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*Attorneys for St. Mary's Hospital, Passaic, N.J.*

IN THE MATTER OF THE APPROVAL  
OF THE SALE OF THE ASSETS OF ST.  
MARY'S HOSPITAL, PASSAIC, N.J.  
PURSUANT TO N.J.S.A. 26:2H-7.10, *et*  
*seq.*

SUPERIOR COURT OF NEW JERSEY  
CHANCERY DIVISION: PASSAIC COUNTY  
DOCKET NO. PAS-C- 57-14

Civil Action

**ORDER FOR FINAL JUDGMENT**

THIS MATTER having been opened to the Court by St. Mary's Hospital, Passaic, N.J. ("St. Mary's," the "Hospital" or the "Petitioner") by and through its attorneys Drinker Biddle & Reath LLP, Frank F. Velocci, Esq. appearing, and the Report of the Acting Attorney General dated June 13, 2014 (the "AG Report") and the Court having considered the Verified Complaint and Brief in support of the application and the Recommendation of the Acting Attorney General of New Jersey; and having heard the submissions of counsel and the opposition (if any) and made the following findings of fact and conclusions of law, and for good cause shown:

1. St. Mary's is owned by a single corporate member, St. Mary's Health Corporation (the "Corporation"), a New Jersey not for profit corporation. Under the bylaws of St. Mary's, as its sole corporate member, the Corporation has certain reserve powers including the right to sell the assets of St. Mary's.

2. St. Mary's is a 269-bed licensed general acute care community hospital licensed by the New Jersey Department of Health ("DOH").

3. St. Mary's (a) engages in the business of delivering healthcare services to the public through the operation of an acute care hospital located at 350 Boulevard, Passaic, Passaic

County, New Jersey and (b) owns and operates certain outpatient, ancillary and other healthcare business incident to the operation of the Hospital.

4. Prime Healthcare Services – St. Mary’s Passaic, LLC, a Delaware limited liability company, is a wholly owned subsidiary of Prime Healthcare Services, Inc. (“PHS”), a Delaware corporation. PHS and its affiliate, Prime Healthcare Services Foundation, a 501(c)(3) public charity, collectively own and operate a total of twenty-five (25) acute care hospitals and more than 4,700 beds throughout California, Kansas, Nevada, Pennsylvania, Rhode Island and Texas.

5. Historically, the Hospital has had substantial operating losses and is not operating on a self-sustaining basis. The Hospital’s financial condition jeopardizes the ability of St. Mary’s to continue to serve its community.

6. The alternative to the sale of St. Mary’s is closure of the Hospital.

7. In order to maintain financial viability while preserving St. Mary’s as a general acute care hospital and paying its debts to third party creditors, St. Mary’s now seeks approval to sell substantially all of the assets of the Hospital, including related arrangements and transactions, by St. Mary’s to Prime St. Mary’s (the “Transaction”).

8. Prime St. Mary’s will purchase substantially all of the assets and assume certain of the liabilities of the Hospital as documented on the Hospital’s Financial Statements for the month prior to the month during which the Proposed Transaction closes, including the tail coverage associated with the Hospital’s Professional Liability Insurance, for a total price of \$30 million, plus a commitment to invest at least \$30 million in capital improvements with no less than \$15 million during the first two years, not including normal/routine equipment replacements.

9. The proceeds from the sale of the Hospital will be used as follows:

(a) \$5 million of unsecured working capital was advanced to the Hospital.

(b) \$15 million will be paid to the State of New Jersey in return for a release of all obligations, liens and encumbrances associated with the Series 2007 Bonds.

(c) \$750,000 to fund the wind down and termination costs associated with St. Mary's, post-closing, including but not limited to Directors and Officers tail coverage and the legal fees associated with terminating St. Mary's corporate structure.

(d) \$9.25 million, to address the Hospital's non-union pension issues.

10. A public hearing was held on January 16, 2014, as required by N.J.S.A. 26:2H-7.11(f). All persons who filed a written comment or appeared and made a statement at the public hearing, other than persons connected with the parties to the transaction, have been made a party to this proceeding.

11. The Office of the Acting Attorney General has issued its June 13, 2014 Report (the "AG Report") declaring that the Transaction is in the public interest in accordance with the applicable requirements set forth in the Community Healthcare Assets Protection Act, N.J.S.A. 26:2H-7.10 *et seq.* The Acting Attorney General supports this Application, subject to certain conditions, all of which are described in the AG's Report attached hereto as Exhibit A and incorporated by reference as if set forth fully herein and all of which St. Mary's and Prime St. Mary's have accepted.

12. The Transaction is in the public interest in accordance with the application requirements of the Community Healthcare Assets Protection Act, N.J.S.A. 26:2H-7.10 *et seq.*

**IT IS THEREFORE ORDERED** on this \_\_ day of July 2014, based upon the facts, conclusions of law, and good cause having been shown, as follows:

A. The Transaction is in the public interest in accordance with the applicable criteria of the Community Healthcare Assets Protection Act, N.J.S.A. 26:2H-7.10 *et seq.*,

B. The sale of substantially all of the assets of St. Mary's to Prime St. Mary's be and hereby is approved subject to the following conditions as set forth in the AG Report:

- (i) the Attorney General shall be granted the discretion for a period of five (5) years from the closing of the Proposed Transaction to bring an action before this Court or reopen this action before this Court in the public interest, after consultation with the Commissioner of the Department of Health, to force the resale of St. Mary's Hospital to a willing buyer at fair market value, as determined by an independent third party appraiser and pursuant to a competitive bidding process, in the event of the discovery of a material misrepresentation made to the State of New Jersey by Prime Health Care Services, Inc., or any of its affiliates, or its owners, officers, directors or senior management, in regards to the acquisition of St. Mary's Hospital by Prime and the transfer of the license of St. Mary's Hospital to Prime, or any other event that materially impairs the ability of Prime, or its affiliates, to operate St. Mary's Hospital. All net proceeds of any resale of St. Mary's Hospital will be paid to Prime;
- (ii) Prime shall provide information to the Attorney General concerning any actions taken against Prime relating to, or any final resolution of, the investigation currently being conducted by the United States Department of Justice and the Office of Inspector General into coding at Prime's hospitals, on a quarterly basis, until said investigation has been resolved and, for a term of five (5) years, Prime shall report to the Attorney General any actions initiated against it, its affiliates, or any of its hospitals, by any governmental entity;
- (iii) St. Mary's Hospital shall file an application with this Court for the transfer of any donor restricted funds in accordance with a future proceeding pursuant to the cy pres doctrine, upon prior notice to our office and all of the interested parties to this proceeding;
- (iv) (a) St. Mary's Hospital Foundation will file an application, on notice to the Attorney General and all of the interested parties to this proceeding, to seek judicial application of the cy pres doctrine to any change to its purposes or mission and the disposition of its donor restricted funds; (b) if the Foundation trustees choose to continue the Foundation's existence as the entity maintaining the remaining charitable assets of the Hospital, the Foundation shall provide the Attorney General with an annual report for a two-year period which shall include an audited financial statement and a detailed description of its grant making and other charitable activities related to its use of its charitable assets. The annual report shall be made available for inspection by the public at the offices of the Foundation and the Office of the Attorney General; (c) any member of the Foundation Board who previously served on the Board of St. Mary's Hospital, or any of its affiliates, and any member of the Foundation Board who

accepts a position as a director, officer or employee of Prime, or any of its affiliates, shall resign from the Foundation Board, effective as of the closing of the Proposed Transaction. No member of the Foundation Board shall serve as an officer, director or employee of Prime, or any of its affiliates. The membership of the Board of the Foundation will be broadly based.

- (v) all compensation arrangements between any former officer, director, board member or senior manager of the Hospital, or its affiliates, and Prime, or any of Prime's affiliates, be in the form of a written contractual agreement and that Prime submit to the Attorney General for a period of two (2) years of the date of closing of the Proposed Transaction for prior review and approval, any such agreements. In conjunction with the submission of such written compensation arrangements, we require the submission of a certification from an independent compensation consultant engaged by Prime documenting that compensation to be paid in any such arrangement is set at fair market value for the services rendered;
- (vi) trustees and senior managers of the Hospital shall be prohibited from investing in Prime or its subsidiaries or affiliates for a period of three (3) years following the acquisition; and.

C. A copy of this Order shall be served on all parties and shall be posted on the St. Mary's website within \_\_ days of the date hereof.

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Honorable Margaret Mary McVeigh, P.J.Ch.