”) and Rhode Island Department of Health (“DOH”). The parties filed their initial application (“Initial Application”) on October 18, 2013. The parties (collectively, “Transacting Parties”) to the Initial Application are identified below:

- **Roger Williams Medical Center (“RWMC”)**, a 220-bed acute care, community hospital located in Providence, Rhode Island. RWMC is a wholly-owned subsidiary of CharterCARE Health Partners (“CCHP”).¹
- **St. Joseph Health Services of Rhode Island (“SJHSRI”)**², a 278-bed acute care, community hospital located in North Providence, Rhode Island. SJHSRI’s ownership structure is such that CCHP is the sole Class A Member and the Bishop of Providence is the sole Class B Member.

¹ RWMC and SJHSRI will at times be referred to as the “Existing Hospitals” or “Heritage Hospitals.”

² Commonly known as Our Lady of Fatima Hospital

- **CharterCARE Health Partners**, The Existing Hospitals were converted to the current CCHP structure pursuant to a decision issued by DOH and the Attorney General in July 2009.
- **Prospect Medical Holdings, Inc.** (“PMH”) The Acquiror, pre-conversion, is an organizational structure existing under a parent entity, Prospect Medical Holdings, Inc. PMH is a Delaware corporation with its principal place of business located in Los Angeles, California. PMH is a health care services company that owns and operates hospitals and manages the provision of health care service for managed care enrollees through its network of specialists and primary care physicians.
- **Prospect East Holdings, Inc.** (“Prospect East”) a Delaware corporation which is a wholly-owned subsidiary of PMH. Prospect East will hold PMH’s interest in Prospect CharterCARE, LLC and the Newco Hospitals post-conversion.
- **Prospect East Hospital Advisory Services, LLC** (“Prospect Advisory”), a Delaware limited liability company, which is a wholly-owned subsidiary of PMH. Prospect Advisory will oversee and assist in the management of the day-to-day operations of Prospect CharterCARE, LLC post-conversion.
- **Prospect CharterCARE, LLC**, a Rhode Island limited liability company, which will own the entities that own and operate and hold licensure for the hospitals, post-conversion, the Newco RWMC and Newco Fatima³ (defined below). Prospect CharterCARE, LLC will be owned 85% by Prospect East and 15% by CCHP. However, the governing board of Prospect CharterCARE, LLC will be a 50/50 board as explained herein.
- **Prospect CharterCARE RWMC, LLC** (“Newco RWMC”), is a Rhode Island limited liability company, which will own and hold the licensure for Roger Williams Medical Center post-conversion. Newco RWMC will be wholly-owned by Prospect CharterCARE, LLC.
- **Prospect CharterCARE SJHSRI, LLC** (“Newco Fatima”) is a Rhode Island limited liability company, which will own and hold the licensure for Our Lady of Fatima Hospital post-conversion. Newco Fatima will be wholly-owned by Prospect CharterCARE, LLC.

See Response to Initial Application Question 1 and Exhibits C10A-1 through A-6; C10A-12 through 14; 10A-7 through 11 and 10 B, C and D⁴.

³ Newco RWMC together with Newco Fatima shall collectively hereinafter be referred to as “Newco Hospitals”.

⁴ For the purposes of this Decision, Prospect East Holdings, Inc., Prospect East Hospital Advisory Services, LLC, Prospect CharterCARE, LLC, and its “Subsidiaries”, Prospect CharterCARE RWMC, LLC, and Prospect CharterCARE SJHSRI, LLC, will be called collectively “Prospect”; Roger Williams Medical Center, St. Joseph

In its simplest form, the structure of the transaction outlined in the Initial Application (the “Proposed Transaction”) is a sale of the assets of CCHP to PMH.

PMH is proposing to form Prospect CharterCARE, LLC. PMH will retain an 85% ownership interest in Prospect CharterCARE, LLC. CCHP will be provided a 15% ownership interest in Prospect CharterCARE, LLC. The governing structure, however, will be such that PMH’s ownership interest will appoint 50% of the membership of the Prospect CharterCARE, LLC board, and CCHP’s ownership interest will appoint 50% of the membership of the Prospect CharterCARE, LLC board. The Transacting Parties refer to this concept as a “50/50 board.”

II. REVIEW CRITERIA

The review criteria utilized by the Attorney General for a hospital conversion involving a conversion of a non-profit hospital to a for-profit hospital⁵ is as follows:

- (1) Whether the proposed conversion will harm the public's interest in trust property given, devised, or bequeathed to the existing hospital for charitable, educational or religious purposes located or administered in this state;
- (2) Whether a trustee or trustees of any charitable trust located or administered in this state will be deemed to have exercised reasonable care, diligence, and prudence in performing as a fiduciary in connection with the proposed conversion;
- (3) Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;
- (4) Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion;
- (5) Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes;
- (6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants

Health Service of Rhode Island and CharterCARE Health Partners will be called collectively “CharterCARE” or “CCHP”.

⁵ R.I. Gen. Laws § 23-17.14-7(c). The Attorney General’s responsibility under the Hospital Conversions Act is to review the transaction selected by the Board(s) of Directors.

engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;

(7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary rewards based in whole, or in part on the contingency of the completion of the conversion;

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions;

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion;

(10) Whether the board exercised due care in assigning a value to the existing hospital and its charitable assets in proceeding to negotiate the proposed conversion;

(11) Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital;

(12) Whether officers, directors, board members or senior management will receive future contracts in existing, new, or affiliated hospital or foundations;

(13) Whether any members of the board will retain any authority in the new hospital;

(14) Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion;

(15) Whether individual officers, directors, board members or senior management engaged legal counsel to consider their individual rights or duties in acting in their capacity as a fiduciary in connection with the proposed conversion;

(16) Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary;

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion;

(19) Whether the conversion is proper under the Rhode Island Nonprofit Corporation Act;

(20) Whether the conversion is proper under applicable state tax code provisions;

(21) Whether the proposed conversion jeopardizes the tax status of the existing hospital;

(22) Whether the individuals who represented the existing hospital in negotiations avoided conflicts of interest;

(23) Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price;

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital;

(25) Whether the proposed conversion appropriately provides for the disposition of proceeds of the conversion that may include, but not be limited to:

(i) Whether an existing entity or a new entity will receive the proceeds;

(ii) Whether appropriate tax status implications of the entity receiving the proceeds have been considered;

(iii) Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital;

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's proceeds;

(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;

(vi) Whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making and public members representing diverse ethnic populations of the affected community;

(ix) Whether the size of the board and proposed length of board terms are sufficient;

(26) Whether the transacting parties are in compliance with the Charitable Trust Act, chapter 9 of title 18;

(27) Whether a right of first refusal to repurchase the assets has been retained;

(28) Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory;

(29) Whether a control premium is an appropriate component of the proposed conversion; and

(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

In addition to reviewing the Initial Application submitted by the Transacting Parties and other publically available information, the Attorney General and DOH (the "Departments") jointly interviewed the following individuals:

CharterCARE

1. Kenneth H. Belcher, President/CEO of CharterCARE Health Partners
2. Michael E. Conklin, Jr., Chief Financial Officer, CharterCARE Health Partners
3. Joan M. Dooley, R.N., Chief Nursing Officer, CharterCARE Health Partners, RWMC
4. Patricia A. Nadle, R.N., Chief Nursing Officer, CharterCARE Health Partners, SJHSRI
5. Edwin J. Santos, Chairman of the CharterCARE Health Partners Board
6. Kathy Moore, Director of Finance, CharterCARE Health Partners
7. Addy Kane, Chief Financial Officer, Roger Williams Medical Center

Prospect

8. Thomas Reardon, President of Prospect Medical Holdings, Inc.
9. Samuel S. Lee, CEO, Prospect Medical Holdings, Inc.
10. Steve Aleman, Chief Financial Officer, Prospect Medical Holdings, Inc.
11. Barbara Giroux, Senior Vice President of Finance and Operations

The Hospital Conversions Act requires a public informational meeting. *See* R.I. Gen. Laws § 23-17.14-7(b)(3)(iv). A public notice was published regarding an informational meeting as well as soliciting written comments regarding the Proposed Transaction. The Attorney General and DOH jointly held this meeting in Providence at Gaige Hall Auditorium on the

campus of Rhode Island College.⁶ It was held on April 28, 2014, from 4 p.m. to 7 p.m. At the beginning of the session, the Transacting Parties were provided an opportunity to give a presentation regarding the Proposed Transaction; afterwards, public comment was taken. Over the course of the meeting, twenty-eight (28) speakers provided public comment. The comments were overwhelmingly in favor of the Proposed Transaction, with one in opposition and another raising concern as to whether Fatima Hospital would retain its Catholic identity. Several written comments were also received, the overwhelming majority of which supported the Proposed Transaction.

The Initial Application, along with the supplemental information provided, information gathered from the investigation, including publically available information and information resulting from interviews and public comment, were all considered in rendering this Decision.

III. PROCEDURAL HISTORY

In 2008 and 2009, the RWMC and SJHSRI systems were losing in excess of \$8 million dollars a year from operations alone.⁷ In an effort to stem those losses, those independent systems agreed to affiliate through the creation of CCHP. The purpose of the affiliation was to realize approximately \$15 million dollars in savings over 5 years, utilizing efficiencies created by the combined hospital systems as well as to preserve and expand health care services to the Existing Hospitals' communities.⁸ In 2009, the affiliation was approved by DOH and the

⁶ The Attorney General would like to thank the staff of Rhode Island College for their hospitality and for assisting us with use of the auditorium.

⁷ Initial Application, Response to Question 1

⁸ Id.

Attorney General.⁹ If the CCHP affiliation had not been approved, the RWMC and SJHSRI systems would have had difficulty in continuing to operate independently.¹⁰

CCHP operates a health care system in the City of Providence and the Town of North Providence which includes Roger Williams Medical Center and St. Joseph's Health System of Rhode Island.¹¹

Roger Williams Medical Center, defined above as RWMC, is a 220-bed acute care, community hospital located in Providence, Rhode Island. St. Joseph Health Services of Rhode Island, defined above as SJHSRI, operates Our Lady of Fatima Hospital, which is a 278-bed acute care, community hospital located in North Providence, Rhode Island.¹²

CCHP also operates a number of non-hospital facilities that will be included in the Proposed Transaction: Elmhurst Extended Care Facilities, Inc., Roger Williams Realty Corporation, RWGH Physician's Office Building, Inc., Roger Williams Medical Associates, Inc., Roger Williams PHO, Inc., Elmhurst Health Associates, Inc., Our Lady of Fatima Ancillary Services, Inc., The Center for Health and Human Services, SJH Energy, LLC, Rosebank Corporation and CharterCARE Health Partners Foundation ("CCHP Foundation").¹³

Significant operating efficiencies have been achieved as a result of the 2009 CCHP affiliation.¹⁴ Based on operating revenue alone, the combined CCHP hospital system reduced operating losses not including pension losses to approximately \$3 million dollars per year.¹⁵ Although a significant improvement, CCHP realized that the losses it was continuing to experience cannot be sustained and still ensure its continued viability. Furthermore, although

⁹ Id.

¹⁰ Id.

¹¹ Initial Application, Response to Question 1

¹² Id.

¹³ Id.

¹⁴ Id.

¹⁵ Id.

capital expenditures have been made, the physical plants at the Existing Hospitals are aging and need upgrading.¹⁶

Of additional concern to CCHP is its pension funding (an issue that is impacting many hospitals throughout the country). If pension losses are taken into consideration, in fiscal year 2012, the CCHP system sustained losses of over \$8 million dollars which are increasing without additional contributions.¹⁷ Such losses cannot be sustained by CCHP. Facing these significant financial concerns, CCHP realized it needed additional capital to ensure its continued viability to fulfill its responsibilities to the citizens of Rhode Island which it serves.

In an effort to ensure the continued viability of the Existing Hospitals, in December of 2011, CCHP issued 22 Requests for Proposals (the "RFP") seeking a partner.¹⁸ In response to its RFP, CCHP received six (6) responses, which it reviewed and considered carefully.¹⁹ Among the responses it received was one from PMH in August of 2012.²⁰ CCHP conducted a vigorous and detailed review of all of the proposals it received.²¹ However, after receiving the response of PMH, CCHP then undertook extensive review of PMH's proposal and engaged in negotiations with PMH. In March of 2013, after a joint meeting of the boards of CCHP and the Existing Hospitals, and an analysis of a number of the different options before CCHP, CCHP chose PMH's proposal.²² In March of 2013, a Letter of Intent was executed by and between PMH and CCHP.²³ During the interval between March 2013 and the execution of the Asset Purchase Agreement on September 24, 2013, the Transacting Parties conducted extensive due diligence of each other. The Transacting Parties subsequently executed a First Amendment to the Asset

¹⁶ Id.

¹⁷ Id.; Report of James P. Carris, CPA.

¹⁸ 4/28/14 Testimony of Kenneth Belcher

¹⁹ Id. Response to Question 55

²⁰ Id.

²¹ Id.

²² Initial Application response to Question 14

²³ Id.

Purchase Agreement on February 27, 2014, to add Prospect CharterCARE Ancillary Services, LLC (“Ancillary”) to hold the licenses for the Prospect CharterCARE laboratories, among other things.²⁴

An Initial Application was submitted by the Transacting Parties on October 18, 2013. On November 18, 2013, the Departments informed the Transacting Parties that there were deficiencies to the Initial Application and requested additional information. On January 2, 2014 the Departments received a letter addressing the deficiencies within the Initial Application. On January 16, 2014, the Departments issued the Transacting Parties a notice of completeness letter.

On January 17, 2014, the Initial Application was deemed complete with the condition that new copies of the Initial Application be filed, incorporating the confidentiality decision made by the Attorney General wherein some documents that were originally requested to be deemed confidential were deemed public.

During the review, six (6) sets of Supplemental Questions consisting of two hundred and thirteen (213) questions were sent to and responded to by the Transacting Parties.

IV. DISCUSSION

As outlined above, the review criteria contained in the Hospital Conversions Act applicable to the Proposed Transaction consist of thirty (30) requirements. For organizational purposes we have addressed them grouped by topic below.

A. BOARD OF DIRECTORS

Numerous provisions of the Hospital Conversions Act involve a review of the actions of the board of directors of the existing hospital.²⁵ In the instant review, the Attorney General provided a review of the action of the board of directors leading to the Proposed Transaction.

²⁴ Response to Supplemental Question 3-15

1. Duties of the Board of Directors

The Hospital Conversion Act requires review of the decisions leading up to a conversion to ascertain whether the directors fulfilled their fiduciary duties to the hospital. The first criteria of the Hospital Conversions Act guiding the review of the actions of the board of directors in pursuing a conversion is governed by R.I. Gen. Laws § 23-17.14-7(c)(3). This section requires review of whether there was “appropriate criteria [used] in deciding to pursue a conversion in relation to carrying out [the hospital’s] mission and purposes.” With regard to this particular provision, the Board of Directors of CCHP (the “CCHP Board”) faced a situation where it was sustaining continued losses, despite its efforts to find and implement efficiencies throughout CCHP and its affiliates.²⁶ CCHP was also faced with aging infrastructure issues that needed to be addressed.²⁷ The need for capital to sustain its continued viability was a driving impetus in locating a partner as CCHP realized it could not address these issues on its own going forward.²⁸ The Attorney General finds that this condition of the Hospital Conversions Act has been satisfied.

The next section, R.I. Gen. Laws § 23-17.14-7(c)(4) requires a review of “[w]hether the board formulated and issued appropriate requests for proposals in pursuing a conversion.” In order to pursue an appropriate partner, CCHP issued twenty-two (22)²⁹ Requests for Proposals to a number of entities, listing a number of criteria.³⁰ These criteria included:

- (a) A commitment to the continued provision of quality health care services for the residents of Greater Providence, Rhode Island and the surrounding communities;

²⁵ See e.g., Hospital Conversions Act, R. I. Gen. Laws §§ 23-17.14-7(c) (3), (4), (5), (8), (9), (10), (11), (13), (14), (15), and (23).

²⁶ Initial Application, Response to Question 1

²⁷ Id.

²⁸ Initial Application, Responses to Questions 1, 13 and 14.

²⁹ 4/28/14 Public Hearing Testimony of Kenneth Belcher

³⁰ Initial Application Response to Question 14 and Exhibit 14A

- (b) A long-term commitment to CCHP, its medical staff and employees;
- (c) A demonstrated cultural fit with CCHP's mission and a shared strategic vision for the future of CCHP;
- (d) An established record of success in the use of various strategies for physician recruiting and assistance developing other ways to expand and enhance CCHP's range of services;
- (e) Access to sufficient capital to allow CCHP to maintain high quality care for its patients and improve its physical facilities;
- (f) Continued commitment to community benefit programs;
- (g) A structure of governance that allows for continued participation of the CCHP Board in the governance of CCHP, preferably a joint venture structure;
- (h) Commitment to maintaining existing services for a period of at least three years;
- (i) Quality and safety expertise to assure that CCHP exceeds quality and safety standards;
- (j) Proven ability to improve clinical outcomes/services as well as provide clinical and administrative support to assure a standard of excellence; and
- (k) Preservation and enhancement of academics.

The condition in the RFP reflecting the CCHP Board's desire for a long-term commitment to CCHP, its medical staff and employees, referenced at (b) above, fit with the Board's desire to engage in a joint venture model of governance that would permit continued CCHP input into the decision making and operations of the Existing Hospitals rather than to be simply acquired.³¹ This intended model of governance was shared by Prospect, as evidenced by the provisions of the Amended and Restated Limited Liability Company Agreement of Prospect CharterCARE, LLC (the "Prospect CharterCARE Operating Agreement"), which contains specific conditions for a 50/50 board representation by CCHP and Prospect, as well as

³¹ See Initial Application Response to Question 55.

establishment of local boards for the Existing Hospitals to provide continued local input into the operations of these facilities.³²

In its RFP, CCHP sought a substantial amount of information from its potential partners,³³ including:

- (a) Mission, Vision, Values;
- (b) Financial Strength;
- (c) Corporate Structure;
- (d) Ability to Pay or Finance Proposal;
- (e) Ability to Fund Capital Needs;
- (f) Desire to Sustain CCHP as a Full Service Acute Care System;
- (g) Commitment to Build CCHP Care Capabilities;
- (h) Desire to Support, Improve and Grow Medical Staff and Physician Alignment;
- (i) Approach to Physician Recruitment and Retention;
- (j) Community Benefit;
- (k) Future Governance Proposal for CCHP;
- (l) Continuing Roles for CCHP Management Team;
- (m) Growth Strategies;
- (n) Existing Affiliations;
- (o) Quality and Safety; and
- (p) Regulatory Impediments to Successful Venture.

The Attorney General finds that the CCHP Board's actions in connection with its issuance of the RFP and criteria employed satisfy the requirements of the Hospital Conversion Act. *See* R.I. Gen. Laws § 23-17.14-7(c)(3)(4).

An additional section requires review of "whether the board exercised due care in assigning a value to the existing hospital and its charitable assets in proceeding to negotiate the proposed conversion." *See* R.I. Gen. Laws § 23-17.14-7(c)(10).

³² *See* Initial Application Response to Question 7, Exhibit 18, Prospect CharterCARE Operating Agreement.

³³ *Id.*

2. Board Use of Consultants

Two criteria in the Hospital Conversions Act deal with a board's use of consultants. *See* R.I. Gen. Laws §§ 23-17.14-7(c)(8) and (9):

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions; and

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion.

As outlined in the Initial Application, the CCHP Board engaged a number of consultants, including Cain Brothers & Company, an investment banking firm, to assist it with evaluation of the proposals made by prospective suitors, as well as in negotiations once a prospective suitor was located.³⁴ It also retained a number of other consultants, including Cambridge Research Institute, The Camden Group, Drinker Biddle & Reath, LLP, Canon Design, Angell Pension Group and Schulte Roth Zubel, LLC to assist it with the process of review of the RFP proposals submitted and negotiation of the Proposed Transaction.³⁵ *See* R.I. Gen. Laws § 23-17.14-7(c)(8)(15).

Prospect also retained a number of consultants, including BDO, Cardno ATC, Lathan & Watkins LLP, Nixon Peabody, LLP, Rutan & Tucker, LLP, Groom Law Group, Chartered, Sills Cummis & Gross P.C. and Ferrucci Russo PC.³⁶

With regard to the care given “in accepting assumptions and conclusions provided by consultants,” the Attorney General is not privy to the advice provided by these consultants other than any documents submitted with the Initial Application process. It is unclear if more than advice regarding the regulatory process was provided by consultants in this portion of the transaction process. Accordingly, the Attorney General has found nothing to refute that the

³⁴ Initial Application, Response to Question 14.

³⁵ Initial Application, Response to Question 60, Exhibit 60B.

³⁶ Initial Application, Response to Question 60, Exhibit 60A.

CCHP Board's decision to accept the assumptions and conclusions provided by the consultants, to the extent there were any, was with due care and that criteria (6), (8), (9) and (15) of the Hospital Conversions Act have been satisfied. *See* R.I. Gen. Laws §23-17.14-7(c).

3. Remaining Board Criteria

Regarding the remaining criteria of this type, the Transacting Parties have disclosed management and operating agreements pertaining to the operations of Prospect CharterCARE, LLC, which entity shall own the Newco Hospitals post transaction. *See* R.I. Gen. Laws § 23-17.14-7(c)(14). The Transacting Parties have provided the Prospect CharterCARE Operating Agreement, which includes provisions for the formation of local boards for each Newco Hospital thereafter.³⁷ This operating agreement also provides for the local boards to consist of at least six individuals, with 50% being physicians and the other 50% being community representatives and the Hospital's CEO, with no board member serving more than a three-year term.³⁸

In addition, the Transacting Parties provided a Management Services Agreement, which will operate between Prospect CharterCARE, LLC and Prospect Advisory.³⁹ Prospect East, as the managing member of Prospect CharterCARE, LLC, has delegated its day-to-day management of the Newco Hospitals to Prospect Advisory under the Management Services Agreement (the "Management Agreement"), which provides for a number of services, including assistance with operational activities, once the Proposed Transaction has closed.⁴⁰ Prospect Advisory will work with senior leadership team members (the "Executive Team") of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the

³⁷ Initial Application, Response to Questions 1, 18 and Exhibit 18 Article XII.

³⁸ Initial Application Exhibit 18, Article XII, Response to Question 7.

³⁹ Initial Application Exhibit 18.

⁴⁰ *Id.* Response to Question S3-20.

Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's board (the "Board") and certain PMH executives. Prospect CharterCARE, LLC's Board will have ultimate power and authority over certain decisions. Since the filing of the Initial Application, the Management Agreement has been subsequently revised to clarify that should any conflicts arise between the Prospect CharterCARE Operating Agreement and the Management Agreement, such conflicts will be resolved in favor of the Prospect CharterCARE Operating Agreement. The Attorney General finds that R.I. Gen. Laws §23-17.14-7(c)(14) of the Hospital Conversions Act has been satisfied.

As part of the Initial Application process, the applicants also indicated that the only agreements they have made regarding future employment or compensated relationships relating to any officer, director, board member or senior manager of CCHP is the assumption by Prospect of the existing employment relationships of the current CCHP CEO, Kenneth Belcher and the other senior leadership team members.⁴¹ In addition, the applicants have stated that board members of the Prospect CharterCARE, LLC and the Newco Hospitals will not be compensated.⁴² As to any agreements between affiliates, DOH has mandatory conditions pursuant to the Hospital Conversions Act addressing this aspect of review. *See* R.I. Gen. Laws § 23-17.14-28.

The Asset Purchase Agreement does not include consideration that is based upon future or contingent value based upon success of the Newco Hospitals. *See* R.I. Gen. Laws § 23-17.14-7(c)(11). In fact, Prospect has confirmed that if the Newco Hospitals do not meet financial expectations, it will provide additional funding to them.⁴³ The terms of the Management Agreement were determined jointly by Prospect and CCHP, both of which were represented by,

⁴¹ Initial Application, Responses to Questions 35 and 36; Asset Purchase Agreement, Article VIII.

⁴² Response to Supplemental Question 3-38.

⁴³ Response to Supplemental Question S4-25.

and consulted with, legal counsel relating to the Proposed Transaction. *See* R.I. Gen. Laws § 23-17.14-7(c)(14),(15). The Attorney General finds that the statutory requirement of R.I. Gen. Laws § 23-17.14-7(c)(23) has been met.

Therefore, the additional miscellaneous Hospital Conversions Act criteria that must be reviewed regarding board actions have been satisfied.

B. CONFLICTS OF INTEREST

Numerous provisions of the Hospital Conversions Act deal with conflicts of interest.⁴⁴ The Attorney General has reviewed the criteria in the Act to determine whether the Transacting Parties and their consultants have avoided conflicts of interest.

1. Conflict of Interest Forms

As part of the Initial Application, certain individuals associated with the Transacting Parties were required to execute conflict of interest forms. These included officers, directors and senior management for Prospect and CCHP. Individuals completing the conflict of interest forms were asked to provide information to determine conflicts of interest such as their affiliation with the Transacting Parties, their relationships with vendors and their future involvement with the Transacting Parties. The Proposed Transaction also provides that the employment contracts of the Executive Team will be assumed by Prospect, without any additional compensation or benefit.⁴⁵ The Attorney General finds no conflict of interest occurred with respect to these agreements that are to be assumed by Prospect.⁴⁶ Further, the applicants have stated that board members of the Prospect CharterCARE, LLC and the Newco Hospitals will not be compensated.⁴⁷ After reviewing the conflict of interest forms, the Attorney

⁴⁴ *See* R.I. Gen. Laws §§ 23-17.14-7(c) (6), (7), (12), (22) and (25) (iv).

⁴⁵ *See* R.I. Gen. Laws §§ 23-17.14-7(c) (6), (7), (12), (22).

⁴⁶ *See* Initial Application, Responses to Questions 1, 15, 35, 36, Exhibit 18 Asset Purchase Agreement Article VIII.

⁴⁷ Response to Supplemental Question 3-38.

General determines that none of the submitted information revealed any conflict of interest.⁴⁸

See R.I. Gen. Laws §23-17.14-7(c)(6).

2. Consultants

The Hospital Conversions Act requires a review of the possibility of conflicts of interests with regard to consultants engaged in connection with the Proposed Transaction. R.I. Gen. Laws §§ 23-17.14-7(c)(6) and (7). The Attorney General notes that CCHP engaged several entities in its pursuit of a potential suitor, including Cain Brothers & Company, an investment banking firm, to assist it with evaluation of the proposals made by prospective suitors, as well as in negotiations once a prospective suitor was located.⁴⁹ It also retained a number of other consultants, including Cambridge Research Institute, The Camden Group, Drinker Biddle & Reath, LLP, Canon Design, Angell Pension Group and Schulte Roth Zubel, LLC to assist it with the process of review of the RFPs submitted and negotiation of the Proposed Transaction.⁵⁰ The Attorney General has determined that the criteria contained in R.I. Gen. Laws §23-17.14-7(c)(6) and (7) of the Hospital Conversions Act have been satisfied as to some, but not all of the consultants engaged because conflict of interest forms were not provided for Cambridge Research Institute, The Camden Group, Dr. Vincent Falanga (who is no longer affiliated with RWMC) and Schulte Roth Zubel, LLC, despite CCHP's efforts to obtain them. One should not be able to avoid providing a conflict form because of change in employment or affiliation. Clearly the forms from these individuals are relevant. These individuals have failed to cooperate with the Attorney General's review. Because no forms have been provided, the Attorney General has made an inference that a conflict of interest exists with regard to these individuals,

⁴⁸ See Initial Application, Response to Question 15

⁴⁹ Initial Application, Response to Question 14

⁵⁰ Initial Application, Response to Question 60, Exhibit 60B.

that any future dealings between Prospect and these individuals will be considered suspect, and in the event the Attorney General obtains additional information, further action may be taken.

3. Negotiations And Conflicts

After review of relevant documents obtained during the Attorney General's review, it has been determined that the individuals who represented the Existing Hospitals in negotiations of the Proposed Transaction had no impermissible conflicts of interest.⁵¹

4. Sale Proceeds And Conflicts

As contemplated by the structure of the purchase price outlined in the Asset Purchase Agreement, there will be no proceeds from the Proposed Conversion after the disposition of the liabilities of the Existing Hospitals not assumed by Prospect CharterCARE, LLC. Therefore, there is no need to address whether the Transacting Parties have appropriately provided for the disposition of proceeds.⁵²

5. Prospect Conflicts Of Interest

On behalf of Prospect, several consultants were also engaged including: BDO, Cardno ATC, Lathan & Watkins LLP, Nixon Peabody, LLP, Rutan & Tucker, LLP, Groom Law Group, Chartered, Sills Cummis & Gross P.C. and Ferrucci Russo PC.⁵³ After reviewing the conflict of interest forms submitted by Prospect, the Attorney General finds none of the forms submitted by Prospect revealed any conflict of interest.

In response to various questions, Prospect has indicated that it has identified certain leadership positions within its organization, post transaction.⁵⁴ Under the terms of the Asset Purchase Agreement, Management Agreement and Prospect CharterCARE Operating

⁵¹ R.I. Gen. Laws § 23-17.14-7(c)(22).

⁵² See R.I. Gen. Laws § 23-17.14-7(c)(25)(iv).

⁵³ Initial Application, Response to Question 60, Exhibit 60A.

⁵⁴ See Initial Application, Response to Question 35.

Agreement, Prospect will hold an 85% ownership interest and thus will appoint certain individuals as its representatives, all of whom have provided Conflict of Interest Statements. A review of these documents and the interviews conducted with representatives of Prospect does not indicate that any conflict of interest exists with respect to the Proposed Transaction.⁵⁵ See R.I. Gen. Laws §§ 23-17.14-7 (c)(6),(7).

C. VALUE OF TRANSACTION

The following Hospital Conversions Act criteria deal with valuation of the Proposed Transaction. See R.I Gen. Laws §§ 23-17.14-7 (c)(17), (18) and (24):

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion; and

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital.

Given their relevant expertise in this area, the Attorney General consulted with its expert, James P. Carris, CPA, ("Carris"), in making a determination regarding valuation. According to the analysis of Carris:

Is the Purchase Commitment from Prospect Medical Holdings, Inc. Fair and Reasonable?

As described in the Asset Purchase Agreement (APA), Prospect Medical Holdings (Prospect), through a series of subsidiaries, is acquiring substantially all the assets of CharterCARE Health Partners, Inc. (CCHP). The acquisition includes Roger Williams Medical Center (RWMC), a 220-bed acute care teaching hospital and Saint Joseph's Health System of Rhode Island (SJHSRI), which operates Fatima Hospital, a 278-bed acute care community hospital located in North Providence, RI.

⁵⁵ *Id.*, and Exhibit 18 (Asset Purchase Agreement, Prospect CharterCARE Operating Agreement and Management Agreement).

Additionally, there are a number of non-hospital health entities in CCHP, which are also included in the transaction.

At closing, CCHP will receive \$45 million in cash plus a 15% interest in the joint venture (Prospect CharterCARE) that will hold the acquired assets.

The APA requires that the \$45 million in cash proceeds be dispersed at closing as follows:

- \$16,550,000 to be used to fully redeem SJHSRI revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

- \$11,062,500 to be used to redeem RWMC revenue bonds issued in 1998 by Rhode Island Health and Educational Building Corporation.

- \$3,387,500 to be used to redeem Roger Williams Realty Corporation revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

- \$14,000,000 to be applied to the St. Joseph Pension Plan.

A detailed sources and uses schedule for the transaction has been provided by the parties.

Prospect has also committed \$50 million over a four year period (in addition to CCHP's routine capital commitment of at least \$10 million per year) to fund expansion and physical plant improvements to the existing entities. During the process, Prospect has agreed to guarantee the \$50 million long-term capital commitment of its subsidiary, Prospect East. This \$50 million may be subject to certain limitations and offsets but for the purposes of this analysis, is included at the full \$50 million.

CCHP's 15% interest in the joint venture is also subject to potential limitations, including a possible capital call. All parties to the transaction have given assurances that no capital call is anticipated in the foreseeable future.

Representatives of management and the Board of CCHP stipulated that if this transaction does not close, they would immediately begin the strategic partnering process again. The system does not have the ability to survive long-term with a "go it alone" strategy. This is borne out by the internal March 2014 consolidated financial statements, which shows a six-month, consolidated operating loss of approximately \$9 million.

A third party valuation analysis or fairness opinion was not completed with regard to the entire transaction. CCHP stated that its board did not undertake an appraisal since any potential valuation would have to be measured against the board's requirement for a joint venture model that included the retention of local ownership and local governance. Prospect stated that it looked at two methods of determining potential value. The first method was a multiple of twelve months trailing EBITDA and the second method was a multiple of enterprise value. Neither of these methods were deemed by the parties to be applicable in this situation. Accordingly, the parties

looked at the existing long-term debt, other outstanding obligations and future capital needs. CCHP in pursuing its joint venture model, as directed by its Board, was looking to resolve approximately \$31 million in long-term debt, to bring the St. Joseph's Pension Plan to a ninety (90%) percent funding level and fund future capital needs of approximately \$50 million. The parties therefore estimate the total consideration to be approximately \$95 million.

The purchase commitment from Prospect is fair and reasonable for the acquisition of CCHP and its affiliates. This is based on the criteria established by the CCHP Board, a review of available documentation, analysis of CCHP's current and historical operating performance as well as interviews and discussions with numerous individuals who participated in the processes and discussions which culminated in this transaction.

Moreover, given the considered and extensive review process employed by the CCHP Board and its finding that the terms of its deal with Prospect "were the best available from the remaining, interested parties," the information provided by Carris, as well as the offers of other bidders, the criteria under the Hospital Conversions Act regarding valuation of the Proposed Transaction has been met.

D. CHARITABLE ASSETS

The Attorney General has the statutory and common law duty to protect charitable assets within the State of Rhode Island.⁵⁶ In addition, the Hospital Conversions Act specifically includes provisions dealing with the disposition of charitable assets in a hospital conversion generally to ensure that the public's interest in the funds is properly safeguarded.⁵⁷ With regard to the charitable assets of CharterCARE, currently they are held by three entities: the CCHP Foundation, Roger Williams Medical Center and St. Joseph Health Services of Rhode Island.⁵⁸

⁵⁶ See e.g., R.I. Gen. Laws § 18-9-1, *et seq.*

⁵⁷ See, R.I. Gen. Laws § 23-17.14-7(c).

⁵⁸ Initial Application, Response to Questions 28 and 29.

1. Disposition of Charitable Assets

In the Initial Application, the Transacting Parties were asked to identify and account for all charitable assets held by the Transacting Parties.⁵⁹ Voluminous detail was provided which will not be detailed herein, but was thoroughly reviewed. Certain information regarding these assets is outlined below. This requirement has been satisfied by the Transacting Parties pursuant to the Hospital Conversions Act. In addition, it was represented that Prospect CharterCARE, LLC has no plans to change or remove the names associated with former gifts to the Existing Hospitals.⁶⁰

In addition, the Transacting Parties were required to provide proposed plans for the creation of the entity where all charitable assets held by the non-profit entities would be transferred.⁶¹ With regard to restricted funds, pursuant to the Hospital Conversions Act, in a hospital conversion involving a not-for-profit corporation and a for-profit corporation, it is required that any endowments, restricted, unrestricted and specific purpose funds be transferred to a charitable foundation.⁶² In furtherance of that requirement, CCHP indicated in the Initial Application that it intends to transfer all currently held specific purpose and restricted funds to the CCHP Foundation,⁶³ which will use the funds in accordance with the designated purposes. At the outset, the only change in the mission and the purpose of the CCHP Foundation will be that charitable assets will not be used for the operations of what would have become the Newco Hospitals due to their for-profit status. The mission and purpose of the CCHP Foundation would be to ensure use of charitable assets consistent with the historical donors' intent and community based needs. It would continue to serve as a community resource to provide accessible,

⁵⁹ Id.

⁶⁰ Response to Supplemental Question S-42

⁶¹ Initial Application, Question 29, R.I. Gen. Laws § 23-17.14-7(c)(25) and §23-17.14-22(a).

⁶² R.I. Gen. Laws § 23-17.14-22(a).

⁶³ See Initial Application, Response to Questions 28 and 29.

affordable and responsive health care and health care related services including disease prevention, education and research, grants, scholarships, clinics and activities within the community to facilitate positive changes in the health care system.⁶⁴ The strategic planning process for CCHP Foundation is ongoing.

Historically, a *Cy Pres* petition to the Rhode Island Superior Court is the legal vehicle to determine whether a donor's intent can be satisfied, and if not, to determine the next best alternative to honor the donor's intent. Because of the change of control of the Existing Hospitals and proposed transfer of their charitable assets to the CCHP Foundation, it was contemplated that a simple *Cy Pres* acknowledging that each Existing Hospital has charitable assets and that post conversion, the CCHP Foundation will honor the intent of the donors, would be the appropriate vehicle. However, as the financial situation of the Existing Hospitals, including with respect to the SJHSRI pension liability, continued to deteriorate during the regulatory review of the Initial Application, CCHP revised its plan as set forth in the Initial Application to reflect a more staggered process with respect to its restricted funds which required some adjustments to the basic form *Cy Pres* described above.

Due to the extent of the Existing Hospitals' liabilities, CCHP proposed that certain RWMC and SJHSRI restricted assets, in addition to unrestricted cash, would remain with the Heritage Hospitals during their wind-down period rather than transferring directly to the CCHP Foundation. Specifically, a total of approximately \$19.6 million dollars in restricted assets would be held by the Foundation (\$7.2 million dollars) and the Heritage Hospitals (\$12.4 million dollars). The revised *Cy Pres* plan was set forth in an outline of the proposed *Cy Pres* petition for each of the Heritage Hospitals with accompanying estimated opening summary balance

⁶⁴ Initial Application Response to Question 28.

sheets for both the Heritage Hospitals and the CCHP Foundation, provided to the Attorney General, and is described below.

A multi-year wind-down process is typical in the dissolution of a hospital corporation due to the time it typically takes to settle government cost reports and the like. It is particularly appropriate where the expected hospital's liabilities are projected to exceed the amount of the unrestricted assets available at the time of closing but where there is also an expectation that additional unrestricted assets will be available in the future, as is the case here. The corporation retains during the wind-down process those restricted charitable assets that provide unrestricted earnings which can be used to address its remaining liabilities, and the corporation remains open until such time as it is concluded that it has completed the winding-down of its affairs.

With respect to the period of time after the close of the Proposed Transaction when the Heritage Hospitals remain open, CCHP proposes to carry out the above-described process as follows:

CCHP Foundation

As a threshold matter, CCHP's *Cy Pres* petition would address any needed change in the CCHP Foundation mission to reflect the broader, community health oriented foundation focus. The *Cy Pres* petition will request approval for the transfer of charitable funds to the CCHP Foundation comprised of approximately \$7.2 million dollars in restricted assets comprised of restricted cash, endowment and earnings on endowment of approximately \$6.9 million dollars from RWMC and \$318,000 from SJHSRI.

The RWMC endowments contained within the sum being transferred to the Foundation total approximately \$4.2 million dollars. The *Cy Pres* petition will address the use of the RWMC endowment income for appropriate charitable purposes. The estimated annual income on such

amount is estimated at approximately \$210,000 annually assuming existing investment policy and allowing for a 5% distribution, within the 7% recommended maximum distribution.

CCHP also will seek *Cy Pres* approval to use approximately \$12.9 million dollars of the total accumulated temporarily restricted earnings on the RWMC endowment of approximately \$15.3 million dollars to satisfy RWMC's liabilities. The balance of approximately \$2.4 million dollars also would be moved to the CCHP Foundation for charitable purposes as it deems appropriate. The estimated annual income from the temporarily restricted endowments is approximately \$118,000 assuming the existing investment policy allowing for a 5% distribution, within the 7% recommended maximum distribution. There are no expected changes in the investment managers during the wind-down period.⁶⁵

RWMC also has a number of temporarily restricted funds whose purpose will not be fully expended before the closing of the Proposed Transaction. It is estimated that approximately \$285,000 in such restricted cash funds will be transferred to the CCHP Foundation. The purposes of these funds will be reviewed and adjusted to meet as close to the original donor intent as possible.

Finally, CCHP intends to request that approximately \$108,000 in SJHSHR temporarily restricted scholarship and endowment funds, and approximately \$209,000 in other temporarily restricted assets be transferred to the CCHP Foundation. The purposes of transferred funds will be similarly reviewed and adjusted to meet as close to the original donor intent as possible.

Heritage Hospitals

CCHP proposes to retain approximately \$24.3 million dollars of assets within the Heritage Hospitals for the time being, including approximately \$12.4 million dollars in restricted

⁶⁵ Response to Supplemental Question 3-30.

assets comprised of perpetual trusts, endowments and scholarships and temporarily restricted assets, as follows:

First, CCHP intends to seek *Cy Pres* approval to change the purpose of the approximately \$1.2 million dollars in SJHSRI's permanently restricted scholarship and endowment funds to be used to partially satisfy SJHSRI's liabilities, including but not limited to potential future funds and expenses relating to the pension plan.

Second, each of the Heritage Hospitals will each retain their respective right to the receive distributions from approximately \$10.8 million dollars in perpetual trusts, which will be used to pay their respective wind-down expenses. In addition, CCHP intends to seek trustee and *Cy Pres* approval to use the perpetual trust income received by RWMC to partially satisfy the payment of SJHSRI expenses, if needed, after all of RWMC's liabilities have been paid.

Finally, the *Cy Pres* petition will include a request that RWMC retain approximately \$421,000 in funds dedicated to expenses unique to RWMC. These include funds restricted for continuing medical education and surgical and oncology academic and research program for which RWMC will seek limited approval to pay only for the costs of such program at Newco RWMC that are over and above the routine, budgeted cost of operating these programs going forward.

To summarize, the *Cy Pres* disposition addressing the transfers to the CCHP Foundation on the one hand and adjustments to funds retained within the Heritage Hospitals on the other, as described above, will ensure that the Existing Hospital charitable assets are used for their intended purposes when that is consistent with law, and will seek court approval for an appropriate, comparable charitable use when the intended use would no longer be consistent with law, for example, because it would require that funds go to a successor, for-profit hospital.

In addition, at one or more future dates, upon confirmation that perpetual trust distributions and endowment earnings are no longer needed to address the liabilities of one or both Heritage Hospitals, one or more additional *Cy Pres* disposition(s) of any remaining restricted and unrestricted charitable assets of the Heritage Hospitals will take place to transfer funds to the CCHP Foundation. Trustee approval also will be required to re-direct future perpetual trust distributions to the CCHP Foundation.

With appropriate agreements with the CCHP Foundation, the Heritage Hospitals and CCHP that are approved by the court in *Cy Pres* proceedings to manage the restricted assets, the Attorney General finds that the Proposed Transaction will not harm the public's interest in the property given, devised or bequeathed to the Existing Hospitals for charitable purposes.⁶⁶

Promptly following the closing of the Proposed Transaction, CCHP will close the books on SJHSRI and RWMC and seek preliminary approval from the Attorney General as to the form and content of the post-closing *Cy Pres* petition described above. Thereafter, the RI Superior Court's consideration of said initial petition will take place within a reasonable period following closing of the Proposed Transaction.

Lastly, inasmuch as none of the existing CCHP entities are trustees for any of the holdings, they are not responsible for completing annual filings as required by R.I. Gen. Laws §18-9-13. *See* R.I. Gen. Laws §23-17.14-7(c)(26).

2. Maintenance of the Mission, Agenda and Purpose of The Existing Hospitals

The Hospital Conversion Act at R.I. Gen. Laws § 23-17.14-7(c)(16) and R.I. Gen. Laws § 23-17.14-7(c)(25)(iii) requires consideration of the following:

- Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the

⁶⁶ R.I. Gen. Laws § 23-17.14-7(c) (1).

traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary; and

- Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital.

RWMC and SJHSRI share the same mission; namely, “as an Affiliate of the System shall be to foster an environment of collaboration among its partners, medical staff and employees that supports high quality, patient focused and accessible care that is responsive to the needs of the communities it serves.”⁶⁷ CCHP “is organized and shall be operated exclusively for the benefit of and to support the charitable purposes of Roger Williams Hospital, St. Joseph Health Services of Rhode Island and Elmhurst Extended Care Services, Inc.”⁶⁸ CCHP Foundation finds its origins in the SJ Foundation, formed on February 27, 2007 “to hold and administer charitable donations on behalf of SHHSRI.”⁶⁹ In December of 2011, a Petition for Cy Pres, *In Re: CharterCARE Health Partners Foundation, P.B. No. 11-6822*, was filed and granted by the Rhode Island Superior Court (Silverstein, J.) allowing the transfer of the restricted funds that were raised by the SJ Foundation to SJHSRI.”⁷⁰ “Subsequent to and as part of the CCHP affiliation, on August 25, 2011, the organizational documents of SJ Foundation were revised to change its name to CharterCARE Health Partners Foundation and to make CCHP its sole member.”⁷¹ “On September 9, 2011, CCHP Foundation secured from the IRS a determination that it was 1) exempt from tax under section 501(c)(3) of the Internal Revenue Code (IRC), and 2) a public charity under section 509(a)(3) of the IRC.”⁷²

While implied in Prospect’s for-profit status that profit is an issue that will be considered, Prospect has committed that Prospect CharterCARE, LLC “will adopt, maintain and adhere to

⁶⁷ Initial Application, Exhibit 10(C)(D), *See also* Response to Supplemental Question S5-2.

⁶⁸ Initial Application, Exhibit 10(B), *See also* Response to Supplemental Question S5-2.

⁶⁹ Initial Application, Response to Question 29.

⁷⁰ Initial Application, Response to Question 28.

⁷¹ Id.

⁷² Id.

CCHP's policy on charity care and or adopt policies and procedures that are at least as favorable to the indigent, uninsured and underserved as CCHP's existing policies and procedures."⁷³ It has further stated that, should a conflict arise between the charitable purposes of the Existing Hospitals and profit-making that the charitable purposes of the Existing Hospitals shall prevail.⁷⁴ The Attorney General finds that R.I. Gen. Laws §23-17.14-7(c)(16) of the Hospital Conversions Act has been satisfied.

The Attorney General has also considered that Prospect has purchased eight other hospitals over the course of its existence, some of which have included distressed hospitals⁷⁵, and has stated that it has never closed or sold any of its hospitals.⁷⁶ Although there is no evidence that the Proposed Transaction will differ significantly from the stated purposes of the Existing Hospitals, it is necessary that a *Cy Pres* be filed and granted both to ensure the proper utilization of the remaining restricted funds and because this hospital conversion includes the conversion of two non-profit entities' assets for use by for-profit entities.

Further, Rhode Island law requires that all licensed hospitals, whether non-profit or for-profit, provide unreimbursed health care services to patients with an inability to pay.⁷⁷ Therefore, Prospect will be required even as a for-profit hospital to provide a certain amount of charity care and has agreed to do so.⁷⁸

Finally, in consideration of whether the new entity will operate with a similar purpose, pursuant to Section 13.15 of the Asset Purchase Agreement entitled "Essential Services" Prospect has agreed to maintain the Newco Hospitals as acute care hospitals with a "full

⁷³ Initial Application Response to Question 59(c).

⁷⁴ Exhibit 18 to Initial Application, Asset Purchase Agreement, Section 13.14; *see also* Response to S3-14.

⁷⁵ Interview of Thomas Reardon.

⁷⁶ Response to Supplemental Question 4-25.

⁷⁷ R.I. Gen. Laws §§ 23-17.14-15(a)(1), (b) and (d).

⁷⁸ *See* Initial Application Exhibit 18, Asset Purchase Agreement, Article 13.14 and Management Agreement.

complement of essential clinical services for a period of at least five years immediately following the Closing Date.”⁷⁹ In addition, Prospect has stated that there are no current plans to discontinue any CCHP systems services, accreditations, and certifications, including those of the CCHP affiliates.⁸⁰ These include health care and non-healthcare community benefits.⁸¹ As with any acquisition, it is likely that some changes will take place after Prospect takes over the Existing Hospitals. In fact, Prospect has indicated that it will be undertaking strategic initiatives collaboratively to improve services rendered to patients.⁸² Further, as part of its long term capital commitment to CCHP, Prospect has also committed to making improvements of a bricks and mortar nature to the Existing Hospitals.⁸³ Accordingly, the Proposed Transaction does include a potential that some changes will occur at the Existing Hospitals.

3. Foundation for Proceeds

In addition to addressing charitable assets, the Hospital Conversions Act requires an independent foundation to hold and distribute proceeds from a hospital conversion consistent with the acquiree's original purpose.⁸⁴ With regard to the Proposed Transaction, the Asset Purchase Agreement does not include a purchase price that will produce traditional proceeds as it is structured upon payment of certain obligations and commitment to future investments in the hospital. Accordingly, R.I. Gen. Laws § 23-17.14-22 does not require a foundation for receipt of proceeds. Nonetheless, CCHP Foundation is an existing publicly supported foundation which stands ready to receive the restricted funds associated with the Heritage Hospitals in accordance with the plan described above. It is anticipated that the amount of such funds are sufficient for

⁷⁹ See Asset Purchase Agreement Article 13.15; Initial Application Response to Questions 53, 57 and 59.

⁸⁰ Response to Supplemental Question S3-53.

⁸¹ See e.g. Exhibit S3-19; Exhibit S4-20, and Final Supplemental Response 4-20.

⁸² Initial Application, Exhibit 18 Asset Purchase Agreement Article 13.13.

⁸³ Initial Application, Response to Question 1.

⁸⁴ R.I. Gen. Laws § 23-17.14-22(a) and R.I. Gen. Laws § 23-17.14-7(c)(16).

the operation of an independent community health care foundation. However, should the CCHP Foundation board determine in the future that it would be more cost effective to do so, it may seek *Cy Pres* approval to transfer the restricted assets to an independent foundation consistent with the Hospital Conversions Act.

E. TAX IMPLICATIONS

There are three criteria in the Hospitals Conversions Act that deal with the tax implications of the Proposed Transaction.⁸⁵ Currently, CCHP and the Existing Hospitals are non-profit corporations organized pursuant to Rhode Island law. Upon the purchase of their assets by Prospect, the resulting entities will be for-profit entities and no longer immune from certain tax obligations. Clearly, this has an impact on the tax status of these entities.⁸⁶ This transaction represents the second hospital conversion transaction in Rhode Island where nonprofit hospitals are changing to for-profit entities. Review of the Initial Application indicates that this decision to become for-profit entities was made after careful consideration by CCHP that the terms of this transaction were the best available to CCHP among the proposals from the remaining interested parties.⁸⁷ Accordingly, the wisdom of choosing a for-profit company to purchase a non-profit hospital is not a matter that warrants in-depth consideration given the circumstances.

With regard to tax implications, one of Prospect's conditions of closing the transaction with CharterCARE stated in the Initial Application referenced that the closing is contingent upon property tax stabilization/exemption ordinances with the host communities of Providence and

⁸⁵ See R.I. Gen. Laws §§ 23-17.14-7(c)(20), (21) and (25)(ii).

⁸⁶ The question posed by R.I. Gen. Laws § 23-17.14-7(c)(21) is whether the tax status of the existing hospital is jeopardized." This characterization does not apply to the Proposed Transaction as not only is it jeopardized, it is knowingly being changed from non-profit to for-profit.

⁸⁷ See Initial Application, Response to Request 55.

North Providence.⁸⁸ The Transacting Parties have indicated that these negotiations are ongoing with the communities to be affected and are anticipated to be resolved with a potential need for further procedural hearings to occur after May 16, 2014.⁸⁹ The Attorney General is advised by Prospect that they are progressing steadily toward a resolution of this issue. The determination as to whether tax stabilization or exemption will be granted to Prospect for the Existing Hospitals is beyond the Attorney General's jurisdiction and is therefore left to the affected communities to determine.

In addition to real estate taxes, typically Prospect would be required to pay Rhode Island sales and use tax in certain situations. *See* R.I. Gen. Laws § 44-18-1 *et seq.*, and 44-19-1, *et. seq.*

As for the remaining review criteria contained in R.I. Gen. Laws §23-17.14-7(c)(20), regarding "whether the conversion is proper under applicable state tax code provisions," the Transacting Parties are required to obtain a certificate from the State of Rhode Island prior to closing that the Proposed Transaction is proper under applicable state tax code provisions. Accordingly, the Attorney General finds that once the required certificate has been obtained from the State of Rhode Island, which is a requirement of closing of the Proposed Transaction, that this particular criterion under the Hospital Conversions Act will be met.

CCHP also sought legal counsel regarding federal tax implications with respect to CCHP serving as the 15% member of for-profit Prospect CharterCARE, LLC. CCHP has stated that the structure of the Proposed Transaction permits it to act exclusively in furtherance of its exempt purposes and only incidentally for the benefit of PMH. However, because this area of tax law may continue to evolve in the future, should CCHP's tax-exempt status ever be jeopardized due to its participation in the Prospect CharterCARE, LLC, CCHP may cause PMH

⁸⁸ See Initial Application, Response to Question 45.

⁸⁹ Response to Supplemental Question S4-12.

to buy out its interest if there is no other satisfactory resolution. This process and the distribution of the additional proceeds would be subject to Attorney General oversight consistent with this decision.⁹⁰ Finally, CCHP has stated that it will take any reasonable steps to ensure that both it and the CCHP Foundation will preserve their current exempt status following the close of the Proposed Transaction⁹¹.

Regarding the tax status of the entity receiving the proceeds, no proceeds are contemplated and the new entities will be for-profit. *See* R.I. Gen. Laws § 23-17.14-7(c)(25)(ii).

F. NEW ENTITY

The Attorney General must review certain criteria pursuant to the Hospital Conversions Act that deals with the corporate governance of the new hospitals after the completion of the Proposed Transaction.⁹² Below is an outline of the review of such requirements.

1. Bylaws and Articles of Incorporation

One issue that must be examined is whether the new entity has bylaws and articles of incorporation. The new corporate entity that will purchase the assets of CCHP is Prospect Medical Holdings, Inc. (“PMH”). PMH is a Delaware corporation incorporated on May 14, 1999 with its principal place of business in Los Angeles, California. *See* Initial Application Exhibit 10(a). The current bylaws for PMH were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for PMH.⁹³

PMH is a health care services company that owns and operates hospitals and manages the provision of health care services for managed care enrollees through its network of specialists and primary care physicians. PMH is the parent entity with regard to the eight (8) acute care and

⁹⁰ Response to Question S10

⁹¹ Final Supplemental Responses Miscellaneous p. 6.

⁹² *See e.g.*, Hospital Conversions Act, R.I. Gen. Laws §§ 23-17.14-7(c)(25) (i), (v), (vi), (vii), (viii), and (ix).

⁹³ Initial Application Exhibit 10A-1.

behavioral hospitals located in California and Texas. In total, PMH owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics.⁹⁴

PMH is owned by Ivy Intermediate Holdings, Inc. (“IIH”), a Delaware corporation, incorporated on July 23, 2010, with its registered place of business in Wilmington, Delaware.⁹⁵ The current bylaws for IIH were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for IIH.⁹⁶

Ivy Holdings, Inc. (“IH”), a Delaware corporation, incorporated on December 14, 2010, with its registered place of business in Wilmington, Delaware, owns 100% of the stock of IIH.⁹⁷ IH is a holding company for this stock ownership, having no other assets, liabilities or operations.⁹⁸ Bylaws were provided by the Transacting Parties for IH.⁹⁹

Pursuant to the Asset Purchase Agreement,¹⁰⁰ the ownership interest of PMH will be held by a newly formed LLC, Prospect East Holdings, Inc., (“Prospect East”) a Delaware LLC, formed on August 20, 2013, with its principal place of business located in Wilmington, Delaware.¹⁰¹ Prospect East is structured to be the PMH entity that will hold ownership interest in any health care facilities acquired by PMH on the East Coast. The current bylaws for Prospect East were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for Prospect East.¹⁰²

Prospect CharterCARE, LLC, a Rhode Island limited liability company, is a joint venture between Prospect East and CCHP and will hold 100% of the ownership interests in the entities

⁹⁴ Initial Application p. 1.

⁹⁵ Initial Application, Exhibit 10A-12.

⁹⁶ *Id.*

⁹⁷ Initial Application, Exhibit 10A-11.

⁹⁸ Initial Application, p. 2.

⁹⁹ Initial Application, Exhibit 10A-11.

¹⁰⁰ Asset Purchase Agreement, p. 2.

¹⁰¹ Initial Application, p. 2, Ex. 10A-6.

¹⁰² *Id.*

that will hold the licensure for the Existing Hospitals, post conversion.¹⁰³ Prospect CharterCARE, LLC was formed on August 20, 2013, with its principal place of business in Los Angeles, California and will be owned 85% by Prospect East and 15% by CCHP. Prospect East is the managing member of Prospect CharterCARE, LLC and is responsible for the day-to-day management of the Newco Hospitals with certain decisions subject to Board approval pursuant to Section 8.3 of the Prospect CharterCARE Operating Agreement. Prospect East as the managing member of Prospect CharterCARE, LLC has delegated through the Management Agreement the day-to-day management of the Newco Hospitals to Prospect Advisory Services, LLC (“Prospect Advisory”), an affiliate of PMH. The governing board of Prospect CharterCARE, LLC will be a 50/50 board¹⁰⁴ (the “Board”) with half of its members selected by and through Prospect East’s ownership and the other half of the members selected by and through CCHP’s ownership. The Board shall be the organized, governing body responsible for the management and control of the operations of the licensed hospitals, their conformity with all federal, state and local laws and regulations regarding fire, safety, sanitation, communicable and reportable diseases and other relevant health and safety requirements.¹⁰⁵ The Board shall define the population and communities to be served and the scope of services to be provided.¹⁰⁶ The Board shall also determine policy with regard to the qualifications of personnel, corporate governance, and the policy for selection and appointment of medical staff and granting of clinical privileges.¹⁰⁷ Bylaws were not provided for Prospect CharterCARE, LLC as typically

¹⁰³ Newco Hospitals.

¹⁰⁴ Initial Application, Revised 7(c).

¹⁰⁵ Id.

¹⁰⁶ Id.

¹⁰⁷ Id.

such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.¹⁰⁸

Prospect Advisory, a Delaware Limited Liability Company was formed on August 20, 2013, with its principal place of business in Los Angeles, California and is solely owned and controlled by PMH.¹⁰⁹ As described above, Prospect East has delegated the day-to-day management of the Newco Hospitals to Prospect Advisory through the Management Agreement and Prospect Advisory will receive a monthly management fee equal to two percent (2%) of the Net Revenues¹¹⁰ of Prospect CharterCARE, LLC. Prospect Advisory will work with the Executive Team of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's Board and certain PMH executives. Prospect CharterCARE, LLC's Board will continue to have ultimate power and authority over certain decisions pursuant to Section 8.3 of Prospect CharterCARE Operating Agreement. The Bylaws were not provided for Prospect Advisory, as typically such organizations do not have Bylaws. It does not have a board of directors.¹¹¹ However, an operating agreement was provided by the Transacting Parties.¹¹²

Prospect CharterCARE RWMC, LLC ("Newco RWMC"), is a Rhode Island limited liability company, which will own and hold the licensure for Roger Williams Medical Center

¹⁰⁸ Initial Application, Ex. 18.

¹⁰⁹ Initial Application, p. 35, Ex. 10A-7.

¹¹⁰ Net Revenues means total operating revenues derived, directly or indirectly, by Prospect CharterCARE, LLC with respect to the Newco Hospitals, whether received on a cash or on a credit basis, paid or unpaid, collected or uncollected, as determined in accordance with generally accepted accounting principles net of (A) allowance for third party contractual adjustments and (B) discounts and charity care amounts (not including any bad debt amounts), in each case as determined in accordance with GAAP. Management Agreement, Section 5.2(b).

¹¹¹ Id.

¹¹² Initial Application, Ex. 10A-7.

post-conversion. Newco RWMC will be wholly-owned by Prospect CharterCARE, LLC¹¹³ and its principal business office will be located in Los Angeles, California. Bylaws were not provided for Newco RWMC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.¹¹⁴ It will be solely operated by Prospect CharterCARE, LLC.¹¹⁵

Prospect CharterCARE SJHSRI, LLC (“Newco Fatima”) is a Rhode Island limited liability company, with its principal business office located in Los Angeles, California.¹¹⁶ It will own¹¹⁷ and hold the licensure for Our Lady of Fatima Hospital post-conversion. Bylaws were not provided for Prospect CharterCARE SJHSRI, LLC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.¹¹⁸ It will be solely operated by Prospect CharterCARE, LLC.¹¹⁹

Prospect CharterCARE Ancillary Services, LLC (“Ancillary Services”) is a Rhode Island limited liability company, with its principal place of business located in Los Angeles, California. It will hold the licensure for Prospect CharterCARE labs.¹²⁰ Bylaws were not provided for Prospect CharterCARE Ancillary Services, LLC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties. It will be solely operated by Prospect CharterCARE, LLC.

¹¹³ Initial Application Response to Question 5.

¹¹⁴ Initial Application, Ex. 10A-9.

¹¹⁵ Id.

¹¹⁶ Initial Application Ex. 10-10.

¹¹⁷ Initial Application response to Question 5.

¹¹⁸ Initial Application, Ex. 10A-9.

¹¹⁹ Id.

¹²⁰ First Amendment to Asset Purchase Agreement, Response to Supplemental Question S3-15; Miscellaneous Exhibit 1.

Prospect CharterCARE, LLC, which will hold the ownership of the entities that hold the licensure for the Existing Hospitals, post conversion,¹²¹ will be managed by Prospect East Holdings, Inc, a Delaware corporation, whose registered place of business is Wilmington, Delaware and is wholly-owned by PMH.¹²² Bylaws were provided by the Transacting Parties for Prospect East Holdings.¹²³

Accordingly, R.I. Gen. Laws § 23-17.14-7(c)(25)(v) has been satisfied.

2. Board Composition

In addition to bylaws and articles of incorporation, specific criteria that must be considered regarding the new corporate entities include analysis of the composition of the new boards. Specifically, the Hospital Conversions Act requires review of:

- (vi) whether the board of any new or continuing entity will be independent from the new hospital;
- (vii) whether the method for selecting board members, staff, and consultants is appropriate;
- (viii) whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making and public members representing diverse ethnic populations of the affected community; and
- (ix) whether the size of the board and proposed length of board terms are sufficient.

See R.I. Gen. Laws §§ 22-17.14-7(c)(25)(vi), (vii), (viii) and (ix).

First, it is important to state that in the Asset Purchase Agreement, PMH and CCHP have proposed a post-conversion structure in which those two entities will form a joint venture, Prospect CharterCARE, LLC, to own and operate all of the health care entities associated with CCHP including, without limitation, the two acute-care, community hospitals that currently operate as Roger Williams Medical Center and Our Lady of Fatima Hospital, as well as an

¹²¹ Newco Hospitals.

¹²² Initial Application p. 2, Exhibit 12A-2, 10A-6.

¹²³ Initial Application, Ex. 10A-6.

extended care facility in Providence known as Elmhurst Extended Care. Prospect CharterCARE, LLC would operate under a 50/50 board composition, which will permit CCHP to retain a significant degree of control in the ongoing ownership and governance of Prospect CharterCARE, LLC to ensure the continuance of its local mission, as well as to provide it with access to the capital and other resources held by PMH to address the challenges of today's health care industry and continue to serve the citizens of Rhode Island.¹²⁴ Given the unique structure of the Proposed Transaction, it is necessary to also discuss the powers that will continue to be held by CCHP to advance these objectives.

Pursuant to the Prospect CharterCARE Operating Agreement, the Transacting Parties have agreed to form a board of directors that has the overall oversight and ultimate authority over the affairs of Prospect CharterCARE, LLC and its Subsidiaries.¹²⁵ As stated above, the Prospect CharterCARE Board will be a 50/50 board with half of its members selected by and through Prospect East's ownership and the other half of the members selected by and through CCHP's ownership.¹²⁶

The Board would be comprised of eight (8) members: four (4) directors appointed by CCHP (including at least one (1) physician) and four directors appointed by Prospect East.¹²⁷ Board members would serve for a term of one to three years, at the discretion of the owner that elected or appointed the individual.¹²⁸ Board members could be removed with or without cause by the owner that elected or appointed the director.¹²⁹ However, if CCHP's ownership interest in Prospect CharterCARE, LLC is reduced to 5%, at any time, because it elects not to or is unable

¹²⁴ Initial Application p. 7, Exhibit 18, Prospect CharterCARE Operating Agreement, Section 8.3.

¹²⁵ The Newco Hospitals, Prospect CharterCARE Elmhurst, LLC, and Prospect CharterCARE Physicians, LLC, p. 1 of Prospect CharterCARE Operating Agreement.

¹²⁶ Exhibit 18, Prospect CharterCARE Operating Agreement, Section 12.1.

¹²⁷ Id.

¹²⁸ Id.

¹²⁹ Id.

to contribute to a capital call then one of the CCHP appointed directors would resign and CCHP would only appoint three (3) directors.¹³⁰ In this case, the Board would be comprised of seven (7) instead of eight (8) directors.¹³¹ Note that Prospect has stated that it does not expect to make any such capital calls within the first three (3) years post-closing.¹³²

As previously described, Prospect East is the managing member of Prospect CharterCARE, LLC and is responsible for the day-to-day management of the Newco Hospitals with certain decisions subject to Board approval pursuant to Section 8.3 of Prospect CharterCARE's Operating Agreement. Prospect East as the managing member of Prospect CharterCARE, LLC has delegated through the Management Agreement the day-to-day management of the Newco Hospitals to Prospect Advisory. Prospect Advisory will work with the Executive Team of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's Board and certain PMH executives. Prospect CharterCARE, LLC's Board will have ultimate power and authority over certain decisions.

Section 8.3 of Prospect CharterCARE's Operating Agreement sets forth the Board's reserved powers including but not limited to: changing the mission or the and purpose of Prospect CharterCARE, LLC or any of its Subsidiaries, decisions involving development and approval of strategic planning, decisions regarding annual operating and capital budgets, changes to the charity policy of Prospect CharterCARE, LLC and its Subsidiaries, approving reduction of essential services at either Newco Hospital, engaging in any merger, consolidation, share exchange or reorganization of Prospect CharterCARE, LLC and its Subsidiaries, and approving a

¹³⁰ Id.

¹³¹ Id.

¹³² Response to Supplemental Question S4-3.

decision to dissolve or liquidate the Prospect CharterCARE, LLC or any of its Subsidiaries.¹³³ Board approval would be exercised by the Board as a body with each owner's directors having a majority vote.¹³⁴ Thus, through this agreement, the leadership of CCHP retains significant decision making input into the continued operations of Prospect CharterCARE, LLC and its Subsidiaries. Meetings of the Board are required to occur at least on a quarterly basis with at least one meeting held in person (face-to-face).¹³⁵ Special meetings of the Board may be called by Prospect Advisory as the manager, the chairman or any three (3) members of the Board.¹³⁶

In addition to the Board, Prospect CharterCARE, LLC will also form a local board for each of the Newco Hospitals.¹³⁷ These local boards would be comprised of at least six (6) individuals.¹³⁸ One half the of the local board members would be physicians from the Newco Hospitals' medical staff, and the other half of the local board members would be the Newco Hospitals' local CEOs and community representatives.¹³⁹ Local board members would be limited to three (3) year terms.¹⁴⁰ The local boards would be responsible for matters such as medical staff credentialing, recommendations regarding strategic and capital plans, providing guidance to the Prospect CharterCARE, LLC board on local market and community concerns, considerations, strategies, issues and politics as well as responding to other requests made by Prospect CharterCARE, LLC's board of directors.¹⁴¹

In Response to Question 7 of the Initial Application, the Transacting Parties state that PMH has yet to determine the identities of the four (4) board members comprising its 50% share

¹³³ Section 8.3 of Prospect CharterCARE's Operating Agreement.

¹³⁴ Id. at Sections 1.6, 11.12, 12.2.

¹³⁵ Id. at Section 12.3.

¹³⁶ Id.

¹³⁷ Id. at Section 12.4.

¹³⁸ Id.

¹³⁹ Id.

¹⁴⁰ Id.

¹⁴¹ Id.

of the Prospect CharterCARE, LLC Board. Meanwhile, CCHP has designated its four (4) board members comprising its share 50% of the Board. The Transacting Parties further state that the members of the Board of Directors of Newco RWMC and Newco Fatima have been determined since the filing of the Initial Application.

Accordingly, the composition of the boards of Prospect CharterCARE, LLC and those of the Newco Hospitals are sufficiently clear to ensure the independence from the hospitals and the diversity of experience required by the Hospital Conversions Act. There is no overlap between and among the boards of the CCHP Foundation, CCHP, the Heritage Hospitals, Prospect CharterCARE, LLC and the Newco Hospitals' boards. *See* R.I. Gen. Laws §22-17.14-7(c)(25)(v)(vi) and (viii).¹⁴² As discussed above, the initial boards have been set and there is a methodology in place for their selection as well as the number and terms of directors. *See* R.I. Gen. Laws §22-17.14-7(c)(25)(vii). Therefore, the Hospital Conversions Act criteria regarding the boards of the new entities has been fully met.

G. CHARACTER, COMMITMENT, COMPETENCE AND STANDING IN THE COMMUNITY

An important and encompassing portion of the Hospital Conversions Act review criteria requires review of “[w]hether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory” *See* R.I. Gen. Laws § 23-17.14-7(c)(28). As stated above, although PMH is the owner/operator of eight (8) other hospitals¹⁴³ through its established chain of command through the various associated limited liability company entities discussed above, PMH will exercise its primary control over CCHP and the Existing Hospitals through its subsidiary Prospect CharterCARE, LLC. As

¹⁴² Response to Supplemental Questions S3-8, S3-12.

¹⁴³ Initial Application, p. 1, Response to Question 4.

described above, Prospect CharterCARE, LLC will be comprised of a 50/50 board, each appointed by PMH and CCHP.¹⁴⁴

1. Character

As stated above, PMH was incorporated on May 14, 1999. *See* Initial Application Exhibit 10A-1. PMH is a health care services company that owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics.¹⁴⁵ The central function of operating hospitals is patient care. DOH's review focuses more directly on the topic of character of the acquiring entity and has identical review criteria regarding this topic;¹⁴⁶ therefore, the Attorney General will rely on and defer to DOH's expertise and experience relating to Prospect's character in the communities in which it operates. Nonetheless, the Attorney General did not find any types of complaints against the current owners of Prospect, such as from the Department of Justice or the Office of Inspector General.

2. Commitment

Pursuant to the Asset Purchase Agreement, PMH has agreed to a number of financial commitments, including an up to \$50 million dollar capital commitment to CCHP within four (4) years of the closing of the Proposed Transaction, in addition to normal and routine capital expenditures of at least \$10 million dollars per year.¹⁴⁷ These improvements include investing in technology, equipment, quality improvements, expanded services and physician recruitment.¹⁴⁸ Other than financial commitments, Prospect has promised that the Newco Hospitals will continue to provide a full complement of essential clinical services for the term of

¹⁴⁴ Initial Application, Response to Question 1, Exhibit 18, Asset Purchase Agreement, Section 12.1.

¹⁴⁵ Initial Application, Response to Question 1.

¹⁴⁶ *See* R.I. Gen. Laws § 23-17.14-8 (b)(1).

¹⁴⁷ *See* Asset Purchase Agreement, Section 2.5 and Initial Application Response to Question 1. PMH has since agreed to guarantee Prospect's obligations under the Asset Purchase Agreement regarding this \$50 million dollar commitment.

¹⁴⁸ *See* Responses to Initial Application Questions 1, 57, Asset Purchase Agreement Section 13.17.

five (5) after the closing date.¹⁴⁹ Prospect agrees to maintain the Catholic identity of all legacy SJHSRI locations and ensure that all services at SJHSRI locations are rendered in full compliance with the Ethical and Religious Directives.¹⁵⁰ Prospect has also made a commitment that, should a conflict arise between the charitable purposes of the Existing Hospitals and profit-making that the charitable purposes of the Existing Hospitals shall prevail.¹⁵¹ A commitment has also been made with respect to limitations on a sale of the interests held by PMH and Prospect East for a period of five (5) years. *See* Asset Purchase Agreement Section 13.18(b).¹⁵² In addition, Prospect has asserted that it is committed to preservation of jobs at the Existing Hospitals, post conversion, which will assist in providing continuity in care and leadership under the 50/50 board of Prospect CharterCARE, LLC post conversion.¹⁵³

3. Competence

As stated above, PMH has a track record of operating eight (8) hospitals in other states over the course of 15 years, some of which were financially distressed when acquired.¹⁵⁴ Moreover, Prospect indicates that it has never abandoned or closed a hospital that it has purchased.¹⁵⁵ In addition, Prospect has indicated that, should the Newco Hospitals fail to meet financial expectations that have been projected, Prospect would provide further funding to support them.¹⁵⁶

¹⁴⁹ Initial Application, Response to Question 57; *See* Asset Purchase Agreement Section 13.15.

¹⁵⁰ Ethical and Religious Directives (“ERDs”) promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, RI.; *See* Asset Purchase Agreement Section 13.16.

¹⁵¹ Exhibit 18 to Initial Application, Asset Purchase Agreement, Section 13.14; *see also* Response to S3-14.

¹⁵² Additional options exist to the Transacting Parties, which commence on the fifth anniversary of the closing date. *See* Asset Purchase Agreement, Sections 13.18 (b)(c) and (d) and in the Prospect CharterCARE Operating Agreement.

¹⁵³ *See* Initial Application, response to Question 1, Exhibit 18 Asset Purchase Agreement, Article VIII.

¹⁵⁴ Interview of Thomas Reardon.

¹⁵⁵ Response to Supplemental Question S4-25.

¹⁵⁶ *Id.*

The term competence can have multiple meanings and connotations. The Attorney General reviewed the relevant competence with a focus on the ability to successfully operate the Newco hospitals after the Proposed Transaction. The central function of operating hospitals is patient care. DOH's review focuses more directly on health services and has identical review criteria regarding this topic;¹⁵⁷ therefore, the Attorney General will rely on and defer to DOH's expertise and experience relating to Prospect's track record for quality services in its other hospitals. Prospect has made several representations about patient care and health services. Specifically, it represents that its hospitals are currently accredited by the Joint Commission and in good standing.¹⁵⁸ The other relevant component to competence in this context is the ability to manage the business side of a hospital. In its fifteen (15) year history, Prospect has acquired eight (8) hospitals, many of which were financially-distressed. During interviews conducted pursuant to the Hospital Conversions Act review, the Attorney General found that Prospect's management team has years of experience in operating community hospitals. Further, as outlined hereafter, the Attorney General's expert has found that the finances of Prospect are in line with companies acquiring distressed community hospitals which appears to be a signal of some level of success.

4. Standing in the Community

The issue of standing in the community is interrelated with overlapping inquiries to the question of character. Overall, given the totality of the circumstances, the Attorney General finds that Prospect's character, commitment, competence, and standing in the community meet the threshold and are satisfactory for the purposes of a Hospital Conversions Act review.

¹⁵⁷ See R.I. Gen. Laws § 23-17.14-8 (b)(1).

¹⁵⁸ See Initial Application Response to Question 64.

H. MISCELLANEOUS

In addition to the provisions outlined above, there are also a few additional requirements of the Hospital Conversions Act that do not fit into any of the categories outlined above. They are outlined individually below.

1. Rhode Island Nonprofit Corporations Act

The Hospital Conversions Act requires that a hospital conversion comply with the Rhode Island Nonprofit Corporations Act. R.I. Gen. Laws §§ 7-6-1, *et. seq.* (the "Nonprofit Act").¹⁵⁹ The Nonprofit Act is comprised of 108 sections. Many of these sections discuss the governance requirements of non-profit corporations. First, the Attorney General makes no finding regarding whether the Prospect entities, as they are all for profit entities and the Nonprofit Act does not apply to them. With respect to CCHP, the Proposed Transaction is permissible under the Non-Profit Corporation Act and the Proposed Transaction was approved by the CCHP Board who has been represented by legal counsel throughout these proceedings and during negotiations.¹⁶⁰

Based upon the above, the Attorney General finds that this condition has been satisfied.

2. Right of First Refusal

The Hospital Conversions Act requires review of whether the Proposed Transaction involves a right of first refusal to repurchase the assets. *See* R.I. Gen Laws § 23-17.14-7 (c)(27). The Asset Purchase Agreement contains no such right of first refusal to CCHP to repurchase the assets being acquired by Prospect.

¹⁵⁹ *See* R.I. Gen Laws § 23-17.14-7 (c)(19).

¹⁶⁰ *See* R.I. Gen Laws §§ 7-6-5 and 7-6-49; Initial Application Response to Question 1; Response to Supplemental Question S3-17.

3. Control Premium

With regard to the one remaining review provision of the Hospital Conversions Act, there is no control premium included in the Proposed Transaction. R.I. Gen. Laws § 23-17.14-7(c)(29).

4. Additional Issues

There are four issues that the Attorney General will address in addition to the enumerated review criteria that have come to light during the review process.

a. Prospect's Ability to Fund Transaction

The Attorney General's expert, Carris has reviewed the financial information provided by Prospect and has concluded as follows:

Does Prospect have the Resources to Finance this Transaction as Well as Ongoing Commitments to CCHP?

As reported in Prospect's 2013 audited financial statements, Prospect generated approximately \$80 million in operating income for the year ended September 30, 2013. Operating revenues totaled \$713.6 million and operating expenses totaled \$633.6 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) for 2013 totaled \$98.7 million. Prospect's audited financial statements show consistent growth and profitability from 2010 through 2013.

Prospect's September 2013 balance sheet shows cash & equivalents of \$86.3 million, total current assets of \$241.7 million and total assets of \$578.9 million. For liabilities, the financial statements report current liabilities of \$148.2 million, total liabilities of \$610 million and net equity of (\$32.0) million. The current ratio for 2013 was 1.63.

In 2013, Prospect distributed \$88 million to its primary investor. Prospect's management and representatives have given assurances that this was a one-time event and that there are no plans to make a similar distribution in the foreseeable future.

Prospect will fund this transaction out of existing cash and an available line of credit. Based on the APA, Prospect will fund \$45 million at closing and an additional \$12.5 million in year one (one-fourth of \$50 million), for a total of \$57.5 million in the first 12 months.

During various meetings, representatives of Prospect's senior leadership team made further representations that the financial status of Prospect permits it to fund the closing of the transaction and also meet the ongoing capital commitments. The parties also gave assurances that the \$50 million capital commitment has been disclosed and agreed to by Prospect's board of

directors and lenders. Assurances were also given that the \$50 million is being funded out of available liquidity and will not violate any of Prospect's existing loan covenants.

Based on the financial documentation submitted by Prospect and the representations of its management and other representatives, the company has the financial resources to fund this transaction, including the \$50 million in long-term capital commitments. Prospect capacity to meet future capital commitments could be constrained if the company enters into other transactions that (in total) exceed its available financial resources and/or its ability to access capital. Future commitments could also be constrained by a deterioration of financial performance or a material change in market conditions.

Given the opinion of Carris, absent any exigent circumstances or, as aptly pointed out by Carris, any acquisition plan or other commitments that would over-extend Prospect, it currently appears to have the financial ability to fund the Proposed Transaction.

b. Mandatory Conditions

Among the changes to the Hospital Conversions Act in 2012 was the imposition of mandatory conditions on for-profit acquirors. *See* R.I. Gen. Laws § 23-17.14-28. The Legislature crafted eight (8) such conditions for DOH with a wide variety of topics. *See* R.I. Gen. Laws § 23-17.14-28(b). As for the Attorney General, one such condition was imposed, namely: "the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." *See* R.I. Gen. Laws § 23-17.14-28(c). With regard to these pre-determined conditions, if either Department deems them "not appropriate or desirable in a particular conversion," such Department must include rationale for not including the condition. *See* R.I. Gen. Laws § 23-17.14-28(b) and (c). The Attorney General finds that to the extent that such condition is applicable, the Transacting Parties have satisfied it by the obligations contained in the Asset Purchase Agreement and no additional condition will be added other than those already imposed.

c. Use of Monitor

Another change to the Hospital Conversions Act in 2012 was to include a requirement that a for-profit acquiror file reports for a three (3) year period. *See* R.I. Gen. Laws § 23-17.14-28(d)(1). In addition, such section requires that the Attorney General and DOH “monitor, assess and evaluate the acquiror's compliance with all of the conditions of approval.” *See* R.I. Gen. Laws § 23-17.14-28(d)(2). Further, there shall be an annual review of “the impact of the conversion on health care costs and services within the communities served.” *Id.* The costs of these reviews will be paid by the acquiror and placed into escrow during the monitoring period. *See* R.I. Gen. Laws § 23-17.14-28(d)(3). No Initial Application can be approved until an agreement has been executed with the Attorney General and the Director of the DOH for the payment of reasonable costs for such review. *Id.* The Transacting Parties have executed a Reimbursement Agreement dated, January 24, 2014. The Attorney General’s conditions will be monitored by an individual or entity chosen by the Attorney General and paid for by Prospect. An agreement with such monitor and Prospect will be drafted and executed prior to the Closing on the Proposed Transaction.

d. Health Planning

As during the course of any HCA review, there has been some discussion in the health care community about the continuing role of CCHP in the Rhode Island health care system, post-acquisition, particularly since the Existing Hospitals will become for profit entities. The Attorney General notes that the Hospital Conversions Act in its present form is not a health planning tool. Although there has been much talk about creating a so-called state health plan, that goal has not yet been reached. Therefore, it is not the position of the Attorney General to

use the Hospital Conversion Act to effectuate health planning that should be properly done elsewhere with input from a variety of groups. The Hospital Conversion Act contains a set of criteria, it does not allow for the Attorney General to opt for a different model or to suggest a different suitor for CCHP. However, the question to be answered by this review is whether this particular transaction meets the criteria of the Hospital Conversions Act.

V. CONCLUSION

While the Act is no guarantee that a hospital will not be sold to an entity with a different plan in mind than what the surrounding community may value, the Act at the very least provides a minimum framework for review of a hospital transaction. The Attorney General hopes that Prospect CharterCARE, LLC becomes everything it has promised to be for the citizens of Rhode Island. As with all of the Attorney General's reviews pursuant to the Hospital Conversions Act, this Decision represents this Department's best efforts and a careful review of the Proposed Transaction given the information available.

Wherefore, based upon the information provided above in this Decision, the Proposed Transaction is **APPROVED WITH CONDITIONS**. These conditions are outlined below.

VI. CONDITIONS

1. There shall be no board or officer overlap between or among the CCHP Foundation, CCHP, and Heritage Hospitals.
2. There shall be no board or officer overlap between or among the Prospect entities and the CCHP Foundation, CCHP and the Heritage Hospitals.
3. Complete appointment of board members for Prospect CharterCARE, LLC and its Subsidiaries, and for CCHP Foundation, CCHP and Heritage Hospitals, within sixty (60) days after the close of the transaction, and provide final notice to the Attorney General of the identities of such appointees, along with a description of their experience to serve as board members.
4. For the next three (3) years following the close of the transaction, provide the Attorney General the names, addresses and affiliations of all members appointed to any board of

Prospect CharterCARE, LLC and its Subsidiaries, CCHP Foundation, CCHP and the Heritage Hospitals.

5. For the next three (3) years following the close of the transaction, Prospect CharterCARE, LLC and its Subsidiaries, and CCHP Foundation, CCHP and the Heritage Hospitals shall provide corporate documents to the Attorney General to evidence compliance regarding board composition as required by this Decision. In addition, the aforementioned entities shall provide to the Attorney General any proposed amendments to their corporate documents 30 days prior to amendment.
6. For the next three (3) years following the close of the transaction, upon any change in what was represented by the Transacting Parties in the Initial Application and supplemental responses in connection with the approval of this transaction, reasonable prior notice shall be provided to the Attorney General.
7. For the next three (3) years following the close of the transaction, provide reasonable prior notice to the Attorney General identifying any post closing contracts between any of the Transacting Parties and any of the current officers, directors, board members or senior management.
8. That (a) a proposed opening balance sheet for the CCHP Foundation and the Heritage Hospitals as of the close of the transaction identifying the source and detail of all charitable assets to be transferred to the CCHP Foundation be provided to the Attorney General promptly following the close of the transaction; (b) a proposed *Cy Pres* petition satisfactory to the Attorney General be prepared promptly following the close of the transaction allowing certain charitable assets to be transferred to the CCHP Foundation and requesting that other charitable assets remain with the Heritage Hospitals, in each case for disbursement in accordance with donor intent, with such proposed modifications as agreed to by the Attorney General, and (c) the approved *Cy Pres* petition be filed with the Rhode Island Superior Court.
9. That the transaction be implemented as outlined in the Initial Application, including all Exhibits and Supplemental Responses.
10. That all unexecuted agreements provided in support of the Initial Application and Supplemental Responses be executed by the Transacting Parties in the form and substance presented.
11. Promptly after the 180th day following the close of the transaction, brief in an interview with the Attorney General the terms of the final Prospect CharterCARE, LLC's Strategic Plan adopted by the Board. In the event the Attorney General requires a copy of such plan, Prospect CharterCARE, LLC may seek a court order protecting the confidentiality thereof.
12. For the next three (3) years following the close of the transaction, provide the Attorney General with a copy of any notices provided to or received by a party under the Asset

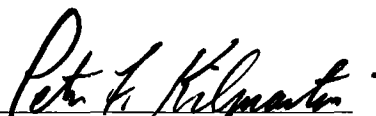
Purchase Agreement.


13. For the next three (3) years following the close of the transaction, provide the Attorney General with a copy of any notice(s) out of the ordinary course; e.g., Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service and Centers for Medicare and Medicare Services, received by the Transacting Parties from any regulatory body.
14. That the Transacting Parties comply with applicable state tax laws.
15. All CCHP entities being acquired (e.g. not CCHP, CCHP Foundation or the Heritage Hospitals) shall be wound down and dissolved and all necessary documents must be filed with applicable state agencies, including, but not limited to the Secretary of State and the Division of Taxation.
16. That all costs and expenses due from the Transacting Parties pursuant to the Reimbursement Agreement dated, January 24, 2014, be paid in full prior to close of the transaction.
17. That PMH guarantee the full amount of Prospect East's financial obligations contained in the Asset Purchase Agreement pursuant to the form of guaranty approved by the Attorney General.
18. Prospect CharterCARE, LLC shall report annually to the Attorney General on the proposed form submitted to the Attorney General concerning the funding of its routine and non-routine capital commitments under the Asset Purchase Agreement until the long term capital commitment as defined in the Asset Purchase Agreement has been satisfied.
19. That Prospect provide information on a timely basis requested by the Attorney General to determine its compliance with the Asset Purchase Agreement and the Conditions of this Decision.
20. The Transacting Parties shall enter into an amendment to the Reimbursement Agreement dated January 24, 2014 for retention by the Attorney General of expert(s) to assist the Attorney General until all matters relating to the approval of the Initial Application are fully and finally resolved.
21. That Prospect complies with the Reimbursement Agreement dated, January 24, 2014, for retention by the Attorney General of an expert to assist the Attorney General with enforcing compliance with these Conditions. Further, Prospect shall enter into an additional agreement outlining the terms of its obligations regarding cooperation with the Attorney General and any expert retained to assist the Attorney General with enforcing compliance with these Conditions.

22. That Prospect CharterCARE, LLC and its affiliates shall provide any transition services to CCHP Foundation, CCHP and the Heritage Hospitals pursuant to separate agreements, terminable by the CCHP affiliate at will and provided by the Prospect affiliate at cost.
23. For the next three (3) years following the close of the transaction, notify the Attorney General of any actions out of the ordinary course taken in connection with the SJHSRI pension or any material changes in its operation and/or structure.
24. For the next three (3) years following the close of the transaction, provide the Attorney General notice of a proposed change of ownership of Prospect East or PMH.
25. For the next three (3) years following the close of the transaction, provide CCHP Foundation, CCHP and the Heritage Hospitals with a right of first refusal to match the price to acquire any asset comprised of a line of business or real estate of Prospect CharterCARE, LLC and its Subsidiaries that it proposes to sell.
26. For the next three (3) years following the close of the transaction to the extent there is a sale of any Purchased Assets comprised of a line of business or real estate, the associated sale proceeds shall remain within Prospect CharterCARE, LLC for the benefit of the operation of the Newco hospitals.
27. The Transacting Parties shall provide a Tax Certificate from the State of Rhode Island that the transaction is proper under state tax laws prior to closing.
28. In connection with a sale of assets as defined in paragraph 26 above, if at the time of such a sale Prospect CharterCARE, LLC's membership interest has been diluted to less than fifteen (15%) percent, then fifteen (15%) of the net sales proceeds from the transaction shall go to CCHP to restore its membership interest up to fifteen (15%) percent. Said monies shall be credited against any future member distributions made to CCHP by Prospect CharterCARE, LLC.
29. Anyone subject to the Ethics Commission shall not be eligible to be a board member.
30. Within three (3) years of the closing of this Transaction, provide notice to the Attorney General of any complaints received from OIG, CMS or state agencies.

All of the above Conditions are directly related to the proposed conversion. The Attorney General's APPROVAL WITH CONDITIONS is contingent upon the satisfaction of the Conditions. The Proposed Transaction shall not take place until Conditions 10, 14, 16, 17, 20, 21 and 27 have been satisfied. The Attorney General shall enforce compliance with these

Conditions pursuant to the Hospital Conversions Act including R.I. Gen. Laws § 23-17.14-30.


Peter F. Kilmartin
Attorney General
State of Rhode Island


Genevieve M. Martin
Assistant Attorney General

NOTICE OF APPELLATE RIGHTS

Under the Hospital Conversions Act, this decision constitutes a final order of the Department of Attorney General. Pursuant to R.I. Gen. Laws § 23-17.14-34, any transacting party aggrieved by a final order of the Attorney General under this chapter may seek judicial review by original action filed in the Superior Court.

CERTIFICATION

I hereby certify that on this 16th day of May, 2014, a true copy of this Decision was sent via electronic and first class mail to counsel for the Transacting Parties:

Patricia K. Rocha, Esq.
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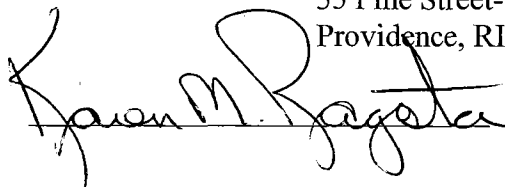


EXHIBIT 18



Office of the General Counsel

3211 FOURTH STREET, NE • WASHINGTON, DC 20017-1194 • 202-541-3300 • FAX 202-541-3337

June 8, 2017

TO: Subordinate Organizations under USCCB Group Ruling (GEN: 0928)

SUBJECT: 2017 Group Ruling

FROM: Anthony Picarello, General Counsel *AP*
(Staff: Matthew Giuliano, Assistant General Counsel)

This memorandum relates to the annual Group Ruling determination letter issued to the United States Conference of Catholic Bishops ("USCCB") by the Internal Revenue Service ("IRS"), the most recent of which is dated June 2, 2017, with respect to the federal tax status of subordinate organizations listed in the 2017 edition of the Official Catholic Directory ("OCD").¹ As explained in greater detail below, this 2017 Group Ruling determination letter is important for establishing:

- (1) exemption of subordinate organizations under the USCCB Group Ruling from federal income tax; and
- (2) deductibility of contributions to such organizations for federal income, gift, and estate tax purposes.

The 2017 Group Ruling determination letter is the latest in a series that began with the original determination letter of March 25, 1946. In the original 1946 letter, the Treasury Department affirmed the exemption from federal income tax of all Catholic institutions listed in the OCD for that year. Each year since 1946, in a separate letter, the 1946 ruling has been reaffirmed with respect to subordinate organizations listed in the current edition of the OCD.² The annual group ruling letter clarifies important tax consequences for Catholic institutions listed in the OCD, and should be retained for ready reference. Group Ruling letters from prior years establish tax consequences with respect to transactions occurring during those years.

Responsibilities under Group Ruling. Diocesan officials who compile OCD information for submission to the OCD publisher are responsible for the accuracy of such information. They must ensure that only qualified organizations are listed, that organizations are listed under their correct legal names, that organizations that cease to qualify are deleted promptly, and that newly-qualified organizations are listed as soon as possible.

¹ A copy of the most recent Group Ruling determination letter and this memo may be found on the USCCB website at www.usccb.org/about/general-counsel/ under "Tax and Group Ruling."

² Catholic organizations with independent IRS exemption determination letters are listed in the 2017 OCD with an asterisk (*), which indicates that such organizations are **not** included in the Group Ruling.

EXPLANATION

1. **Exemption from Federal Income Tax.** The latest Group Ruling determination letter reaffirms that the agencies and instrumentalities and educational, charitable, and religious institutions operated, supervised or controlled by or in connection with the Roman Catholic Church in the United States, its territories or possessions that appear in the 2017 OCD and are subordinate organizations under the Group Ruling are recognized as exempt from federal income tax and described in section 501(c)(3) of the Code. The Group Ruling determination letter does not cover organizations listed with asterisks or any foreign organizations listed in the 2017 OCD.

Verification of Exemption under Group Ruling. The latest Group Ruling determination letter indicates that most subordinate organizations under a group tax exemption are not separately listed in Exempt Organizations Select Check (“EO Select Check”) or the Exempt Organization Business Master File extract (“EO BMF”), both of which are available on www.irs.gov. As a result, many subordinate organizations included in the USCCB Group Ruling are not included in various online databases (e.g., GuideStar) that are derived from the EO BMF. This does not mean that subordinate organizations included in the Group Ruling are not tax exempt, that contributions to them are not deductible, or that they are not eligible for grant funding from corporations, private foundations, sponsors of donor-advised funds or other donors that rely on online databases for verification of tax-exempt status. It does mean that a Group Ruling subordinate may have to make an extra effort to document its eligibility to receive charitable contributions. The Group Ruling determination letter states that donors may verify that a subordinate organization is included in the Group Ruling by consulting the Official Catholic Directory or by contacting the USCCB directly. It also states that the IRS does not verify inclusion of subordinate organizations under the Group Ruling. *Accordingly, neither subordinate organizations nor donors should contact the IRS to verify inclusion under the Group Ruling.*

Subordinate organizations should refer donors, including corporations, private foundations and sponsors of donor-advised funds, to the specific language in the Group Ruling determination letter regarding verification of tax-exempt status, and to IRS Publication 4573, *Group Exemptions*, available on the IRS website at www.irs.gov.³ Publication 4573 explains that: (1) the IRS does not determine which organizations are included in a group exemption; (2) subordinate organizations exempt under a group exemption do not receive their own IRS determination letters; (3) exemption under a group ruling is verified by reference to the official subordinate listing (e.g., the Official Catholic Directory); and (4) it is not necessary for an organization included in a group exemption to be listed in EO Select Check or the EO BMF. Although not required, organizations in the Group Ruling may be included in the EO BMF, and consequently, online databases derived from it.

³ For an illustration of how exemption verification works, refer to Information for Donors and Grantmakers on the USCCB website at www.usccb.org/about/general-counsel/ under “Tax and Group Ruling.”

2. **Public Charity Status.** The latest Group Ruling determination letter recognizes that subordinate organizations included in the 2017 OCD are public charities and not private foundations under section 509(a) of the Code, but that all subordinate organizations do not share the same public charity status under section 509(a). Therefore, although the USCCB is classified as a public charity under sections 509(a)(1) and 170(b)(1)(A)(i), that public charity status does *not* automatically extend to subordinate organizations covered under the Group Ruling.

Verification of Public Charity Status. Each subordinate organization in the Group Ruling must establish its own public charity status under section 509(a)(1), 509(a)(2) or 509(a)(3) as a condition to inclusion in the Group Ruling. Certain types of subordinate organizations included in the Group Ruling qualify as public charities by definition under the Code. These are:

- churches and conventions or associations of churches under sections 509(a)(1) and 170(b)(1)(A)(i) (generally limited to dioceses, parishes and religious orders);
- elementary and secondary schools, colleges and universities under sections 509(a)(1) and 170(b)(1)(A)(ii); and
- hospitals under sections 509(a)(1) and 170(b)(1)(A)(iii).

Other subordinate organizations covered under the Group Ruling may qualify under the public support tests of either sections 509(a)(1) and 170(b)(1)(A)(vi) or section 509(a)(2). Verification of public charity classification under either of the support tests generally can be established by providing a written declaration of the applicable classification signed by an officer of the organization, along with a reasoned written opinion of counsel and a copy of Schedule A of Form 990/EZ, if applicable. Large institutional donors, such as private foundations and sponsors of donor-advised funds, may require this verification prior to making a contribution or grant to be assured that the grantee is not a Type III non-functionally integrated supporting organization.⁴ A subordinate organization included in the Group Ruling may want to file Form 8940, Request for Miscellaneous Determination, with the IRS to request a determination whether it is a publicly supported charity described in sections 509(a)(1) and 170(b)(1)(A)(vi) or section 509(a)(2), or is a Type I or II supporting organization, in order to satisfy private foundations and sponsors of donor-advised funds regarding its public charity status.

3. **Deductibility of Contributions.** The latest Group Ruling determination letter assures donors that contributions to subordinate organizations listed in the 2017 OCD are deductible for federal income, gift, and estate tax purposes.

4. **Unemployment Tax.** As section 501(c)(3) organizations, subordinate organizations covered by the Group Ruling are exempt from *federal* unemployment tax. However, individual states may impose unemployment tax on subordinate organizations even though they are exempt from federal unemployment tax. Please consult a local tax advisor about any state unemployment tax questions.

⁴ See Notice 2014-4, 2014-2 I.R.B (January 6, 2014).

5. **Social Security Tax.** All section 501(c)(3) organizations, including churches, are required to withhold and pay taxes under the Federal Insurance Contributions Act (FICA) for each employee.⁵ However, services performed by diocesan priests in the exercise of their ministry are not considered "employment" for FICA (Social Security) purposes.⁶ FICA should not be withheld from their salaries. *For Social Security purposes*, diocesan priests are subject to self-employment tax ("SECA") on their salaries as well as on the value of meals and housing or housing allowances provided to them.⁷ Neither FICA nor income tax withholding is required on remuneration paid directly to religious institutes for members who are subject to vows of poverty and obedience and are employed by organizations included in the Official Catholic Directory.⁸

6. **Federal Excise Tax.** Inclusion in the Group Ruling has no effect on a subordinate organization's liability for federal excise taxes. Exemption from these taxes is very limited. Please consult a local tax advisor about any excise tax questions.

7. **State/Local Taxes.** Inclusion in the Group Ruling does not automatically establish a subordinate organization's exemption from state or local income, sales or property taxes. Typically, separate exemptions must be obtained from the appropriate state or local tax authorities in order to qualify for any applicable exemptions. Please consult a local tax advisor about any state or local tax exemption questions.

8. **Form 990/EZ/N.** All subordinate organizations included in the Group Ruling must file Form 990, Return of Organization Exempt from Income Tax, Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, or Form 990-N, e-Postcard, *unless* they are eligible for a mandatory or discretionary exception to this filing requirement. ***There is no automatic exemption from the Form 990/EZ/N filing requirement simply because an organization is included in the Group Ruling or listed in the OCD.*** Subordinate organizations must use their own EIN to file Form 990/EZ/N. ***Do not*** use the EIN of the USCCB or an affiliated parish, diocese or other organization to file a return. Form 990/EZ/N is due by the 15th day of the fifth month after the close of an organization's fiscal year.⁹ The following organizations are not required to file Form 990/EZ/N: (i) churches and conventions or associations of churches; (ii) integrated auxiliaries;¹⁰ (iii) the exclusively religious activities of religious orders; and (iv) schools below college level affiliated with a church or operated by a

⁵ Section 3121(w) of the Code permits certain church-related organizations to make an irrevocable election to avoid payment of FICA taxes, but only if such organizations are opposed for religious reasons to payment of social security taxes.

⁶ I.R.C. § 3121(b)(8)(A).

⁷ I.R.C. § 1402(a)(8).

⁸ Rev. Rul. 77-290, 1977-2 C.B. 26. *See also* OGC/LRCR Memorandum on Compensation of Religious, www.usccb.org/about/general-counsel/compensation-of-religious.cfm (September 11, 2006).

⁹ The penalty for failure to file the Form 990/EZ is \$20 for each day the failure continues, up to a maximum of \$10,000 or 5 percent of the organization's gross receipts, whichever is less. However, organizations with annual gross receipts in excess of \$1 million are subject to penalties of \$100 per day, up to a maximum of \$50,000. I.R.C. § 6652(c)(1)(A). There is no monetary penalty for failing to file or filing late a Form 990-N.

¹⁰ I.R.C. § 6033(a)(3)(A)(i); Treas. Reg. § 1.6033-2(h).

religious order.¹¹ Organizations should exercise caution if they choose not to file a Form 990/EZ/N because they believe they are not required to do so. If IRS records indicate that the organization should file a Form 990/EZ/N each year (for example, the organization receives an IRS notice stating that it failed to file a return for a given year), then the organization may appear on the auto-revocation list notwithstanding its claim to being exempt from the filing requirement.

Which form an organization is required to file usually depends on the organization's gross receipts or the fair market value of its assets.

Gross receipts or fair market value of assets	Return required
Gross receipts normally not more than \$50,000 (regardless of total assets)	990-N (but may file a Form 990 or 990-EZ)
Gross receipts < \$200,000, and Total assets < \$500,000	990-EZ (but may file a Form 990)
Gross receipts ≥ \$200,000, or Total assets ≥ \$500,000	990

Special Rules for Section 509(a)(3) Supporting Organizations. Every supporting organization described in section 509(a)(3) included in the Group Ruling must file a Form 990 or Form 990-EZ (and not Form 990-N) each year, unless (i) the organization can establish that it is an integrated auxiliary of a church within the meaning of Treas. Reg. § 1.6033-2(h) (in which case the organization need not file Form 990/EZ or Form 990-N); or (ii) the organization's gross receipts are normally not more than \$5,000, in which case, the religious supporting organization may file Form 990-N in lieu of a Form 990 or Form 990-EZ.

Automatic Revocation for Failure to File a Required Form 990/EZ/N. Any organization that does not file a required Form 990/EZ/N for three consecutive years automatically loses its tax-exempt status under section 6033(j). If an organization loses its tax-exempt status under section 6033(j), it must file an application (Form 1023 or Form 1023-EZ) with the IRS to reinstate its tax-exempt status. See the IRS website (charities and non-profits) at www.irs.gov/Charities-&-Non-Profits/ for information on automatic revocation, including the current list of revoked organizations and guidance about reinstatement of exemption.

Public Disclosure and Inspection. Subordinate organizations required to file Form 990/EZ¹² must upon request make a copy of the form and its schedules (other than contributor lists) and attachments available for public inspection during regular business hours at the organization's principal office and at any regional or district offices having three or more employees. Form 990/EZ for a particular year must be made available for a three year period

¹¹ Treas. Reg. § 1.6033-2(g)(1)(vii).

¹² Form 990-N is available for public inspection at no cost through the IRS website at www.irs.gov.

beginning with the due date of the return.¹³ In addition, any organization that files Form 990/EZ must comply with written or in-person requests for copies of the form. The organization may impose no fees other than a reasonable fee to cover copying and mailing costs. If requested, copies of the forms for the past three years must be provided. In-person requests must be satisfied on the same day. Written requests must be satisfied within 30 days.¹⁴

Public Disclosure of Form 990-T. Form 990-T, Exempt Organization Unrelated Business Income Tax Return, for organizations exempt under section 501(c)(3) (which includes all organizations in the USCCB Group Ruling) is subject to rules similar to those for public inspection and copying of Forms 990/EZ.¹⁵

Group Returns. USCCB does not file a group return Form 990 on behalf of any organizations in the Group Ruling. In addition, no subordinate organization under the Group Ruling is authorized to file a group return for its own affiliated group of organizations.

For more information, refer to *Annual Filing Requirements for Catholic Organizations*, available at www.usccb.org/about/general-counsel/ under “Tax and Group Ruling.”

9. **Certification of Racial Nondiscrimination by Private Schools in Group Ruling.** Revenue Procedure 75-50¹⁶ sets forth notice, publication, and recordkeeping requirements regarding racially nondiscriminatory policies with which private schools, including church-related schools, must comply as a condition of establishing and maintaining exempt status under section 501(c)(3) of the Code. Under Rev. Proc. 75-50 private schools are required to file an annual certification of racial nondiscrimination with the IRS. For private schools not required to file Form 990, the annual certification must be filed on Form 5578, Annual Certification of Racial Nondiscrimination for a Private School Exempt from Federal Income Tax. This form is available at www.irs.gov. Form 5578 must be filed by the 15th day of the fifth month following the close of the fiscal year. Form 5578 may be filed by an individual school or by the diocese on behalf of all schools operated under diocesan auspices. The requirements of Rev. Proc. 75-50 remain in effect and must be complied with by all schools listed in the OCD. ***Diocesan or school officials should ensure that the requirements of Rev. Proc. 75-50 are met since failure to do so could jeopardize the tax-exempt status of the school***

¹³ The penalty for failure to permit public inspection of the Form 990 is \$20 for each day during which such failure continues, up to a maximum of \$10,000. I.R.C. § 6652(c)(1)(C).

¹⁴ I.R.C. § 6104(d). Generally, a copy of an organization's exemption application and supporting documents must also be provided on the same basis. However, since organizations included in the Group Ruling do not file exemption applications with the IRS, nor did the USCCB, organizations included in the Group Ruling should respond to requests for public inspection and written or in-person requests for copies by providing a copy of the page of the current OCD on which they are listed. If a covered organization does not have a copy of the current OCD, it has two weeks within which to make it available for inspection and to comply with in-person requests for copies. Written requests must be satisfied within the general time limits.

¹⁵ Only the Form 990-T itself, and any schedules, attachments, and supporting documents that relate to the imposition of tax on the unrelated business income of the organization, are required to be made available for public inspection.

¹⁶ 1975-2 C.B. 587.

and, in the case of a school not legally separate from the church, the tax-exempt status of the church itself. For more information, refer to *Annual Filing Requirements for Catholic Organizations*, available at www.usccb.org/about/general-counsel/ under “Tax and Group Ruling.”

10. **Lobbying Activities**. Subordinate organizations under the Group Ruling may lobby for changes in the law, provided such lobbying is not more than an insubstantial part of their total activities. Attempts to influence legislation both directly and through grassroots lobbying are subject to this restriction. The term “lobbying” includes activities in support of or in opposition to referenda, constitutional amendments, and similar ballot initiatives. There is no distinction between lobbying activity that is related to a subordinate organization’s exempt purposes and lobbying that is not. There is no fixed percentage that constitutes a safe harbor for “insubstantial” lobbying. Please consult a local tax advisor about any lobbying activity questions. For more information, refer to *Political Activity and Lobby Guidelines for Catholic Organizations*, available at www.usccb.org/about/general-counsel/ under “Tax and Group Ruling.”

11. **Political Activities**. ***Subordinate organizations under the Group Ruling may not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office. Violation of the prohibition against political campaign intervention can jeopardize the organization's tax-exempt status.*** In addition to revoking tax-exempt status, IRS may also impose excise taxes on an exempt organization and its managers on account of political expenditures. Where there has been a flagrant violation, the IRS has authority to seek an injunction against the exempt organization and immediate assessment of taxes due. Please consult a local tax advisor about any political campaign intervention questions. For more information, refer to *Political Activity and Lobby Guidelines for Catholic Organizations*, available at www.usccb.org/about/general-counsel/ under “Tax and Group Ruling.”

12. **Group Exemption Number (“GEN”)**. The group exemption number or GEN assigned to the USCCB Group Ruling is 0928. ***This number must be included on each Form 990/EZ, Form 990-T, and Form 5578 required to be filed by a subordinate organization under the Group Ruling.***¹⁷ We advise *against* using GEN 0928 on Form SS-4, Request for Employer Identification Number, because in the past this has resulted in the IRS improperly including the USCCB as part of the subordinate organization's name in IRS records.

13. **Employer Identification Numbers (“EINs”)**. Each subordinate organization under the Group Ruling must have and use its own EIN. **Do not** use the EIN of the USCCB or an affiliated parish, diocese or other organization in any filings with IRS (*e.g.*, Forms 941, W-2, 1099, or 990/EZ) or other financial documents. Subordinate organizations may *not* use USCCB’s EIN in order to qualify for online donations, grants or matching gifts.

¹⁷ The IRS has expressed concern about organizations covered under the Group Ruling that fail to include the group exemption number (0928) on their Form 990/EZ/T filings, particularly the initial filing.

EXHIBIT 19

Filing Fee: \$10.00

ID Number: 30205



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Office of the Secretary of State
Corporations Division
148 W. River Street
Providence, Rhode Island 02904-2615

NON-PROFIT CORPORATION

**ARTICLES OF AMENDMENT TO
ARTICLES OF INCORPORATION**

FILED

JAN 04 2010

BY *[Signature]*

8:38

29-107342

Pursuant to the provisions of Section 7-6-40 of the General Laws of Rhode Island, 1956, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

1. The name of the corporation is St. Joseph Health Services of Rhode Island

2. The following amendment to the Articles of Incorporation was adopted by the corporation:

[Insert Amendment]

See Exhibit A attached hereto and made a part hereof.

Multiple horizontal lines for text entry, mostly blank.

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SECRETARY OF STATE
CORPORATIONS DIV
2010 JAN - 4 AM 8:38

3. The amendment was adopted in the following manner:

(check one box only)

The amendment was adopted at a meeting of the members held on December 9, 2009, at which meeting a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.

The amendment was adopted by a consent in writing on _____, signed by all members entitled to vote with respect thereto.

The amendment was adopted at a meeting of the Board of Directors held on _____ and received the vote of a majority of the directors in office, there being no members entitled to vote with respect thereto.

4. Date when amendment is to become effective January 4, 2010.
(not prior to, nor more than 30 days after, the filing of these Articles of Amendment)

Under penalty of perjury, we declare and affirm that we have examined these Articles of Amendment to the Articles of Incorporation, including any accompanying attachments, and that all statements contained herein are true and correct.

Date: December 31, 2009

St. Joseph Health Services of Rhode Island

Print Corporate Name

By _____

John Fogarty

President or Vice President (check one)

By William I. Varsanyi **AND** William I. Varsanyi

Reverend Monsignor William I. Varsanyi

Secretary or Assistant Secretary (check one)

St. Joseph Health Services of Rhode Island: ID # 30205

**Exhibit A to Articles of Amendment to Articles of Incorporation
Effective January 4, 2010**

Exhibit A

- A. The corporation shall have two classes of members: (i) one Class A member; and (ii) one Class B member. The Class A member shall be CharterCARE Health Partners, a Rhode Island nonprofit corporation. The Class B member shall be the Roman Catholic Bishop of Providence, a body politic and corporation sole, or its designee.
- B. Subject to the reserved powers of the Class B member as set forth below, the Class A member shall have the exclusive right, by the affirmative vote of seventy-five (75%) percent of the members of the Board of Directors of the Class A member, to:
- (i) amend the Articles of Incorporation and Bylaws of the corporation;
 - (ii) appoint or remove a member of the Board of Trustees of the corporation;
 - (iii) incur any debt or sell, lease, transfer, or mortgage any property in excess of an amount determined by the Class A member from time to time, add, close, or relocate any of the corporation's services;
 - (iv) appoint or remove the Chief Executive Officer, Chief Financial Officer, and the Chief Operating Officer of the corporation; and
 - (v) effect any affiliation, merger, reorganization, or change of control of the corporation.
- C. Subject to the reserved powers of the Class B member as set forth below, the Class A member shall have the right to approve, by the affirmative vote of seventy-five (75%) percent of the members of the Board of Directors of the Class A member:
- (i) the capital and operating budgets of the corporation and any unbudgeted transaction or expenditure by the corporation in excess of an amount determined by the Class A member from time to time;
 - (ii) the strategic plan for the corporation;
 - (iii) any certificate of need or similar application or filing or any material changes in services provided by the corporation; and
 - (iv) any new academic affiliation and the termination of any academic affiliation.

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St. Joseph Health Services of Rhode Island: ID # 30205

**Exhibit A to Articles of Amendment to Articles of Incorporation
Effective January 4, 2010**

- D. Provided that the corporation continues under Catholic sponsorship, as determined in the sole discretion of the Class B member, and is listed in the Official Catholic Directory, or in the event that the Official Catholic Directory no longer exists, any comparable directory acceptable to the Class B member, unless otherwise permitted by the Class B member, the following actions shall require the approval of both the Class A member, by the affirmative vote of seventy-five (75%) percent of the members of the Board of Directors of the Class A member, and the Class B member:
- (i) the sale, mortgaging, or leasing of any real or personal property of the corporation with a value in excess of the canonical threshold then in effect;
 - (ii) the dissolution of the corporation;
 - (iii) any change to the corporation's charity care policy;
 - (iv) all matters regarding pastoral care, including without limitation, funding;
 - (v) any amendment to the Articles of Incorporation, bylaws, or other governing documents of the corporation that adversely affects or diminishes the Catholicity of the corporation or causes or permits the following prohibited procedures to be performed (the "Prohibited Procedures"): (a) abortion (the directly intended termination of pregnancy before viability or the directly intended destruction of a viable fetus), including without limitation, embryo reduction or any like procedure, or research involving embryo destruction; (b) euthanasia (an action or omission that of itself or by intention causes the death of an individual in order to alleviate all suffering); and (c) physician-assisted suicide (euthanasia attended by a physician);
 - (vi) any amendment to the Articles of Incorporation, bylaws, or other governing documents of the corporation relating to the Ethical and Religious Directives for Catholic Health Care Services as promulgated by the United States Conference of Catholic Bishops and adopted by the Class B member, or the performance of Prohibited Procedures at the corporation; and
 - (vii) any change to the mission statement, the vision statement, or the values statement as set forth in the Articles of Incorporation, bylaws, or other governing documents of the corporation.

St. Joseph Health Services of Rhode Island: ID # 30205

Exhibit A to Articles of Amendment to Articles of Incorporation

Effective January 4, 2010

- E. So long as the corporation remains sponsored by the Roman Catholic Church as determined by the Bishop, and continues to be listed in the Official Catholic Directory, as long as the Official Catholic Directory exists, or in the event such directory no longer exists, then so long as the pension plan of St. Joseph Health Services of Rhode Island is a church plan within the meaning of Section 414(e) of the Internal Revenue Code of 1986, as amended, and Section 3(33) of the Employment Retirement Income Security Act of 1974, or any successor provisions of such the Internal Revenue Code or Employment Retirement Income Security Act, or such successor code or act, unless otherwise permitted by the Bishop, the corporation will not cause or permit any of the Prohibited Procedures to be performed.

- F. No trustee undertaking to exercise the responsibilities of a trustee shall have personal liability to the corporation or to its members for monetary damages for breach of such trustee's duty as a trustee, provided that this provision shall not eliminate or limit the liability of such trustee for: (i) any breach of such trustee's duty of loyalty to the corporation or its members; (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or (iii) any transaction from which the trustee derived an improper personal benefit.

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State of Rhode Island and Providence Plantations

A. Ralph Mollis

Secretary of State

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

I, A. RALPH MOLLIS, Secretary of State of the State of Rhode Island
and Providence Plantations, hereby certify that this document, duly
executed in accordance with the provisions of Title 7 of the General Laws
of Rhode Island, as amended, has been filed in this office on this day:

A handwritten signature in black ink that reads "A. Ralph Mollis".

A. RALPH MOLLIS

Secretary of State



EXHIBIT 20

Ethical and Religious Directives for Catholic Health Care Services

Sixth Edition

UNITED STATES CONFERENCE OF CATHOLIC BISHOPS

This sixth edition of the *Ethical and Religious Directives for Catholic Health Care Services* was developed by the Committee on Doctrine of the United States Conference of Catholic Bishops (USCCB) and approved by the USCCB at its June 2018 Plenary Assembly. This edition of the *Directives* replaces all previous editions, is recommended for implementation by the diocesan bishop, and is authorized for publication by the undersigned.

Msgr. J. Brian Bransfield, STD
General Secretary, USCCB

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Digital Edition, June 2018

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Preamble

Health care in the United States is marked by extraordinary change. Not only is there continuing change in clinical practice due to technological advances, but the health care system in the United States is being challenged by both institutional and social factors as well. At the same time, there are a number of developments within the Catholic Church affecting the ecclesial mission of health care. Among these are significant changes in religious orders and congregations, the increased involvement of lay men and women, a heightened awareness of the Church's social role in the world, and developments in moral theology since the Second Vatican Council. A contemporary understanding of the Catholic health care ministry must take into account the new challenges presented by transitions both in the Church and in American society.

Throughout the centuries, with the aid of other sciences, a body of moral principles has emerged that expresses the Church's teaching on medical and moral matters and has proven to be pertinent and applicable to the ever-changing circumstances of health care and its delivery. In response to today's challenges, these same moral principles of Catholic teaching provide the rationale and direction for this revision of the *Ethical and Religious Directives for Catholic Health Care Services*.

These Directives presuppose our statement *Health and Health Care* published in 1981.¹ There we presented the theological principles that guide the Church's vision of health care, called for all Catholics to share in the healing mission of the Church, expressed our full commitment to the health care ministry, and offered encouragement to all those who are involved in it. Now, with American health care facing even more dramatic changes, we reaffirm the Church's commitment to health care ministry and the distinctive Catholic identity of the Church's institutional health care services.² The purpose of these *Ethical and Religious Directives* then is twofold: first, to reaffirm the ethical standards of behavior in health care that flow from the Church's teaching about the dignity of the human person; second, to provide authoritative guidance on certain moral issues that face Catholic health care today.

The *Ethical and Religious Directives* are concerned primarily with institutionally based Catholic health care services. They address the sponsors, trustees, administrators, chaplains, physicians, health care personnel, and patients or residents of these institutions and services. Since they express the Church's moral teaching, these Directives also will be helpful to Catholic professionals engaged in health care services in other settings. The moral teachings that we profess here flow principally from the natural law, understood in the light of the revelation Christ has entrusted to his Church. From this source the Church has derived its understanding of the nature of the human person, of human acts, and of the goals that shape human activity.

The Directives have been refined through an extensive process of consultation with bishops, theologians, sponsors, administrators, physicians, and other health care providers. While providing standards and guidance, the Directives do not cover in detail all of the complex issues that confront Catholic health care today. Moreover, the Directives will be reviewed periodically by the United States Conference of Catholic Bishops (formerly the National Conference of Catholic Bishops), in the light of authoritative church teaching, in order to address new insights from theological and

medical research or new requirements of public policy.

The Directives begin with a general introduction that presents a theological basis for the Catholic health care ministry. Each of the six parts that follow is divided into two sections. The first section is in expository form; it serves as an introduction and provides the context in which concrete issues can be discussed from the perspective of the Catholic faith. The second section is in prescriptive form; the directives promote and protect the truths of the Catholic faith as those truths are brought to bear on concrete issues in health care.

General Introduction

The Church has always sought to embody our Savior's concern for the sick. The gospel accounts of Jesus' ministry draw special attention to his acts of healing: he cleansed a man with leprosy (Mt 8:1-4; Mk 1:40-42); he gave sight to two people who were blind (Mt 20:29-34; Mk 10:46-52); he enabled one who was mute to speak (Lk 11:14); he cured a woman who was hemorrhaging (Mt 9:20-22; Mk 5:25-34); and he brought a young girl back to life (Mt 9:18, 23-25; Mk 5:35-42). Indeed, the Gospels are replete with examples of how the Lord cured every kind of ailment and disease (Mt 9:35). In the account of Matthew, Jesus' mission fulfilled the prophecy of Isaiah: "He took away our infirmities and bore our diseases" (Mt 8:17; cf. Is 53:4).

Jesus' healing mission went further than caring only for physical affliction. He touched people at the deepest level of their existence; he sought their physical, mental, and spiritual healing (Jn 6:35, 11:25-27). He "came so that they might have life and have it more abundantly" (Jn 10:10).

The mystery of Christ casts light on every facet of Catholic health care: to see Christian love as the animating principle of health care; to see healing and compassion as a continuation of Christ's mission; to see suffering as a participation in the redemptive power of Christ's passion, death, and resurrection; and to see death, transformed by the resurrection, as an opportunity for a final act of communion with Christ.

For the Christian, our encounter with suffering and death can take on a positive and distinctive meaning through the redemptive power of Jesus' suffering and death. As St. Paul says, we are "always carrying about in the body the dying of Jesus, so that the life of Jesus may also be manifested in our body" (2 Cor 4:10). This truth does not lessen the pain and fear, but gives confidence and grace for bearing suffering rather than being overwhelmed by it. Catholic health care ministry bears witness to the truth that, for those who are in Christ, suffering and death are the birth pangs of the new creation. "God himself will always be with them [as their God]. He will wipe every tear from their eyes, and there shall be no more death or mourning, wailing or pain, [for] the old order has passed away" (Rev 21:3-4).

In faithful imitation of Jesus Christ, the Church has served the sick, suffering, and dying in various ways throughout history. The zealous service of individuals and communities has provided shelter for the traveler; infirmaries for the sick; and homes for children, adults, and the elderly.³ In the United States, the many religious communities as well as dioceses that sponsor and staff this country's Catholic health care institutions and services have established an effective Catholic presence in health care. Modeling their efforts on the gospel parable of the Good Samaritan, these communities of women and men have exemplified authentic neighborliness to those in need (Lk 10:25-37). The Church seeks to ensure that the service offered in the past will be continued into the future.

While many religious communities continue their commitment to the health care ministry, lay Catholics increasingly have stepped forward to collaborate in this ministry. Inspired by the example of Christ and mandated by the Second Vatican Council, lay faithful are invited to a broader and more intense field of ministries than in the past.⁴ By virtue of their Baptism, lay

faithful are called to participate actively in the Church's life and mission.⁵ Their participation and leadership in the health care ministry, through new forms of sponsorship and governance of institutional Catholic health care, are essential for the Church to continue her ministry of healing and compassion. They are joined in the Church's health care mission by many men and women who are not Catholic.

Catholic health care expresses the healing ministry of Christ in a specific way within the local church. Here the diocesan bishop exercises responsibilities that are rooted in his office as pastor, teacher, and priest. As the center of unity in the diocese and coordinator of ministries in the local church, the diocesan bishop fosters the mission of Catholic health care in a way that promotes collaboration among health care leaders, providers, medical professionals, theologians, and other specialists. As pastor, the diocesan bishop is in a unique position to encourage the faithful to greater responsibility in the healing ministry of the Church. As teacher, the diocesan bishop ensures the moral and religious identity of the health care ministry in whatever setting it is carried out in the diocese. As priest, the diocesan bishop oversees the sacramental care of the sick. These responsibilities will require that Catholic health care providers and the diocesan bishop engage in ongoing communication on ethical and pastoral matters that require his attention.

In a time of new medical discoveries, rapid technological developments, and social change, what is new can either be an opportunity for genuine advancement in human culture, or it can lead to policies and actions that are contrary to the true dignity and vocation of the human person. In consultation with medical professionals, church leaders review these developments, judge them according to the principles of right reason and the ultimate standard of revealed truth, and offer authoritative teaching and guidance about the moral and pastoral responsibilities entailed by the Christian faith.⁶ While the Church cannot furnish a ready answer to every moral dilemma, there are many questions about which she provides normative guidance and direction. In the absence of a determination by the magisterium, but never contrary to church teaching, the guidance of approved authors can offer appropriate guidance for ethical decision making.

Created in God's image and likeness, the human family shares in the dominion that Christ manifested in his healing ministry. This sharing involves a stewardship over all material creation (Gn 1:26) that should neither abuse nor squander nature's resources. Through science the human race comes to understand God's wonderful work; and through technology it must conserve, protect, and perfect nature in harmony with God's purposes. Health care professionals pursue a special vocation to share in carrying forth God's life-giving and healing work.

The dialogue between medical science and Christian faith has for its primary purpose the common good of all human persons. It presupposes that science and faith do not contradict each other. Both are grounded in respect for truth and freedom. As new knowledge and new technologies expand, each person must form a correct conscience based on the moral norms for proper health care.

PART ONE

The Social Responsibility of Catholic Health Care Services

Introduction

Their embrace of Christ's healing mission has led institutionally based Catholic health care services in the United States to become an integral part of the nation's health care system. Today, this complex health care system confronts a range of economic, technological, social, and moral challenges. The response of Catholic health care institutions and services to these challenges is guided by normative principles that inform the Church's healing ministry.

First, Catholic health care ministry is rooted in a commitment to promote and defend human dignity; this is the foundation of its concern to respect the sacredness of every human life from the moment of conception until death. The first right of the human person, the right to life, entails a right to the means for the proper development of life, such as adequate health care.⁷

Second, the biblical mandate to care for the poor requires us to express this in concrete action at all levels of Catholic health care. This mandate prompts us to work to ensure that our country's health care delivery system provides adequate health care for the poor. In Catholic institutions, particular attention should be given to the health care needs of the poor, the uninsured, and the underinsured.⁸ Third, Catholic health care ministry seeks to contribute to the common good. The common good is realized when economic, political, and social conditions ensure protection for the fundamental rights of all individuals and enable all to fulfill their common purpose and reach their common goals.⁹

Fourth, Catholic health care ministry exercises responsible stewardship of available health care resources. A just health care system will be concerned both with promoting equity of care—to assure that the right of each person to basic health care is respected—and with promoting the good health of all in the community. The responsible stewardship of health care resources can be accomplished best in dialogue with people from all levels of society, in accordance with the principle of subsidiarity and with respect for the moral principles that guide institutions and persons.

Fifth, within a pluralistic society, Catholic health care services will encounter requests for medical procedures contrary to the moral teachings of the Church. Catholic health care does not offend the rights of individual conscience by refusing to provide or permit medical procedures that are judged morally wrong by the teaching authority of the Church.

Directives

1. A Catholic institutional health care service is a community that provides health care to those in need of it. This service must be animated by the Gospel of Jesus Christ and guided by the moral tradition of the Church.
2. Catholic health care should be marked by a spirit of mutual respect among caregivers that disposes them to deal with those it serves and their families with the compassion of Christ, sensitive to their vulnerability at a time of special need.

3. In accord with its mission, Catholic health care should distinguish itself by service to and advocacy for those people whose social condition puts them at the margins of our society and makes them particularly vulnerable to discrimination: the poor; the uninsured and the underinsured; children and the unborn; single parents; the elderly; those with incurable diseases and chemical dependencies; racial minorities; immigrants and refugees. In particular, the person with mental or physical disabilities, regardless of the cause or severity, must be treated as a unique person of incomparable worth, with the same right to life and to adequate health care as all other persons.
4. A Catholic health care institution, especially a teaching hospital, will promote medical research consistent with its mission of providing health care and with concern for the responsible stewardship of health care resources. Such medical research must adhere to Catholic moral principles.
5. Catholic health care services must adopt these Directives as policy, require adherence to them within the institution as a condition for medical privileges and employment, and provide appropriate instruction regarding the Directives for administration, medical and nursing staff, and other personnel.
6. A Catholic health care organization should be a responsible steward of the health care resources available to it. Collaboration with other health care providers, in ways that do not compromise Catholic social and moral teaching, can be an effective means of such stewardship.¹⁰
7. A Catholic health care institution must treat its employees respectfully and justly. This responsibility includes: equal employment opportunities for anyone qualified for the task, irrespective of a person's race, sex, age, national origin, or disability; a workplace that promotes employee participation; a work environment that ensures employee safety and well-being; just compensation and benefits; and recognition of the rights of employees to organize and bargain collectively without prejudice to the common good.
8. Catholic health care institutions have a unique relationship to both the Church and the wider community they serve. Because of the ecclesial nature of this relationship, the relevant requirements of canon law will be observed with regard to the foundation of a new Catholic health care institution; the substantial revision of the mission of an institution; and the sale, sponsorship transfer, or closure of an existing institution.
9. Employees of a Catholic health care institution must respect and uphold the religious mission of the institution and adhere to these Directives. They should maintain professional standards and promote the institution's commitment to human dignity and the common good.

PART TWO

The Pastoral and Spiritual Responsibility of Catholic Health Care

Introduction

The dignity of human life flows from creation in the image of God (Gn 1:26), from redemption by Jesus Christ (Eph 1:10; 1 Tm 2:4-6), and from our common destiny to share a life with God beyond all corruption (1 Cor 15:42-57). Catholic health care has the responsibility to treat those in need in a way that respects the human dignity and eternal destiny of all. The words of Christ have provided inspiration for Catholic health care: “I was ill and you cared for me” (Mt 25:36). The care provided assists those in need to experience their own dignity and value, especially when these are obscured by the burdens of illness or the anxiety of imminent death.

Since a Catholic health care institution is a community of healing and compassion, the care offered is not limited to the treatment of a disease or bodily ailment but embraces the physical, psychological, social, and spiritual dimensions of the human person. The medical expertise offered through Catholic health care is combined with other forms of care to promote health and relieve human suffering. For this reason, Catholic health care extends to the spiritual nature of the person. “Without health of the spirit, high technology focused strictly on the body offers limited hope for healing the whole person.”¹¹ Directed to spiritual needs that are often appreciated more deeply during times of illness, pastoral care is an integral part of Catholic health care. Pastoral care encompasses the full range of spiritual services, including a listening presence; help in dealing with powerlessness, pain, and alienation; and assistance in recognizing and responding to God’s will with greater joy and peace. It should be acknowledged, of course, that technological advances in medicine have reduced the length of hospital stays dramatically. It follows, therefore, that the pastoral care of patients, especially administration of the sacraments, will be provided more often than not at the parish level, both before and after one’s hospitalization. For this reason, it is essential that there be very cordial and cooperative relationships between the personnel of pastoral care departments and the local clergy and ministers of care.

Priests, deacons, religious, and laity exercise diverse but complementary roles in this pastoral care. Since many areas of pastoral care call upon the creative response of these pastoral caregivers to the particular needs of patients or residents, the following directives address only a limited number of specific pastoral activities.

Directives

10. A Catholic health care organization should provide pastoral care to minister to the religious and spiritual needs of all those it serves. Pastoral care personnel—clergy, religious, and lay alike—should have appropriate professional preparation, including an understanding of these Directives.

11. Pastoral care personnel should work in close collaboration with local parishes and community clergy. Appropriate pastoral services and/or referrals should be available to all in keeping with their religious beliefs or affiliation.
12. For Catholic patients or residents, provision for the sacraments is an especially important part of Catholic health care ministry. Every effort should be made to have priests assigned to hospitals and health care institutions to celebrate the Eucharist and provide the sacraments to patients and staff.
13. Particular care should be taken to provide and to publicize opportunities for patients or residents to receive the sacrament of Penance.
14. Properly prepared lay Catholics can be appointed to serve as extraordinary ministers of Holy Communion, in accordance with canon law and the policies of the local diocese. They should assist pastoral care personnel—clergy, religious, and laity—by providing supportive visits, advising patients regarding the availability of priests for the sacrament of Penance, and distributing Holy Communion to the faithful who request it.
15. Responsive to a patient’s desires and condition, all involved in pastoral care should facilitate the availability of priests to provide the sacrament of Anointing of the Sick, recognizing that through this sacrament Christ provides grace and support to those who are seriously ill or weakened by advanced age. Normally, the sacrament is celebrated when the sick person is fully conscious. It may be conferred upon the sick who have lost consciousness or the use of reason, if there is reason to believe that they would have asked for the sacrament while in control of their faculties.
16. All Catholics who are capable of receiving Communion should receive Viaticum when they are in danger of death, while still in full possession of their faculties.¹²
17. Except in cases of emergency (i.e., danger of death), any request for Baptism made by adults or for infants should be referred to the chaplain of the institution. Newly born infants in danger of death, including those miscarried, should be baptized if this is possible.¹³ In case of emergency, if a priest or a deacon is not available, anyone can validly baptize.¹⁴ In the case of emergency Baptism, the chaplain or the director of pastoral care is to be notified.
18. When a Catholic who has been baptized but not yet confirmed is in danger of death, any priest may confirm the person.¹⁵
19. A record of the conferral of Baptism or Confirmation should be sent to the parish in which the institution is located and posted in its baptism/confirmation registers.
20. Catholic discipline generally reserves the reception of the sacraments to Catholics. In accord with canon 844, §3, Catholic ministers may administer the sacraments of Eucharist, Penance, and Anointing of the Sick to members of the oriental churches that do not have

full communion with the Catholic Church, or of other churches that in the judgment of the Holy See are in the same condition as the oriental churches, if such persons ask for the sacraments on their own and are properly disposed.

With regard to other Christians not in full communion with the Catholic Church, when the danger of death or other grave necessity is present, the four conditions of canon 844, §4, also must be present, namely, they cannot approach a minister of their own community; they ask for the sacraments on their own; they manifest Catholic faith in these sacraments; and they are properly disposed. The diocesan bishop has the responsibility to oversee this pastoral practice.

21. The appointment of priests and deacons to the pastoral care staff of a Catholic institution must have the explicit approval or confirmation of the local bishop in collaboration with the administration of the institution. The appointment of the director of the pastoral care staff should be made in consultation with the diocesan bishop.
22. For the sake of appropriate ecumenical and interfaith relations, a diocesan policy should be developed with regard to the appointment of non-Catholic members to the pastoral care staff of a Catholic health care institution. The director of pastoral care at a Catholic institution should be a Catholic; any exception to this norm should be approved by the diocesan bishop.

PART THREE

The Professional-Patient Relationship

Introduction

A person in need of health care and the professional health care provider who accepts that person as a patient enter into a relationship that requires, among other things, mutual respect, trust, honesty, and appropriate confidentiality. The resulting free exchange of information must avoid manipulation, intimidation, or condescension. Such a relationship enables the patient to disclose personal information needed for effective care and permits the health care provider to use his or her professional competence most effectively to maintain or restore the patient's health. Neither the health care professional nor the patient acts independently of the other; both participate in the healing process.

Today, a patient often receives health care from a team of providers, especially in the setting of the modern acute-care hospital. But the resulting multiplication of relationships does not alter the personal character of the interaction between health care providers and the patient. The relationship of the person seeking health care and the professionals providing that care is an important part of the foundation on which diagnosis and care are provided. Diagnosis and care, therefore, entail a series of decisions with ethical as well as medical dimensions. The health care professional has the knowledge and experience to pursue the goals of healing, the maintenance of health, and the compassionate care of the dying, taking into account the patient's convictions and spiritual needs, and the moral responsibilities of all concerned. The person in need of health care depends on the skill of the health care provider to assist in preserving life and promoting health of body, mind, and spirit. The patient, in turn, has a responsibility to use these physical and mental resources in the service of moral and spiritual goals to the best of his or her ability.

When the health care professional and the patient use institutional Catholic health care, they also accept its public commitment to the Church's understanding of and witness to the dignity of the human person. The Church's moral teaching on health care nurtures a truly interpersonal professional-patient relationship. This professional-patient relationship is never separated, then, from the Catholic identity of the health care institution. The faith that inspires Catholic health care guides medical decisions in ways that fully respect the dignity of the person and the relationship with the health care professional.

Directives

23. The inherent dignity of the human person must be respected and protected regardless of the nature of the person's health problem or social status. The respect for human dignity extends to all persons who are served by Catholic health care.
24. In compliance with federal law, a Catholic health care institution will make available to patients information about their rights, under the laws of their state, to make an advance

directive for their medical treatment. The institution, however, will not honor an advance directive that is contrary to Catholic teaching. If the advance directive conflicts with Catholic teaching, an explanation should be provided as to why the directive cannot be honored.

25. Each person may identify in advance a representative to make health care decisions as his or her surrogate in the event that the person loses the capacity to make health care decisions. Decisions by the designated surrogate should be faithful to Catholic moral principles and to the person's intentions and values, or if the person's intentions are unknown, to the person's best interests. In the event that an advance directive is not executed, those who are in a position to know best the patient's wishes—usually family members and loved ones—should participate in the treatment decisions for the person who has lost the capacity to make health care decisions.
26. The free and informed consent of the person or the person's surrogate is required for medical treatments and procedures, except in an emergency situation when consent cannot be obtained and there is no indication that the patient would refuse consent to the treatment.
27. Free and informed consent requires that the person or the person's surrogate receive all reasonable information about the essential nature of the proposed treatment and its benefits; its risks, side-effects, consequences, and cost; and any reasonable and morally legitimate alternatives, including no treatment at all.
28. Each person or the person's surrogate should have access to medical and moral information and counseling so as to be able to form his or her conscience. The free and informed health care decision of the person or the person's surrogate is to be followed so long as it does not contradict Catholic principles.
29. All persons served by Catholic health care have the right and duty to protect and preserve their bodily and functional integrity.¹⁶ The functional integrity of the person may be sacrificed to maintain the health or life of the person when no other morally permissible means is available.¹⁷
30. The transplantation of organs from living donors is morally permissible when such a donation will not sacrifice or seriously impair any essential bodily function and the anticipated benefit to the recipient is proportionate to the harm done to the donor. Furthermore, the freedom of the prospective donor must be respected, and economic advantages should not accrue to the donor.
31. No one should be the subject of medical or genetic experimentation, even if it is therapeutic, unless the person or surrogate first has given free and informed consent. In instances of nontherapeutic experimentation, the surrogate can give this consent only if the experiment entails no significant risk to the person's well-being. Moreover, the greater the

person's incompetency and vulnerability, the greater the reasons must be to perform any medical experimentation, especially nontherapeutic.

32. While every person is obliged to use ordinary means to preserve his or her health, no person should be obliged to submit to a health care procedure that the person has judged, with a free and informed conscience, not to provide a reasonable hope of benefit without imposing excessive risks and burdens on the patient or excessive expense to family or community.¹⁸
33. The well-being of the whole person must be taken into account in deciding about any therapeutic intervention or use of technology. Therapeutic procedures that are likely to cause harm or undesirable side-effects can be justified only by a proportionate benefit to the patient.
34. Health care providers are to respect each person's privacy and confidentiality regarding information related to the person's diagnosis, treatment, and care.
35. Health care professionals should be educated to recognize the symptoms of abuse and violence and are obliged to report cases of abuse to the proper authorities in accordance with local statutes.
36. Compassionate and understanding care should be given to a person who is the victim of sexual assault. Health care providers should cooperate with law enforcement officials and offer the person psychological and spiritual support as well as accurate medical information. A female who has been raped should be able to defend herself against a potential conception from the sexual assault. If, after appropriate testing, there is no evidence that conception has occurred already, she may be treated with medications that would prevent ovulation, sperm capacitation, or fertilization. It is not permissible, however, to initiate or to recommend treatments that have as their purpose or direct effect the removal, destruction, or interference with the implantation of a fertilized ovum.¹⁹
37. An ethics committee or some alternate form of ethical consultation should be available to assist by advising on particular ethical situations, by offering educational opportunities, and by reviewing and recommending policies. To these ends, there should be appropriate standards for medical ethical consultation within a particular diocese that will respect the diocesan bishop's pastoral responsibility as well as assist members of ethics committees to be familiar with Catholic medical ethics and, in particular, these Directives.

PART FOUR

Issues in Care for the Beginning of Life

Introduction

The Church's commitment to human dignity inspires an abiding concern for the sanctity of human life from its very beginning, and with the dignity of marriage and of the marriage act by which human life is transmitted. The Church cannot approve medical practices that undermine the biological, psychological, and moral bonds on which the strength of marriage and the family depends.

Catholic health care ministry witnesses to the sanctity of life "from the moment of conception until death."²⁰ The Church's defense of life encompasses the unborn and the care of women and their children during and after pregnancy. The Church's commitment to life is seen in its willingness to collaborate with others to alleviate the causes of the high infant mortality rate and to provide adequate health care to mothers and their children before and after birth.

The Church has the deepest respect for the family, for the marriage covenant, and for the love that binds a married couple together. This includes respect for the marriage act by which husband and wife express their love and cooperate with God in the creation of a new human being. The Second Vatican Council affirms:

This love is an eminently human one. . . . It involves the good of the whole person. . . . The actions within marriage by which the couple are united intimately and chastely are noble and worthy ones. Expressed in a manner which is truly human, these actions signify and promote that mutual self-giving by which spouses enrich each other with a joyful and a thankful will.²¹

Marriage and conjugal love are by their nature ordained toward the begetting and educating of children. Children are really the supreme gift of marriage and contribute very substantially to the welfare of their parents. . . . Parents should regard as their proper mission the task of transmitting human life and educating those to whom it has been transmitted. . . . They are thereby cooperators with the love of God the Creator, and are, so to speak, the interpreters of that love.²²

For legitimate reasons of responsible parenthood, married couples may limit the number of their children by natural means. The Church cannot approve contraceptive interventions that "either in anticipation of the marital act, or in its accomplishment or in the development of its natural consequences, have the purpose, whether as an end or a means, to render procreation impossible."²³ Such interventions violate "the inseparable connection, willed by God . . . between the two meanings of the conjugal act: the unitive and procreative meaning."²⁴

With the advance of the biological and medical sciences, society has at its disposal new technologies for responding to the problem of infertility. While we rejoice in the potential for

good inherent in many of these technologies, we cannot assume that what is technically possible is always morally right. Reproductive technologies that substitute for the marriage act are not consistent with human dignity. Just as the marriage act is joined naturally to procreation, so procreation is joined naturally to the marriage act. As Pope John XXIII observed:

The transmission of human life is entrusted by nature to a personal and conscious act and as such is subject to all the holy laws of God: the immutable and inviolable laws which must be recognized and observed. For this reason, one cannot use means and follow methods which could be licit in the transmission of the life of plants and animals.²⁵

Because the moral law is rooted in the whole of human nature, human persons, through intelligent reflection on their own spiritual destiny, can discover and cooperate in the plan of the Creator.²⁶

Directives

38. When the marital act of sexual intercourse is not able to attain its procreative purpose, assistance that does not separate the unitive and procreative ends of the act, and does not substitute for the marital act itself, may be used to help married couples conceive.²⁷
39. Those techniques of assisted conception that respect the unitive and procreative meanings of sexual intercourse and do not involve the destruction of human embryos, or their deliberate generation in such numbers that it is clearly envisaged that all cannot implant and some are simply being used to maximize the chances of others implanting, may be used as therapies for infertility.
40. Heterologous fertilization (that is, any technique used to achieve conception by the use of gametes coming from at least one donor other than the spouses) is prohibited because it is contrary to the covenant of marriage, the unity of the spouses, and the dignity proper to parents and the child.²⁸
41. Homologous artificial fertilization (that is, any technique used to achieve conception using the gametes of the two spouses joined in marriage) is prohibited when it separates procreation from the marital act in its unitive significance (e.g., any technique used to achieve extracorporeal conception).²⁹
42. Because of the dignity of the child and of marriage, and because of the uniqueness of the mother-child relationship, participation in contracts or arrangements for surrogate motherhood is not permitted. Moreover, the commercialization of such surrogacy denigrates the dignity of women, especially the poor.³⁰
43. A Catholic health care institution that provides treatment for infertility should offer not only technical assistance to infertile couples but also should help couples pursue other solutions (e.g., counseling, adoption).
44. A Catholic health care institution should provide prenatal, obstetric, and postnatal services for mothers and their children in a manner consonant with its mission.
45. Abortion (that is, the directly intended termination of pregnancy before viability or the directly intended destruction of a viable fetus) is never permitted. Every procedure whose sole immediate effect is the termination of pregnancy before viability is an abortion, which, in its moral context, includes the interval between conception and implantation of the embryo. Catholic health care institutions are not to provide abortion services, even based upon the principle of material cooperation. In this context, Catholic health care institutions need to be

concerned about the danger of scandal in any association with abortion providers.

46. Catholic health care providers should be ready to offer compassionate physical, psychological, moral, and spiritual care to those persons who have suffered from the trauma of abortion.
47. Operations, treatments, and medications that have as their direct purpose the cure of a proportionately serious pathological condition of a pregnant woman are permitted when they cannot be safely postponed until the unborn child is viable, even if they will result in the death of the unborn child.
48. In case of extrauterine pregnancy, no intervention is morally licit which constitutes a direct abortion.³¹
49. For a proportionate reason, labor may be induced after the fetus is viable.
50. Prenatal diagnosis is permitted when the procedure does not threaten the life or physical integrity of the unborn child or the mother and does not subject them to disproportionate risks; when the diagnosis can provide information to guide preventative care for the mother or pre- or postnatal care for the child; and when the parents, or at least the mother, give free and informed consent. Prenatal diagnosis is not permitted when undertaken with the intention of aborting an unborn child with a serious defect.³²
51. Nontherapeutic experiments on a living embryo or fetus are not permitted, even with the consent of the parents. Therapeutic experiments are permitted for a proportionate reason with the free and informed consent of the parents or, if the father cannot be contacted, at least of the mother. Medical research that will not harm the life or physical integrity of an unborn child is permitted with parental consent.³³
52. Catholic health institutions may not promote or condone contraceptive practices but should provide, for married couples and the medical staff who counsel them, instruction both about the Church's teaching on responsible parenthood and in methods of natural family planning.
53. Direct sterilization of either men or women, whether permanent or temporary, is not permitted in a Catholic health care institution. Procedures that induce sterility are permitted when their direct effect is the cure or alleviation of a present and serious pathology and a simpler treatment is not available.³⁴
54. Genetic counseling may be provided in order to promote responsible parenthood and to prepare for the proper treatment and care of children with genetic defects, in accordance with Catholic moral teaching and the intrinsic rights and obligations of married couples regarding the transmission of life.

PART FIVE

Issues in Care for the Seriously Ill and Dying

Introduction

Christ's redemption and saving grace embrace the whole person, especially in his or her illness, suffering, and death.³⁵ The Catholic health care ministry faces the reality of death with the confidence of faith. In the face of death—for many, a time when hope seems lost—the Church witnesses to her belief that God has created each person for eternal life.³⁶

Above all, as a witness to its faith, a Catholic health care institution will be a community of respect, love, and support to patients or residents and their families as they face the reality of death. What is hardest to face is the process of dying itself, especially the dependency, the helplessness, and the pain that so often accompany terminal illness. One of the primary purposes of medicine in caring for the dying is the relief of pain and the suffering caused by it. Effective management of pain in all its forms is critical in the appropriate care of the dying.

The truth that life is a precious gift from God has profound implications for the question of stewardship over human life. We are not the owners of our lives and, hence, do not have absolute power over life. We have a duty to preserve our life and to use it for the glory of God, but the duty to preserve life is not absolute, for we may reject life-prolonging procedures that are insufficiently beneficial or excessively burdensome. Suicide and euthanasia are never morally acceptable options.

The task of medicine is to care even when it cannot cure. Physicians and their patients must evaluate the use of the technology at their disposal. Reflection on the innate dignity of human life in all its dimensions and on the purpose of medical care is indispensable for formulating a true moral judgment about the use of technology to maintain life. The use of life-sustaining technology is judged in light of the Christian meaning of life, suffering, and death. In this way two extremes are avoided: on the one hand, an insistence on useless or burdensome technology even when a patient may legitimately wish to forgo it and, on the other hand, the withdrawal of technology with the intention of causing death.³⁷

The Church's teaching authority has addressed the moral issues concerning medically assisted nutrition and hydration. We are guided on this issue by Catholic teaching against euthanasia, which is "an action or an omission which of itself or by intention causes death, in order that all suffering may in this way be eliminated."³⁸ While medically assisted nutrition and hydration are not morally obligatory in certain cases, these forms of basic care should in principle be provided to all patients who need them, including patients diagnosed as being in a "persistent vegetative state" (PVS), because even the most severely debilitated and helpless patient retains the full dignity of a human person and must receive ordinary and proportionate care.

Directives

55. Catholic health care institutions offering care to persons in danger of death from illness,

accident, advanced age, or similar condition should provide them with appropriate opportunities to prepare for death. Persons in danger of death should be provided with whatever information is necessary to help them understand their condition and have the opportunity to discuss their condition with their family members and care providers. They should also be offered the appropriate medical information that would make it possible to address the morally legitimate choices available to them. They should be provided the spiritual support as well as the opportunity to receive the sacraments in order to prepare well for death.

56. A person has a moral obligation to use ordinary or proportionate means of preserving his or her life. Proportionate means are those that in the judgment of the patient offer a reasonable hope of benefit and do not entail an excessive burden or impose excessive expense on the family or the community.³⁹
57. A person may forgo extraordinary or disproportionate means of preserving life. Disproportionate means are those that in the patient's judgment do not offer a reasonable hope of benefit or entail an excessive burden, or impose excessive expense on the family or the community.
58. In principle, there is an obligation to provide patients with food and water, including medically assisted nutrition and hydration for those who cannot take food orally. This obligation extends to patients in chronic and presumably irreversible conditions (e.g., the "persistent vegetative state") who can reasonably be expected to live indefinitely if given such care.⁴⁰ Medically assisted nutrition and hydration become morally optional when they cannot reasonably be expected to prolong life or when they would be "excessively burdensome for the patient or [would] cause significant physical discomfort, for example resulting from complications in the use of the means employed."⁴¹ For instance, as a patient draws close to inevitable death from an underlying progressive and fatal condition, certain measures to provide nutrition and hydration may become excessively burdensome and therefore not obligatory in light of their very limited ability to prolong life or provide comfort.
59. The free and informed judgment made by a competent adult patient concerning the use or withdrawal of life-sustaining procedures should always be respected and normally complied with, unless it is contrary to Catholic moral teaching.
60. Euthanasia is an action or omission that of itself or by intention causes death in order to alleviate suffering. Catholic health care institutions may never condone or participate in euthanasia or assisted suicide in any way. Dying patients who request euthanasia should receive loving care, psychological and spiritual support, and appropriate remedies for pain and other symptoms so that they can live with dignity until the time of natural death.⁴²
61. Patients should be kept as free of pain as possible so that they may die comfortably and

with dignity, and in the place where they wish to die. Since a person has the right to prepare for his or her death while fully conscious, he or she should not be deprived of consciousness without a compelling reason. Medicines capable of alleviating or suppressing pain may be given to a dying person, even if this therapy may indirectly shorten the person's life so long as the intent is not to hasten death. Patients experiencing suffering that cannot be alleviated should be helped to appreciate the Christian understanding of redemptive suffering.

62. The determination of death should be made by the physician or competent medical authority in accordance with responsible and commonly accepted scientific criteria.
63. Catholic health care institutions should encourage and provide the means whereby those who wish to do so may arrange for the donation of their organs and bodily tissue, for ethically legitimate purposes, so that they may be used for donation and research after death.
64. Such organs should not be removed until it has been medically determined that the patient has died. In order to prevent any conflict of interest, the physician who determines death should not be a member of the transplant team.
65. The use of tissue or organs from an infant may be permitted after death has been determined and with the informed consent of the parents or guardians.
66. Catholic health care institutions should not make use of human tissue obtained by direct abortions even for research and therapeutic purposes.⁴³

PART SIX

Collaborative Arrangements with Other Health Care Organizations and Providers⁴⁴

Introduction

In and through her compassionate care for the sick and suffering members of the human family, the Church extends Jesus' healing mission and serves the fundamental human dignity of every person made in God's image and likeness. Catholic health care, in serving the common good, has historically worked in collaboration with a variety of non-Catholic partners. Various factors in the current health care environment in the United States, however, have led to a multiplication of collaborative arrangements among health care institutions, between Catholic institutions as well as between Catholic and non-Catholic institutions.

Collaborative arrangements can be unique and vitally important opportunities for Catholic health care to further its mission of caring for the suffering and sick, in faithful imitation of Christ. For example, collaborative arrangements can provide opportunities for Catholic health care institutions to influence the healing profession through their witness to the Gospel of Jesus Christ. Moreover, they can be opportunities to realign the local delivery system to provide a continuum of health care to the community, to provide a model of a responsible stewardship of limited health care resources, to provide poor and vulnerable persons with more equitable access to basic care, and to provide access to medical technologies and expertise that greatly enhance the quality of care. Collaboration can even, in some instances, ensure the continued presence of a Catholic institution, or the presence of any health care facility at all, in a given area.

When considering a collaboration, Catholic health care administrators should seek first to establish arrangements with Catholic institutions or other institutions that operate in conformity with the Church's moral teaching. It is not uncommon, however, that arrangements with Catholic institutions are not practicable and that, in pursuit of the common good, the only available candidates for collaboration are institutions that do not operate in conformity with the Church's moral teaching.

Such collaborative arrangements can pose particular challenges if they would involve institutional connections with activities that conflict with the natural moral law, church teaching, or canon law. Immoral actions are always contrary to "the singular dignity of the human person, 'the only creature that God has wanted for its own sake.'"⁴⁵ It is precisely because Catholic health care services are called to respect the inherent dignity of every human being and to contribute to the common good that they should avoid, whenever possible, engaging in collaborative arrangements that would involve them in contributing to the wrongdoing of other providers.

The Catholic moral tradition provides principles for assessing cooperation with the wrongdoing of others to determine the conditions under which cooperation may or may not be

morally justified, distinguishing between “formal” and “material” cooperation. *Formal* cooperation “occurs when an action, either by its very nature or by the form it takes in a concrete situation, can be defined as a direct participation in an [immoral] act . . . or a sharing in the immoral intention of the person committing it.”⁴⁶ Therefore, cooperation is formal not only when the cooperator shares the intention of the wrongdoer, but also when the cooperator directly participates in the immoral act, even if the cooperator does not share the intention of the wrongdoer, but participates as a means to some other end. Formal cooperation may take various forms, such as authorizing wrongdoing, approving it, prescribing it, actively defending it, or giving specific direction about carrying it out. Formal cooperation, in whatever form, is always morally wrong.

The cooperation is *material* if the one cooperating neither shares the wrongdoer’s intention in performing the immoral act nor cooperates by directly participating in the act as a means to some other end, but rather contributes to the immoral activity in a way that is causally related but not essential to the immoral act itself. While some instances of material cooperation are morally wrong, others are morally justified. There are many factors to consider when assessing whether or not material cooperation is justified, including: whether the cooperator’s act is morally good or neutral in itself, how significant is its causal contribution to the wrongdoer’s act, how serious is the immoral act of the wrongdoer, and how important are the goods to be preserved or the harms to be avoided by cooperating. Assessing material cooperation can be complex, and legitimate disagreements may arise over which factors are most relevant in a given case. Reliable theological experts should be consulted in interpreting and applying the principles governing cooperation.

Any moral analysis of a collaborative arrangement must also take into account the danger of scandal, which is “an attitude or behavior which leads another to do evil.”⁴⁷ The cooperation of a Catholic institution with other health care entities engaged in immoral activities, even when such cooperation is morally justified in all other respects, might, in certain cases, lead people to conclude that those activities are morally acceptable. This could lead people to sin. The danger of scandal, therefore, needs to be carefully evaluated in each case. In some cases, the danger of scandal can be mitigated by certain measures, such as providing an explanation as to why the Catholic institution is cooperating in this way at this time. In any event, prudential judgments that take into account the particular circumstances need to be made about the risk and degree of scandal and about whether they can be effectively addressed.

Even when there are good reasons for establishing collaborative arrangements that involve material cooperation with wrongdoing, leaders of Catholic healthcare institutions must assess whether becoming associated with the wrongdoing of a collaborator will risk undermining their institution’s ability to fulfill its mission of providing health care as a witness to the Catholic faith and an embodiment of Jesus’ concern for the sick. They must do everything they can to ensure that the integrity of the Church’s witness to Christ and his Gospel is not adversely affected by a collaborative arrangement.

In sum, collaborative arrangements with entities that do not share our Catholic moral tradition present both opportunities and challenges. The opportunities to further the mission of Catholic health care can be significant. The challenges do not necessarily preclude all such arrangements on moral grounds, but they do make it imperative for Catholic leaders to undertake careful analyses to ensure that new collaborative arrangements—as well as those that already exist—abide by the principles governing cooperation, effectively address the risk of scandal, abide by canon law, and sustain the Church’s witness to Christ and his saving message.

While the following Directives are offered to assist Catholic health care institutions in analyzing the moral considerations of collaborative arrangements, the ultimate responsibility for interpreting and applying of the Directives rests with the diocesan bishop.

Directives

67. Each diocesan bishop has the ultimate responsibility to assess whether collaborative arrangements involving Catholic health care providers operating in his local church involve wrongful cooperation, give scandal, or undermine the Church’s witness. In fulfilling this responsibility, the bishop should consider not only the circumstances in his local diocese but also the regional and national implications of his decision.
68. When there is a possibility that a prospective collaborative arrangement may lead to serious adverse consequences for the identity or reputation of Catholic health care services or entail a risk of scandal, the diocesan bishop is to be consulted in a timely manner. In addition, the diocesan bishop’s approval is required for collaborative arrangements involving institutions subject to his governing authority; when they involve institutions not subject to his governing authority but operating in his diocese, such as those involving a juridic person erected by the Holy See, the diocesan bishop’s *nihil obstat* is to be obtained.
69. In cases involving health care systems that extend across multiple diocesan jurisdictions, it remains the responsibility of the diocesan bishop of each diocese in which the system’s affiliated institutions are located to approve locally the prospective collaborative arrangement or to grant the requisite *nihil obstat*, as the situation may require. At the same time, with such a proposed arrangement, it is the duty of the diocesan bishop of the diocese in which the system’s headquarters is located to initiate a collaboration with the diocesan bishops of the dioceses affected by the collaborative arrangement. The bishops involved in this collaboration should make every effort to reach a consensus.
70. Catholic health care organizations are not permitted to engage in immediate material cooperation in actions that are intrinsically immoral, such as abortion, euthanasia, assisted suicide, and direct sterilization.⁴⁸
71. When considering opportunities for collaborative arrangements that entail material cooperation in wrongdoing, Catholic institutional leaders must assess whether scandal⁴⁹ might be given and whether the Church’s witness might be undermined. In some cases, the risk of scandal can be appropriately mitigated or removed by an explanation of what is in fact being done by the health care organization under Catholic auspices. Nevertheless, a

collaborative arrangement that in all other respects is morally licit may need to be refused because of the scandal that might be caused or because the Church's witness might be undermined.

72. The Catholic party in a collaborative arrangement has the responsibility to assess periodically whether the binding agreement is being observed and implemented in a way that is consistent with the natural moral law, Catholic teaching, and canon law.
73. Before affiliating with a health care entity that permits immoral procedures, a Catholic institution must ensure that neither its administrators nor its employees will manage, carry out, assist in carrying out, make its facilities available for, make referrals for, or benefit from the revenue generated by immoral procedures.
74. In any kind of collaboration, whatever comes under the control of the Catholic institution—whether by acquisition, governance, or management—must be operated in full accord with the moral teaching of the Catholic Church, including these Directives.
75. It is not permitted to establish another entity that would oversee, manage, or perform immoral procedures. Establishing such an entity includes actions such as drawing up the civil bylaws, policies, or procedures of the entity, establishing the finances of the entity, or legally incorporating the entity.
76. Representatives of Catholic health care institutions who serve as members of governing boards of non-Catholic health care organizations that do not adhere to the ethical principles regarding health care articulated by the Church should make their opposition to immoral procedures known and not give their consent to any decisions proximately connected with such procedures. Great care must be exercised to avoid giving scandal or adversely affecting the witness of the Church.
77. If it is discovered that a Catholic health care institution might be wrongly cooperating with immoral procedures, the local diocesan bishop should be informed immediately and the leaders of the institution should resolve the situation as soon as reasonably possible.

Conclusion

Sickness speaks to us of our limitations and human frailty. It can take the form of infirmity resulting from the simple passing of years or injury from the exuberance of youthful energy. It can be temporary or chronic, debilitating, and even terminal. Yet the follower of Jesus faces illness and the consequences of the human condition aware that our Lord always shows compassion toward the infirm.

Jesus not only taught his disciples to be compassionate, but he also told them who should be the special object of their compassion. The parable of the feast with its humble guests was preceded by the instruction: “When you hold a banquet, invite the poor, the crippled, the lame, the blind” (Lk 14:13). These were people whom Jesus healed and loved.

Catholic health care is a response to the challenge of Jesus to go and do likewise. Catholic health care services rejoice in the challenge to be Christ’s healing compassion in the world and see their ministry not only as an effort to restore and preserve health but also as a spiritual service and a sign of that final healing that will one day bring about the new creation that is the ultimate fruit of Jesus’ ministry and God’s love for us.

Notes

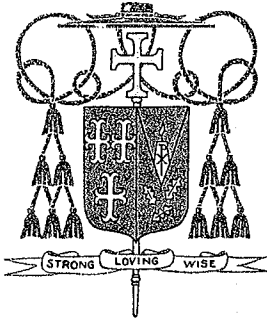
1. United States Conference of Catholic Bishops, *Health and Health Care: A Pastoral Letter of the American Catholic Bishops* (Washington, DC: United States Conference of Catholic Bishops, 1981).
2. Health care services under Catholic auspices are carried out in a variety of institutional settings (e.g., hospitals, clinics, outpatient facilities, urgent care centers, hospices, nursing homes, and parishes). Depending on the context, these Directives will employ the terms “institution” and/or “services” in order to encompass the variety of settings in which Catholic health care is provided.
3. *Health and Health Care*, p. 5.
4. Second Vatican Ecumenical Council, *Decree on the Apostolate of the Laity (Apostolicam Actuositatem)* (1965), no. 1.
5. Pope John Paul II, Post-Synodal Apostolic Exhortation *On the Vocation and the Mission of the Lay Faithful in the Church and in the World (Christifideles Laici)* (Washington, DC: United States Conference of Catholic Bishops, 1988), no. 29.
6. As examples, see Congregation for the Doctrine of the Faith, *Declaration on Procured Abortion* (1974); Congregation for the Doctrine of the Faith, *Declaration on Euthanasia* (1980); Congregation for the Doctrine of the Faith, *Instruction on Respect for Human Life in Its Origin and on the Dignity of Procreation: Replies to Certain Questions of the Day (Donum Vitae)* (Washington, DC: United States Conference of Catholic Bishops, 1987).
7. Pope John XXIII, Encyclical Letter *Peace on Earth (Pacem in Terris)* (Washington, DC: United States Conference of Catholic Bishops, 1963), no. 11; *Health and Health Care*, pp. 5, 17-18; *Catechism of the Catholic Church*, 2nd ed. (Washington, DC: Libreria Editrice Vaticana–United States Conference of Catholic Bishops, 2000), no. 2211.
8. Pope John Paul II, *On Social Concern, Encyclical Letter on the Occasion of the Twentieth Anniversary of “Populorum Progressio” (Sollicitudo Rei Socialis)* (Washington, DC: United States Conference of Catholic Bishops, 1988), no. 43.
9. United States Conference of Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy* (Washington, DC: United States Conference of Catholic Bishops, 1986), no. 80.
10. The duty of responsible stewardship demands responsible collaboration. But in collaborative efforts, Catholic institutionally based health care services must be attentive to occasions when the policies and practices of other institutions are not compatible with the Church’s authoritative moral teaching. At such times, Catholic health care institutions should determine whether or to what degree collaboration would be morally permissible. To make that judgment, the governing boards of Catholic institutions should adhere to the moral principles on cooperation. See Part Six.
11. *Health and Health Care*, p. 12.
12. Cf. *Code of Canon Law*, cc. 921-923.
13. Cf. *ibid.*, c. 867, § 2, and c. 871.
14. To confer Baptism in an emergency, one must have the proper intention (to do what the Church intends by Baptism) and pour water on the head of the person to be baptized, meanwhile pronouncing the words: “I baptize you in the name of the Father, and of the Son, and of the

Holy Spirit.”

15. Cf. c. 883, 3°.
16. For example, while the donation of a kidney represents loss of biological integrity, such a donation does not compromise functional integrity since human beings are capable of functioning with only one kidney.
17. Cf. directive 53.
18. *Declaration on Euthanasia*, Part IV; cf. also directives 56-57.
19. It is recommended that a sexually assaulted woman be advised of the ethical restrictions that prevent Catholic hospitals from using abortifacient procedures; cf. Pennsylvania Catholic Conference, “Guidelines for Catholic Hospitals Treating Victims of Sexual Assault,” *Origins* 22 (1993): 810.
20. Pope John Paul II, “Address of October 29, 1983, to the 35th General Assembly of the World Medical Association,” *Acta Apostolicae Sedis* 76 (1984): 390.
21. Second Vatican Ecumenical Council, *Pastoral Constitution on the Church in the Modern World (Gaudium et Spes)* (1965), no. 49.
22. *Ibid.*, no. 50.
23. Pope Paul VI, Encyclical Letter *On the Regulation of Birth (Humanae Vitae)* (Washington, DC: United States Conference of Catholic Bishops, 1968), no. 14.
24. *Ibid.*, no. 12.
25. Pope John XXIII, Encyclical Letter *Mater et Magistra* (1961), no. 193, quoted in Congregation for the Doctrine of the Faith, *Donum Vitae*, no. 4.
26. Pope John Paul II, Encyclical Letter *The Splendor of Truth (Veritatis Splendor)* (Washington, DC: United States Conference of Catholic Bishops, 1993), no. 50.
27. “Homologous artificial insemination within marriage cannot be admitted except for those cases in which the technical means is not a substitute for the conjugal act but serves to facilitate and to help so that the act attains its natural purpose” (*Donum Vitae*, Part II, B, no. 6; cf. also Part I, nos. 1, 6).
28. *Ibid.*, Part II, A, no. 2.
29. “Artificial insemination as a substitute for the conjugal act is prohibited by reason of the voluntarily achieved dissociation of the two meanings of the conjugal act. Masturbation, through which the sperm is normally obtained, is another sign of this dissociation: even when it is done for the purpose of procreation, the act remains deprived of its unitive meaning: ‘It lacks the sexual relationship called for by the moral order, namely, the relationship which realizes “the full sense of mutual self-giving and human procreation in the context of true love”’” (*Donum Vitae*, Part II, B, no. 6).
30. *Ibid.*, Part II, A, no. 3.
31. Cf. directive 45.
32. *Donum Vitae*, Part I, no. 2.
33. Cf. *ibid.*, no. 4. (Washington, DC: United States Conference of Catholic Bishops, 1988), no. 43.
34. Cf. Congregation for the Doctrine of the Faith, “Responses on Uterine Isolation and Related Matters,” July 31, 1993, *Origins* 24 (1994): 211-212.
35. Pope John Paul II, Apostolic Letter *On the Christian Meaning of Human Suffering (Salvifici Doloris)* (Washington, DC: United States Conference of Catholic Bishops, 1984), nos. 25-27.

36. United States Conference of Catholic Bishops, *Order of Christian Funerals* (Collegeville, Minn.: The Liturgical Press, 1989), no. 1.
37. See *Declaration on Euthanasia*.
38. *Ibid.*, Part II.
39. *Ibid.*, Part IV; Pope John Paul II, Encyclical Letter *On the Value and Inviolability of Human Life (Evangelium Vitae)* (Washington, DC: United States Conference of Catholic Bishops, 1995), no. 65.
40. See Pope John Paul II, Address to the Participants in the International Congress on “Life-Sustaining Treatments and Vegetative State: Scientific Advances and Ethical Dilemmas” (March 20, 2004), no. 4, where he emphasized that “the administration of water and food, even when provided by artificial means, always represents a *natural means* of preserving life, not a *medical act*.” See also Congregation for the Doctrine of the Faith, “Responses to Certain Questions of the United States Conference of Catholic Bishops Concerning Artificial Nutrition and Hydration” (August 1, 2007).
41. Congregation for the Doctrine of the Faith, Commentary on “Responses to Certain Questions of the United States Conference of Catholic Bishops Concerning Artificial Nutrition and Hydration.”
42. See *Declaration on Euthanasia*, Part IV.
43. *Donum Vitae*, Part I, no. 4.
44. See: Congregation for the Doctrine of the Faith, “Some Principles for Collaboration with non-Catholic Entities in the Provision of Healthcare Services,” published in *The National Catholic Bioethics Quarterly* (Summer 2014), 337-40.
45. Pope John Paul II, *Veritatis Splendor*, no. 13.
46. Pope John Paul II, *Evangelium Vitae*, no. 74.
47. *Catechism of the Catholic Church*, no. 2284.
48. While there are many acts of varying moral gravity that can be identified as intrinsically evil, in the context of contemporary health care the most pressing concerns are currently abortion, euthanasia, assisted suicide, and direct sterilization. See Pope John Paul II’s Ad Limina Address to the bishops of Texas, Oklahoma, and Arkansas (Region X), in *Origins* 28 (1998): 283. See also “Reply of the Sacred Congregation for the Doctrine of the Faith on Sterilization in Catholic Hospitals” (*Quaecumque Sterilizatio*), March 13, 1975, *Origins* 6 (1976): 33-35: “Any cooperation institutionally approved or tolerated in actions which are in themselves, that is, by their nature and condition, directed to a contraceptive end . . . is absolutely forbidden. For the official approbation of direct sterilization and, a fortiori, its management and execution in accord with hospital regulations, is a matter which, in the objective order, is by its very nature (or intrinsically) evil.” This directive supersedes the “Commentary on the Reply of the Sacred Congregation for the Doctrine of the Faith on Sterilization in Catholic Hospitals” published by the National Conference of Catholic Bishops on September 15, 1977, in *Origins* 7 (1977): 399-400.
49. See *Catechism of the Catholic Church*: “Anyone who uses the power at his disposal in such a way that it leads others to do wrong becomes guilty of scandal and responsible for the evil that he has directly or indirectly encouraged” (no. 2287).

EXHIBIT 21



Office of the Bishop
Diocese of Providence
One Cathedral Square
Providence, RI 02903
Phone: (401) 278-4546

27 September 2013

Most Reverend Celso Morga Iruzubieta
Secretary
Congregation for the Clergy
Piazza Pio XII, 3
00120 Vatican City State

~VIA DIPLOMATIC COURIER~

Your Excellency:

In accord with Canon 1292, §2 of the *Code of Canon Law*, I write to request canonical permission for a proposed alienation involving the only Catholic healthcare provider here in the Diocese of Providence. Saint Joseph Hospital (founded in 1892) and Our Lady of Fatima Hospital (founded in 1950) have provided a consistent Catholic presence and viable medical options within our community for generations. Both were merged into a single Rhode Island not-for-profit civil corporation (Saint Joseph Health Services of Rhode Island/Our Lady of Fatima Hospital) in 1970; and, in 2009, SJHSRI/Our Lady of Fatima Hospital and Roger Williams Medical Center (a secular community hospital) became members of the CharterCARE Health Partners network ("CharterCARE"). Shortly thereafter, in the wake of the global economic downturn, CharterCARE soon began to experience the need for increased capital and was confronted with a significant unfunded liability within its employee pension-system. Due to these circumstances, CharterCARE leadership, like many hospitals and healthcare providers, in March 2011 began a focused search for a strategic capital partner.

On March 13, 2013, at a special meeting of its Board of Trustees, CharterCARE received the Board's approval to pursue a "letter of intent" with Prospect Medical Holdings, Inc. ("Prospect"), a for-profit (taxable) entity. After many consultations with its Board and with the Diocese of Providence, CharterCARE signed this letter on March 18, 2013, and a period of due-diligence followed. Within these six months, CharterCARE has agreed to sell the assets of Roger Williams Medical Center, SJHSRI/Our Lady of Fatima Hospital in exchange for both cash consideration of **\$45 million** (subject to adjustments and other terms and conditions) and a **15% membership interest** in what will be a new company, Prospect CharterCARE, LLC. Of that total, CharterCARE (and, by extension, its affiliate SJHSRI/Our Lady of Fatima Hospital) will apply approximately \$31 million to the repayment of virtually all long-term debt; and, approximately \$14 million to fund the Church-sponsored employee pension plan.

In addition, over four (4) years, Prospect will contribute a total of **\$50 million** for physician network development and capital projects – including significant and long-delayed upgrades to Our Lady of Fatima Hospital, such as renovation of the emergency department, expansion of handicapped access at the front entrance, conversion of patient rooms to private rooms, expansion of the ambulatory care center, and purchase of a new generator and of new windows. Further, Prospect CharterCARE, LLC, will fully fund annual depreciation in the amount of \$10 million (\$5 million for each hospital).

On September 24, 2013, CharterCARE and Prospect signed an Asset Purchase Agreement (“APA”), marking the end of a long and exhaustive process in which CharterCARE identified, evaluated, and selected a capital partner that will better enable CharterCARE (and SJHSRI/Our Lady of Fatima Hospital) to meet the daily needs of its patients, and to provide assurances for its hundreds of employees and the security of their pension benefits. The APA provides for continuity in local governance, and in CharterCARE’s current Rhode Island-based executive team, including President and Chief Executive Officer Kenneth Belcher. There will be “50-50” Board representation and equal voting, as long as CharterCARE maintains more than 5% ownership in the new entity. Currently, CharterCARE enjoys tax-exempt status; every effort will be made to retain that status, following the alienation.

The Diocese of Providence is grateful to CharterCARE for all it has done to preserve the healing ministry of Jesus at SJHSRI/Our Lady of Fatima Hospital, all within very difficult financial circumstances. However, without this transaction, it appears that a consistent Catholic healthcare presence in the Diocese of Providence would be gravely compromised, and the financial future for employee-beneficiaries of the pension plan would be at significant risk. I believe that the APA between CharterCARE and Prospect will help avoid the catastrophic implications of such a failure, and at the same time, enhance the quality of care at SJHSRI/Our Lady of Fatima. The alienation will allow the Diocese, through CharterCARE, to better attain the goals of fulfilling the mission of serving the poor and those in need, while respecting Catholic medical ethics and the Gospel of Life. We are grateful for the strong local presence of SJHSRI/Our Lady of Fatima Hospital that has been a foundation of Catholic healthcare here for over 100 years.

The APA states that SJHSRI/Our Lady of Fatima Hospital will retain its Catholic identity, its existing policies on charitable and pastoral care, and its community benefit program. Additionally, it will continue to approach labor relations from a social justice perspective. The transaction will provide Our Lady of Fatima Hospital with much-needed capital for infrastructure, programs and pensions, while it continues to provide high-quality hospital services in accord with the *Ethical and Religious Directives for Catholic Health Care Services*, (the “Directives”) as provided by the United States Conference of Catholic Bishops. The APA states that the Bishop of Providence has a direct right to enforce the Catholicity covenants, and that the Bishop shall be the sole arbiter with respect to matters relating to compliance with the Directives at the SJHSRI/Our Lady of Fatima locations. In the event of non-compliance, the Bishop may request that Prospect CharterCARE, LLC cease operating under the names “St. Joseph” or “Our Lady of Fatima” or any other name that implies Catholicity. Any hospital or facility that Prospect CharterCARE, LLC subsequently acquires or establishes must comply with the restrictions on prohibited activities.

The transaction is subject to customary civil law closing requirements, including approvals from the Rhode Island Attorney General and the Rhode Island Department of Health, and will be subject to the conditions of the Hospital Conversions Act. Hearings in both those offices will begin shortly, and we expect that the necessary approvals will be obtained within the next 60 days. Should any unexpected issues arise, I will notify you.

As noted, this alienation has been approved by the CharterCARE Board of Trustees. In addition, it also received the consent of the diocesan Finance Council on September 17, 2013, and the consent of the College of Consultors on September 26, 2013 – all in accord with Canon 1292, §1. I have no objection to the alienation.

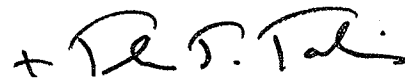
With this letter, I enclose the following:

- Background information on SJHSRI/Our Lady of Fatima Hospital and CharterCARE Health Partners
- A copy of a presentation which provides an overview of the transaction's details
- The minutes of the CharterCARE Board of Trustees meeting of March 13, 2013
- The minutes of the Finance Council meeting of September 17, 2013
- The minutes of the College of Consultors meeting of September 26, 2013
- A copy of the signed Asset Purchase Agreement (APA), including exhibits

As you can see, this alienation is the culmination of a long process. It is my sincere hope that Your Excellency will understand the important role of this alienation for the faithful of the Diocese of Providence, and the thousands of patients, employees, and pensioners of SJHSRI. Since we expect civil approvals in the coming weeks, I respectfully request your permission to proceed, so that the Diocese of Providence (through CharterCARE and affiliate SJHSRI/Our Lady of Fatima Hospital) may complete the final steps within the desired timeframe.

Grateful for your assistance in this, and with sentiments of esteem, I am

Sincerely yours in the Lord,



Thomas J. Tobin
Bishop of Providence

Enclosures

EXHIBIT 22

To: Tim Reilly

Subject: RE: Official Catholic Directory

And to clarify: the for profit entity is not the parent of sjhsri, the heritage hospital. Its parent is Chartercare community board, also a not for profit entity. Therefore, there should be no issue with sjhsri's continued listing in the directory. Again, I will be in touch with a more formal reply.

From: Tim Reilly [<mailto:treilly@dioceseofprovidence.org>]

Sent: Tuesday, November 11, 2014 3:04 PM

To: Brown, Otis

Subject: Re: Official Catholic Directory

Hi Otis,

Hope you got to enjoy today as a day-off. We have some concerns regarding the OCD listing of Fatima and SJHSRI.

Except in exceptional circumstances, the USCCB group exemption policies and the IRS rules for public charities would not permit an organization owned by a for-profit to continue to be listed in the Directory. Recently, the USCCB has instituted more formalized and rigorous policies and procedures, with increased expectations for the local Dioceses, in light of stricter IRS scrutiny of group rulings.

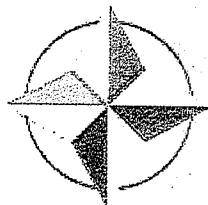
The Prospect-CharterCARE merger has been major state news, and most in the local community are aware that a for-profit entity is now the parent company of Fatima and SJHSRI.

These factors would indicate that Fatima and SJHSRI are not eligible for listing at this time. I'll meet with Mike Sabatino and Monsignor Bastia shortly, but just wanted to update you.

Thanks as always,
Father Tim Reilly

EXHIBIT 23

Drinker Biddle



Charter CARE
HEALTH PARTNERS

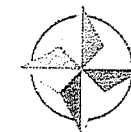
Overview of the Strategic Transaction with Prospect Medical Holdings, Inc.

**For the Bishop of the Roman Catholic Diocese
of Providence, Rhode Island**

CONFIDENTIAL

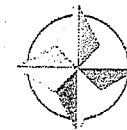
September 12, 2013

Keith R. Anderson
Drinker Biddle & Reath LLP
(312) 569-1278
Keith.Anderson@dbr.com



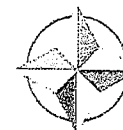
Overview of the Strategic Transaction

- > Asset sale/purchase
 - CharterCARE and the CharterCARE affiliates, including St. Joseph Health Services of Rhode Island (“SJHSRI”) and Roger Williams Medical Center (“Roger Williams”), will sell substantially all of their assets to Prospect CharterCARE, LLC (“Newco”)
 - Assets must be conveyed free and clear of any debt or encumbrances
 - Newco will –
 - pay to CharterCARE \$45 million, minus any assumed capital lease obligations in excess of the existing capital leases, and plus or minus any Final Adjustment Amount from the net working capital true-up; and
 - issue to CharterCARE a 15% ownership (membership) interest in Newco
 - Proposed uses of the cash proceeds
 - Approximately \$31 million to satisfy long-term debt
 - Approximately \$14 million for the Church-sponsored retirement plan (the “Church Plan”)



Overview of the Strategic Transaction

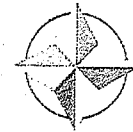
- > Asset sale/purchase – cont'd
 - Covenants of Prospect and Newco
 - Prospect will make significant capital contributions to Newco (covered below in more detail)
 - CCHP Employees
 - Newco will offer employment to substantially all of the CCHP employees
 - Salaries and wages will be equal to those in effect at Closing
 - Retention of seniority status for benefits
 - Benefits levels substantially comparable to those provided under CCHP's plans
 - Unions
 - Newco shall recognize each union
 - Newco shall either assume all collective bargaining agreements ("CBAs"), as amended before closing of the transaction
 - Newco is not required to assume or continue benefits under the Church Plan
 - Newco is not required to offer any defined benefit plan
 - Newco is not required to enter into a neutrality agreement regarding Roger Williams Medical Center



Overview of the Strategic Transaction

- > Asset sale/purchase – cont'd
 - Covenants of Prospect and Newco – cont'd
 - Catholic identity covenants (covered below in more detail)
 - Charity care/financial assistance policies
 - Medicare and Medicaid participation
 - Legal compliance
 - Maintain both hospitals and specific essential services for at least 5 years
 - Financial viability exceptions for essential services
 - Maintain Medical Staffs of both hospitals
 - No change in to Medical Staff privileges, bylaws, rules and regulations for 2 years
 - No change in Medical Staff leadership structures for 2 years

Drinker Biddle

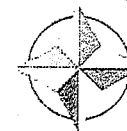


CharterCARE
HEALTH PARTNERS

Overview of Strategic Transaction

- > CCHP will be the community partner in Newco
 - Newco will be formed as an LLC
 - CCHP's initial ownership will be 15%
 - CCHP's ownership can never go below 5%
 - CCHP may be diluted if it is unable to contribute additional capital to Newco or satisfy an indemnification obligation under the APA

DrinkerBiddle

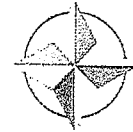


CharterCARE
HEALTH PARTNERS

Overview of Strategic Transaction

- > Governance of Newco is vested in the Board of Directors and Manager
 - Members have limited decision-making authority
 - 50/50 Board representation (4 and 4) and equal voting (through block voting) so long as CCHP owns more than 5%
 - If CCHP ownership drops to 5%, Prospect will appoint 4 Directors and CCPH will appoint 3 Directors and simple majority is required for approval

DrinkerBiddle

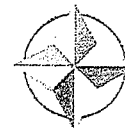


CharterCARE
HEALTH PARTNERS

Overview of Strategic Transaction

- > Manager will have broad authority to run Newco and operate the hospitals
 - A subsidiary of Prospect will serve as the Manager
 - Written management agreement
 - Manager will be paid 2% of collected revenue

Drinker Biddle

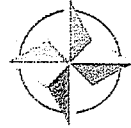


CharterCARE
HEALTH PARTNERS

Overview of Strategic Transaction

- > Prospect's capital contributions to Newco
 - \$45 million (purchase price for Assets)
 - \$50 million over 4 years after closing
 - To be used for physician network development and capital projects
 - No dilution of CCHP's ownership percentage
- > Newco will fund depreciation in the amount of \$10 million per year for the hospitals

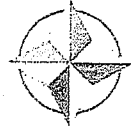
Drinker Biddle



CharterCARE
HEALTH PARTNERS

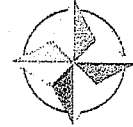
Overview of Strategic Transaction

- > Catholic identity covenants of Prospect and Newco
 - Our Lady of Fatima Hospital and other legacy SJHSRI facilities will be operated in compliance with the ERDs
 - Roger Williams Medical Center and its facilities will not engage in prohibited activities
 - Abortion
 - Euthanasia
 - Physician-assisted suicide
 - Any hospital or facility acquired or established by Newco after Closing must comply with restrictions on prohibited activities
 - The Bishop has a direct right to enforce the Catholicity covenants
 - The Bishop may require a name change of Our Lady of Fatima Hospital and the other legacy SJHSRI facilities if he is unsuccessful in enforcing the Catholicity covenants



Overview of Strategic Transaction

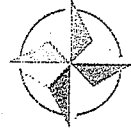
- > Prospect shall not sell its interest in Newco for 5 years after Closing
 - Ownership of Prospect may change
 - After 5 years, CCHP has a “tag along” right if Prospect sells its interest
 - Buyer must assume the obligations in the APA and LLC Agreement
- > CCHP may put its entire interest in Newco to Prospect any time after 5 years



Overview of Strategic Transaction

- > Requirements of the post-Closing structure of CCHP
 - Maintain the retirement plan of St. Joseph Health Services of Rhode Island as a “Church Plan”
 - Maintain an organization to –
 - enforce the post-closing covenants of Prospect and Newco; and
 - hold the membership (ownership) interest in Newco
- > Objectives of CCHP’s the post-Closing structure
 - Keep the structure simple, straightforward and practical given the organization’s responsibilities
 - Minimize changes to the existing structure
 - Ensure that the structure may be changed in the future as responsibilities and needs change
 - Attempt to retain tax-exempt status of CCHP

DrinkerBiddle



CharterCARE
HEALTH PARTNERS

Proposed Post-Closing Structure

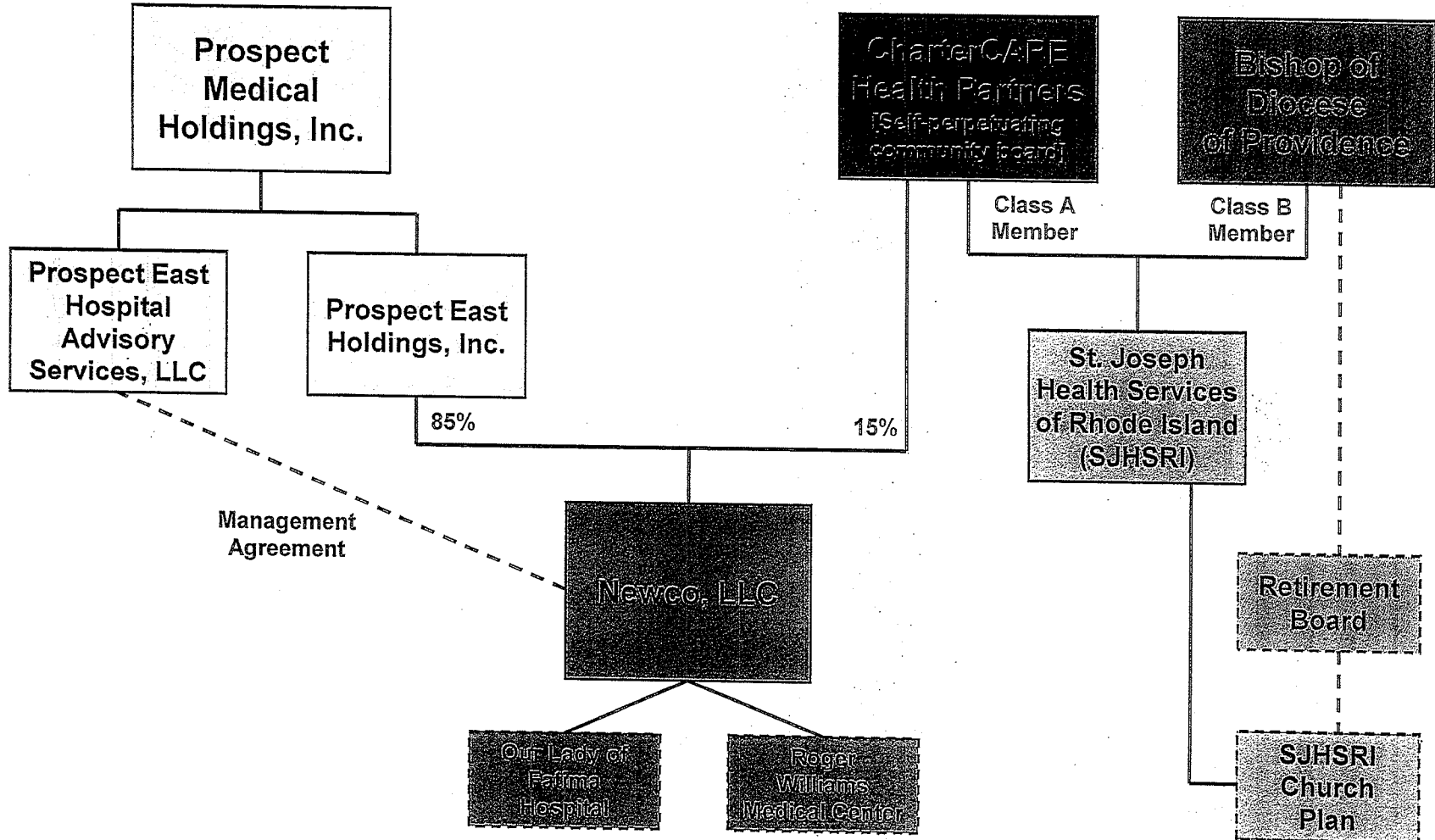
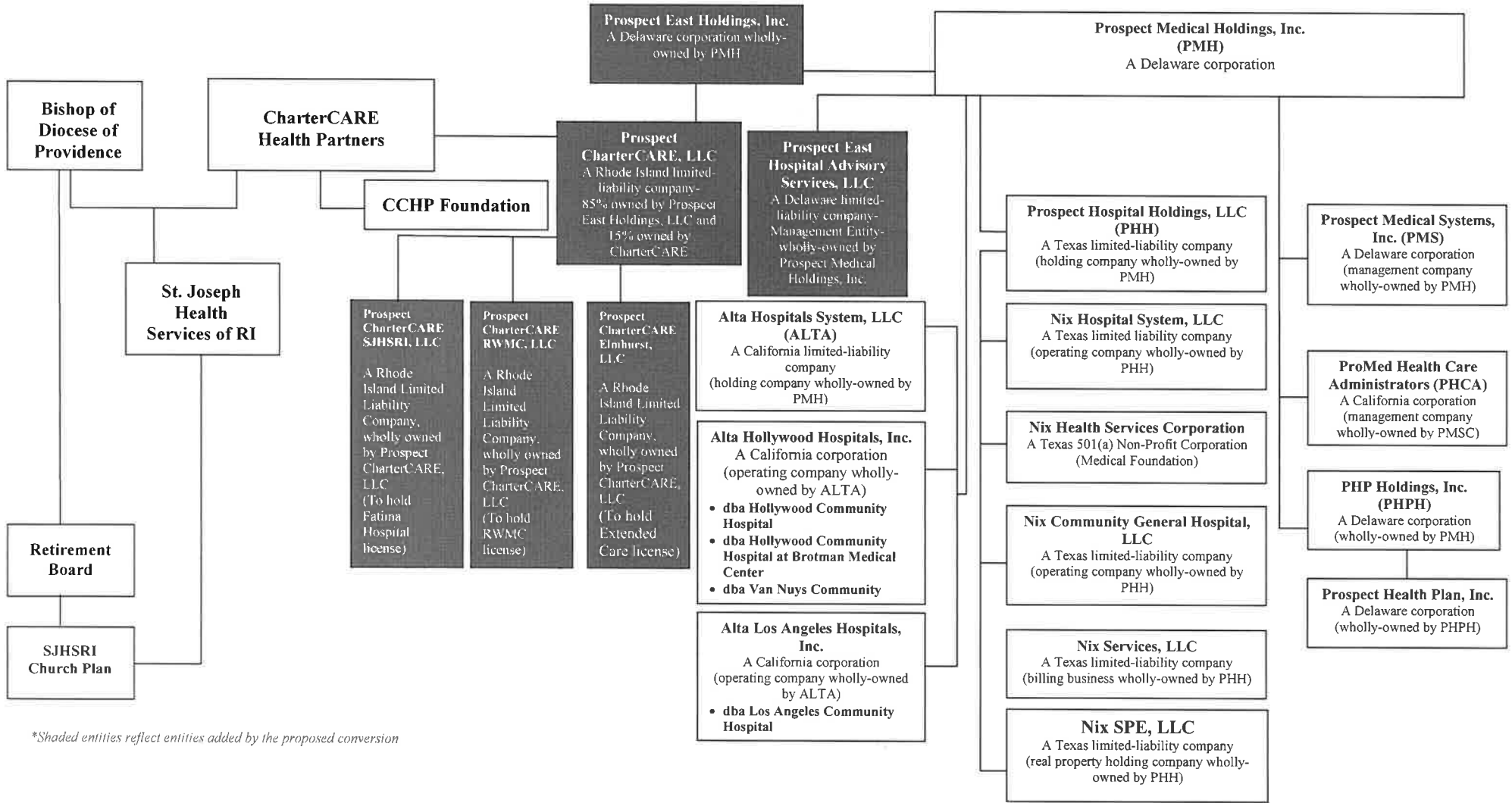


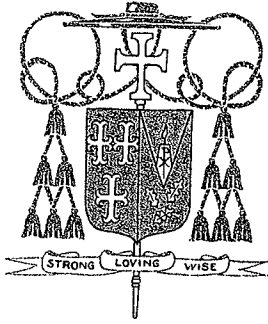
EXHIBIT 24

POST TRANSACTION ORGANIZATIONAL STRUCTURE OF PMH/CharterCARE



*Shaded entities reflect entities added by the proposed conversion

EXHIBIT 25



Office of the Bishop
Diocese of Providence
One Cathedral Square
Providence, RI 02903
Phone: (401) 278-4546

February 14, 2014

Health Services Council
c/o Mr. Michael Dexter
Office of Health System Development
3 Capitol Hill Room 410
Providence, RI 02908

Dear Members of the Health Services Council:

I write on behalf of the proposed partnership between CharterCARE Health Partners and Prospect Medical Holdings, which will assure that Rhode Islanders continue to have the choice of Catholic-sponsored health care at Our Lady of Fatima Hospital, and at the St. Joseph Community Health Center in South Providence -- which provides critical primary and specialty care to thousands of less fortunate citizens each year.

Since its inception in 2010, CharterCARE has demonstrated its commitment to quality, efficiency, and collaboration. By consolidating administrative functions between Our Lady of Fatima Hospital and Roger Williams Medical Center, CharterCARE in that time has eliminated nearly \$30 million in costs. Prospect's investment in the partnership will further strengthen CharterCARE financially, will ensure that quality, affordable health services continue to be available, and will preserve jobs in Providence and North Providence. Together, CharterCARE's two hospitals continue to develop clinical centers of excellence in cancer, elder health, behavioral health and digestive diseases. While this progress has been substantial, CharterCARE needs a strong capital partner if it is to fulfill the potential of these initiatives.

The proposal before the Department differs from any other hospital transaction/conversion in the State of Rhode Island to-date. The partnership represents shared governance and local control, and the 50/50 board composition exemplifies the commitment of both organizations to the state of Rhode Island and to the communities that the CharterCARE hospitals currently serve. The CharterCARE-Prospect partnership presents a unique opportunity to significantly advance Rhode Island's health care delivery system reform goals. And, Prospect's experience operating in managed care and risk arrangements will be critically important as our state's health care system continues to evolve.

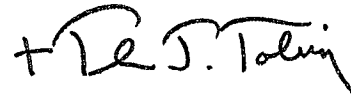
The Diocese of Providence is grateful to CharterCARE for all it has done to preserve the healing ministry of SJHSRI/Our Lady of Fatima Hospital, all within very difficult financial circumstances. However, without this transaction, it appears that a consistent Catholic health care presence in the Diocese of Providence would be gravely compromised, and the financial

26-31

future for employee-beneficiaries of the pension plan would be at significant risk. I believe that this partnership will help avoid the catastrophic implications of such a failure, and at the same time, enhance the quality of care at SJHSRI/Our Lady of Fatima. The transaction will also allow the Diocese, through CharterCARE, to better attain the goals of fulfilling the mission of serving the poor and those in need, while respecting Catholic medical ethics and Church law. We are grateful for the strong local presence of SJHSRI/Our Lady of Fatima Hospital that has been a foundation of Catholic healthcare here for over 100 years.

I respectfully encourage you to look favorably on this proposed transaction.

Sincerely yours,

A handwritten signature in black ink, appearing to read "T. J. Tobin". The signature is written in a cursive style with a cross at the beginning.

Thomas J. Tobin
Bishop of Providence

C: Dr. Michael Fine, Director