

AFFILIATION AGREEMENT

BETWEEN

GROSSMONT HOSPITAL DISTRICT

AND

SAN DIEGO HOSPITAL ASSOCIATION

DATED: MAY 29, 1991



TABLE OF CONTENTS

AFFILIATION AGREEMENT . . . . . 1

RECITALS . . . . . 1

AGREEMENT. . . . . 2

ARTICLE 1 STRUCTURE . . . . . 3

    1.1 The Affiliation . . . . . 3

    1.2 Taking of Necessary Action; Further Action . . . . . 3

ARTICLE 2 CLOSING . . . . . 4

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SDHA . . . . . 4

    3.1 Organization . . . . . 4

    3.2 Authorization; Noncontravention; Consents . . . . . 5

    3.3 Financial Statements . . . . . 6

    3.4 Tax Status . . . . . 7

    3.5 Income Taxes; Other Taxes . . . . . 7

    3.6 Absence of Material Adverse Change; Conduct of Business . . . . . 7

    3.7 Litigation; Investigation . . . . . 8

    3.8 Compliance with Applicable Law . . . . . 9

    3.9 No Default . . . . . 9

    3.10 Insurance . . . . . 10

    3.11 Licenses, Permits and Rights . . . . . 10

    3.12 Cost Reports . . . . . 11

    3.13 Hospital Licenses . . . . . 11

    3.14 Hospital Survey . . . . . 11

    3.15 Third Party Payor Contracts . . . . . 11

3.16	<u>Capital Budget</u>	11
3.17	<u>No Subsidiaries or Affiliates</u>	12
3.18	<u>Brokers or Finders</u>	12
3.19	<u>Disclosure</u>	12
ARTICLE 4	REPRESENTATIONS AND WARRANTIES OF THE DISTRICT	12
4.1	<u>Organization</u>	12
4.2	<u>Authorization; Noncontravention; Consents</u>	12
4.3	<u>Financial Statements</u>	13
4.4	<u>Tax Status</u>	14
4.5	<u>Absence of Material Adverse Change; Conduct of Business</u>	14
4.6	<u>Litigation; Investigation</u>	15
4.7	<u>Compliance with Applicable Law</u>	16
4.8	<u>No Default</u>	16
4.9	<u>Property</u>	17
4.10	<u>Insurance</u>	18
4.11	<u>Contracts</u>	18
4.12	<u>Licenses, Permits and Rights</u>	19
4.13	<u>Labor Relations</u>	19
4.14	<u>Employee Retirement Income Security Act of 1974</u>	20
4.15	<u>Brokers or Finders</u>	20
4.16	<u>Cost Reports</u>	20
4.17	<u>Hospital License</u>	20
4.18	<u>Hospital Survey</u>	21
4.19	<u>Third Party Payor Contracts</u>	21
4.20	<u>Capital Budget</u>	21

4.21	<u>No Subsidiaries or Affiliates</u>	21
4.22	<u>Disclosure</u>	21
ARTICLE 5	SDHA'S OBLIGATIONS BEFORE CLOSING	22
5.1	<u>Representations and Warranties True at Closing</u>	22
5.2	<u>Consents of Third Parties</u>	22
5.3	<u>Satisfaction of Conditions</u>	22
5.4	<u>Authorization by GHC</u>	22
ARTICLE 6	THE DISTRICT'S OBLIGATIONS BEFORE CLOSING	22
6.1	<u>Access to Premises and Information</u>	22
6.2	<u>Conduct of Business in Normal Course</u>	23
6.3	<u>Preservation of Business and Relationships</u>	23
6.4	<u>Bylaws</u>	23
6.5	<u>Maintenance of Insurance</u>	23
6.6	<u>Employees and Compensation</u>	23
6.7	<u>Representations and Warranties True at Closing</u>	24
6.8	<u>Consents of Third Parties</u>	24
6.9	<u>Satisfaction of Conditions</u>	25
ARTICLE 7	CONDITIONS TO OBLIGATIONS OF SDHA AND THE DISTRICT	25
7.1	<u>Articles of Incorporation of GHC</u>	25
7.2	<u>Tax Status</u>	25
7.3	<u>Bylaws</u>	25
7.4	<u>Election of Directors of SDHA</u>	25
7.5	<u>Election of Directors and Officers of GHC</u>	26
7.6	<u>Antitrust Review</u>	26
7.7	<u>IRS Letter Rulings</u>	27

7.8	<u>Governmental and Regulatory Consents</u>	27
7.9	<u>Litigation</u>	27
7.10	<u>Opinion of Bond Counsel</u>	28
7.11	<u>Legislation</u>	28
7.12	<u>Report of ERISA Counsel</u>	29
ARTICLE 8	CONDITIONS TO OBLIGATIONS OF SDHA	29
8.1	<u>Due Diligence Investigation</u>	29
8.2	<u>Certified Copies of the District Resolutions</u>	30
8.3	<u>Opinion of the District's Counsel</u>	30
8.4	<u>Representations; Warranties; Agreements; Covenants</u>	31
8.5	<u>Compliance Certificate</u>	32
8.6	<u>Consents</u>	32
8.7	<u>Certification of Financials</u>	32
8.8	<u>Licenses, Authorizations and Consents of Agencies</u>	32
ARTICLE 9	CONDITIONS TO OBLIGATIONS OF THE DISTRICT	33
9.1	<u>Due Diligence Investigation</u>	33
9.2	<u>Certified Copies of SDHA and GHC Resolutions</u>	33
9.3	<u>Opinion of SDHA's Counsel</u>	34
9.4	<u>Representations; Warranties; Agreements; Covenants</u>	36
9.5	<u>Compliance Certificate</u>	36
9.6	<u>Consents</u>	36
9.7	<u>Certification of Financials</u>	36
9.8	<u>Licenses, Authorizations and Consents of Governmental and Regulatory Authorities</u>	37
ARTICLE 10	POST-CLOSING COVENANTS	37

10.1	<u>Amendment of GHC's Articles of Incorporation and Bylaws</u>	37
10.2	<u>Mission Statements and Strategic Plans</u>	37
10.3	<u>Relationships with Physicians</u>	38
10.4	<u>District Approved Directors; Size of Board</u>	38
10.5	<u>Removal of Directors</u>	38
10.6	<u>Transfer of Membership</u>	38
10.7	<u>Joint Venture with Physicians</u>	38
10.8	<u>Organizational Goals</u>	38
10.9	<u>Amendment of SDHA Master Indenture</u>	39
10.10	<u>Grossmont Hospital Foundation Articles of Incorporation</u>	39
10.11	<u>Survival of Provisions</u>	39
ARTICLE 11	CONFIDENTIAL INFORMATION	40
ARTICLE 12	TERMINATION OF AFFILIATION	40
12.1	<u>Failure to Close by Specified Date</u>	40
12.2	<u>Breach or Material Change</u>	40
ARTICLE 13	MISCELLANEOUS	41
13.1	<u>Modification or Amendment</u>	41
13.2	<u>Waiver of Conditions</u>	41
13.3	<u>Indemnification</u>	41
13.3.1	<u>Indemnification by the District</u>	41
13.3.2	<u>Indemnification by SDHA</u>	41
13.3.3	<u>Attorneys' Fees</u>	42
13.4	<u>Governing Law</u>	42
13.5	<u>Invalidity</u>	42

13.6	<u>Notices</u>	42
13.7	<u>Entire Agreement</u>	43
13.8	<u>Captions</u>	43
13.9	<u>Costs</u>	43
13.10	<u>Counterparts</u>	44

## AFFILIATION AGREEMENT

This Affiliation Agreement (the "Affiliation Agreement"), entered into as of May 29, 1991, between San Diego Hospital Association, a California nonprofit public benefit corporation ("SDHA"), and Grossmont Hospital District, a political subdivision of the State of California, organized and existing pursuant to the Local Hospital District Law (Div. 23 of the Health & Safety Code) (the "District"), is made with reference to the following circumstances:

### RECITALS:

I. SDHA is the parent of a multi-hospital health care system consisting of three nonprofit hospitals and other healthcare facilities located in San Diego County, California, as well as a nonprofit hospital under development in Riverside County, California.

II. The District owns and operates Grossmont Hospital ("Grossmont Hospital"), a 465-bed general acute care hospital located in La Mesa, California.

III. The boards of directors of SDHA and the District, deeming the affiliation of Grossmont Hospital with SDHA, on the terms and subject to the conditions set forth in this Affiliation Agreement (the "Affiliation") to be desirable and in the best interest of the communities served by them, have approved this Affiliation Agreement.

IV. The Affiliation is intended to accomplish the following objectives:

A. Enhance the provision of quality health care to the communities served by the District.

B. Promote the development of new contracts for the benefit of Grossmont Hospital and the other SDHA health care system providers with a particular emphasis on developing systems that utilize the size and geographic scope arising from the Affiliation to better serve the general public residing in the communities served by the District and SDHA.

C. Achieve efficiencies and economies of scale.

D. Continue the development of SDHA as a comprehensive integrated health care system to better serve the general public residing in the communities served by SDHA and the District.

E. Improve access to capital markets and enable members of the system to borrow at lower interest rates.

F. Spread new technology risks among a broader base of participants.

G. Eliminate unnecessary duplication of major capital equipment.

V. The Affiliation shall be accomplished in the following manner:

A. SDHA has formed and is the sole member of Grossmont Hospital Corporation, a nonprofit public benefit corporation ("GHC"), which is exempt from federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code.

B. The District shall lease all real and tangible personal property comprising Grossmont Hospital to GHC for a term of thirty years. The District shall also transfer to GHC certain operating assets such as cash, accounts receivable and inventory. Substantially all of the District's liabilities, except revenue bonds and other obligations the interest on which is tax-exempt, shall be assumed by GHC.

C. The Grossmont Hospital Foundation bylaws shall be amended to provide that the appointment of members of its board of directors shall be subject to the approval of the board of directors of GHC.

AGREEMENT:

NOW, THEREFORE, in consideration of the premises and of the respective representations, warranties, covenants and agreements contained in this Affiliation Agreement, the parties to this Affiliation Agreement hereby agree as follows:

**ARTICLE 1**  
**STRUCTURE**

1.1 The Affiliation. Subject to the satisfaction or waiver of the conditions set forth in this Affiliation Agreement, on the Closing Date (as defined in Article 2 of this Affiliation Agreement) in accordance with this Affiliation Agreement, the Affiliation shall become effective. As of the Closing Date:

1.1.1 The District shall lease Grossmont Hospital to GHC pursuant to a Lease Agreement in the form of Exhibit 1.1.1 attached hereto (the "Lease").

1.1.2 The District shall transfer certain assets to GHC pursuant to a Transfer Agreement in the form of Exhibit 1.1.2 (the "Transfer Agreement").

1.1.3 The District shall cause the articles of incorporation of the Grossmont Hospital Foundation to be amended as set forth in Exhibit 1.1.3. The District shall cause the Grossmont Hospital Foundation's bylaws to be amended as set forth in Exhibit 1.1.3 to provide that the appointment of members of its board of directors shall be subject to the approval of the board of directors of GHC. The Foundation shall continue as a 501(c)(3) organization for the benefit of Grossmont Hospital. In the event of termination of the Lease, SDHA shall cause the Grossmont Hospital Foundation's bylaws to be amended to provide that the appointment of members of its board of directors shall be subject to the approval of the board of directors of the District, and its articles of incorporation to be amended so as to make the District the beneficiary and distributee.

1.2 Taking of Necessary Action; Further Action. Each of the parties shall take all such lawful action as may be necessary or appropriate to effect the transactions contemplated by this Affiliation Agreement. If at any time after the Closing Date any further action is necessary or desirable to carry out the purposes of this Affiliation Agreement, the parties shall take all such lawful and necessary action.

## ARTICLE 2

### CLOSING

The parties shall cooperate fully with one another with respect to the fulfillment of the various conditions and obligations under this Affiliation Agreement. The exchange of certificates, opinions and other documents and instruments contemplated by this Affiliation Agreement in connection with the consummation of the Affiliation (the "Closing") shall take place at the offices of Grossmont Hospital, 5555 Grossmont Center Drive, La Mesa, California 92042 on or before May 31, 1991, or such later date as shall have been approved by the boards of directors of the District and SDHA. The date on which the Closing occurs is referred to in this Affiliation Agreement as the "Closing Date". If at the Closing no party exercises any right it may have to terminate this Affiliation Agreement and no condition to the obligations of the parties exists that has not been satisfied or waived, the parties shall at the Closing consummate the Affiliation, effective as of the beginning of business day on the Closing Date.

## ARTICLE 3

### REPRESENTATIONS AND WARRANTIES OF SDHA

SDHA makes the representations and warranties contained in this Article to the best knowledge of SDHA's President and Chief Financial Officer; provided, however, that any such representations and warranties made with respect to any Affiliated Hospitals, as defined in Section 3.1, are made by such President and Chief Financial Officer without any independent investigation of the facts and circumstances surrounding such representation or warranty.

3.1 Organization. SDHA is the statutory member of Sharp Memorial Hospital, Sharp Cabrillo Hospital, and Community Hospital of Chula Vista (the "Affiliated Hospitals"). SDHA and the

Affiliated Hospitals are nonprofit public benefit corporations, duly organized and existing and in good standing under the laws of the State of California, and have the full legal right, power and authority to own or lease their properties and to carry on their businesses as they are now being conducted. SDHA and the Affiliated Hospitals hold and will hold on the Closing Date all necessary licenses, contracts, and approvals required by local, state and federal governments, and any other regulatory agency necessary to properly conduct their businesses as they are now being conducted.

3.2 Authorization; Noncontravention; Consents. SDHA has the power to enter into this Affiliation Agreement and to carry out its obligations under this Affiliation Agreement. As of the Closing Date, GHC will have the power to enter into the Lease and the Transfer Agreement (collectively, the "Transfer Documents"), and to carry out its obligations under such agreements. SDHA has taken all required action to approve and adopt this Affiliation Agreement, and this Affiliation Agreement is a legally valid and binding agreement of SDHA, enforceable in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the application of equitable principles) and no other proceeding on the part of SDHA is necessary to authorize this Affiliation Agreement, and the transactions contemplated hereby. As of the Closing Date, GHC will have taken all required action to approve and adopt the Transfer Documents and the Transfer Documents will be legally valid and binding agreements of GHC, enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the application of equitable principles) and no other proceeding on the part of GHC will be necessary to authorize the Transfer Documents and the transactions contemplated thereby. The execution and delivery of this Affiliation Agreement by SDHA, and the execution and delivery of the Transfer Documents by GHC, and the consummation of the transactions contemplated thereby, do

not and will not (i) conflict with any provision of the Articles of Incorporation or Bylaws of SDHA or GHC or (ii) conflict with, violate or constitute a default under, or result in the creation or imposition of any lien, charge, encumbrance or claim of any nature whatsoever upon any properties or assets of SDHA, the Affiliated Hospitals or GHC pursuant to any provision of any indenture, mortgage, deed of trust, lien, lease, agreement, instrument, order, arbitration award, judgment or decree to which any of them is a party or to which any of their properties or assets are bound or any applicable law, ordinance, regulation, decree or order of any court or governmental entity. Except as set forth in Disclosure Schedule 3.2 previously delivered to the District, no authorization, consent, order or approval of, or filing or qualification with, any court, regulatory authority or other governmental body is necessary for the consummation by SDHA or GHC of the transactions contemplated by this Affiliation Agreement. SDHA and GHC have, or will have on the Closing Date, all consents or approvals of any insurer, trustee or holder of any indebtedness of SDHA, the Affiliated Hospitals, or GHC required in connection with this Affiliation Agreement and the transactions contemplated hereby.

3.3 Financial Statements. SDHA has previously furnished to the District true and complete copies of the unaudited combined balance sheet of SDHA as of March 31, 1991, the unaudited combined statement of revenue and expenses, and the unaudited combined statement of cash flows for the three (3) months then ended. SDHA has also previously furnished to the District true and complete copies of the audited combined balance sheets of SDHA as of September 30, 1990 and September 30, 1989 and the audited combined statements of revenue and expenses, changes in fund balances and changes in the combined financial position of SDHA for the two fiscal years then ended, and the related report of Deloitte & Touche, independent public accountants. (The unaudited financial statements of SDHA as of March 31, 1991 and the audited financial statements of SDHA as of September 30, 1990 and September 30, 1989,

shall be referred to collectively as the "SDHA Financial Statements"). The SDHA Financial Statements fairly present the combined financial position of SDHA at their respective dates and the combined results of operations and changes in the combined financial position of SDHA for the respective periods then ended in accordance with generally accepted accounting principles consistently applied during the periods involved (except as otherwise stated therein). Except as set forth in Disclosure Schedule 3.3 previously delivered to the District, SDHA has no material liability or obligation, fixed or contingent, which is not reflected or reserved against on the balance sheets included in the SDHA Financial Statements or otherwise set forth in the notes thereto, other than liabilities incurred in the ordinary course of business after March 31, 1991, which in the aggregate do not materially adversely affect the financial condition, properties, business, or results of operations or prospects of SDHA on a combined basis.

3.4 Tax Status. SDHA, the Affiliated Hospitals, and GHC are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and have received rulings as to their tax-exempt status from the Internal Revenue Service and the Franchise Tax Board of the State of California, which rulings have not been revoked, rescinded or modified.

3.5 Income Taxes; Other Taxes. SDHA has filed all federal, state, county and local income and franchise tax returns, reports and declarations which it is required to file and has paid, or made provision for the payment of, all such taxes which were due pursuant to such returns or pursuant to any assessment received by it.

3.6 Absence of Material Adverse Change; Conduct of Business. Except as set forth in Disclosure Schedule 3.6 previously delivered to the District, since March 31, 1991, on a combined basis:

3.6.1 There has not been any material adverse change in the financial condition, properties, business, results of operations or prospects of SDHA;

3.6.2 No event has occurred which, so far as reasonably can be foreseen at this time, would result in any such change;

3.6.3 SDHA has conducted its business only in, and has not taken any action other than in, the usual and ordinary course of its business; and

3.6.4 SDHA has not:

3.6.4.1 Amended or otherwise changed its Articles of Incorporation or Bylaws;

3.6.4.2 Entered into any material commitment or transaction (including, without limitation, any material capital expenditure) on a combined basis other than in the ordinary course of business;

3.6.4.3 Granted any security interest in or otherwise encumbered any of its properties or assets on a combined basis;

3.6.4.4. On a combined basis, sold or otherwise disposed of any assets or properties other than in the ordinary course of business or entered into any joint venture, partnership or other agreement with respect thereto;

3.6.4.5 On a combined basis, incurred or guaranteed any indebtedness for borrowed money other than current liabilities incurred in the ordinary course of business.

3.7 Litigation; Investigation. Except as set forth in Disclosure Schedule 3.7 previously delivered to the District, on a combined basis:

3.7.1 Except for routine Medicare and Medi-Cal audits, no investigation or review by any governmental entity with respect to SDHA is pending or threatened, nor has any governmental entity indicated to SDHA an intention to conduct the same.

3.7.2 There is no action, suit or proceeding pending or threatened against or affecting SDHA, at law or in equity, or before any federal, state, municipal or other governmental

department, commission, board, bureau, agency or instrumentality, which either singularly or in the aggregate would, if adversely determined, result in any material adverse change in the financial condition, properties, business, results of operations or prospects of SDHA.

3.8 Compliance with Applicable Law. The business of SDHA, the Affiliated Hospitals, and other SDHA affiliates is not being conducted in violation of any applicable law, ordinance, regulation, decree or order of any court or any governmental entity except for violations which either singularly or in the aggregate do not and are not expected to have a material adverse effect on the financial condition, properties, business, results of operations or prospects of SDHA on a combined basis.

3.9 No Default. Except as set forth in Disclosure Schedule 3.9 previously delivered to the District, SDHA, the Affiliated Hospitals, and other SDHA facilities are not in default or violation, and no event has occurred which with notice or lapse of time or both would become a default or violation, of any term, condition or provision of:

3.9.1 Their Articles of Incorporation or Bylaws;

3.9.2 Any mortgage, deed of trust, indenture, contract, agreement, lease or other instrument to which SDHA, the Affiliated Hospitals, or other SDHA affiliates are a party or by which they or any of their respective properties or assets may be bound, except for defaults and violations which either singularly or in the aggregate do not and are not expected to have a material adverse effect on the financial condition, properties, businesses, results of operations or prospects of SDHA on a combined basis; or

3.9.3 Any judgment, decree or order applicable to SDHA, the Affiliated Hospitals, or other SDHA facilities, except for violations which either singularly or in the aggregate do not and are not expected to have a material adverse effect on the financial condition, properties, businesses, results of operations or prospects of SDHA on a combined basis.

3.9.4 SDHA, the Affiliated Hospitals, and other SDHA affiliates are not in default or violation of any term, condition or provision with respect to any indebtedness for borrowed money. There are no unresolved disputes involving SDHA or the foregoing affiliates under any mortgage, deed of trust, indenture, contract, agreement, lease, or other instrument to which SDHA or the foregoing affiliates are a party or by which SDHA or the foregoing affiliates may be bound or to which any of their properties may be subject involving an amount in excess of \$100,000.

3.10 Insurance. Except as set forth in Disclosure Schedule 3.10 previously delivered to the District, all properties and assets of SDHA, the Affiliated Hospitals, and other SDHA affiliates, which are of an insurable character are insured against loss or damage by fire and other risks to the extent and in the manner customary for corporations engaged in similar businesses or owning similar assets. Disclosure Schedule 3.10 contains a description of all insurance policies held by SDHA or its affiliates concerning the business and properties of SDHA and its affiliates. All such policies are in the respective principal amounts set forth in Disclosure Schedule 3.10 and are in full force and effect and SDHA has received no notice of cancellation with respect to any of them.

3.11 Licenses, Permits and Rights. SDHA owns or has the right to use in accordance with the terms thereof all licenses, permits, consents, approvals or authorities of any public or governmental agency, and all other licenses and rights, used or useful in its business which are material to the conduct of its business (as now being conducted), without any known material conflict with the rights of others, and in each case subject to no material lien, charge or encumbrance and each of the foregoing is valid and in full force and effect. No event has occurred and is continuing which permits, or after notice or lapse of time or both would permit, modifications, or terminations of the foregoing which, in the aggregate, would have a material adverse effect on the

financial condition, properties, businesses, results or operations or prospects of SDHA.

3.12 Cost Reports. The SDHA Affiliated Hospitals have, or as of the Closing Date will have, timely filed or caused to be filed, all cost reports and other reports required by law or by contract, including without limitation contracts with Medicare, MediCal, Blue Cross and other third party payors and insurers.

3.13 Hospital Licenses. The SDHA Affiliated Hospitals are duly licensed by the State of California. No disciplinary proceedings by any regulatory authority are pending or threatened for the purpose of bringing charges which would materially affect the business of the Affiliated Hospitals. The Affiliated Hospitals are certified for participation in the Medicare program and are qualified for and participating in the MediCal program. The foregoing licenses and Medicare certifications are valid and in full force and effect and are not impaired in any manner.

3.14 Hospital Survey. The SDHA Affiliated Hospitals have been surveyed by the JCAHO and received accreditations that are currently in effect. The officers of the SDHA are not aware of any facts or circumstances that could result in failure to achieve JCAHO accreditation. All of the Affiliated Hospitals' records, methods of organization and operation have been properly maintained since the last survey in the same manner as prior to such survey, except the extent and in the manner that recommendations for future compliance resulting from such surveys were adopted and implemented. The accreditations are valid and in full force and effect and are not impaired in any manner.

3.15 Third Party Payor Contracts. SDHA has previously delivered to the District a true and complete list of all third party payor contracts to which SDHA and its Affiliated Hospitals are parties.

3.16 Capital Budget. SDHA has previously delivered to the District SDHA's combined capital and operating budgets for the current fiscal year.

3.17 No Subsidiaries or Affiliates. Except as set forth in Disclosure Schedule 3.17, SDHA does not have any subsidiaries or affiliates. An affiliate of SDHA is a person or entity that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under control with, SDHA.

3.18 Brokers or Finders. No broker or finder is entitled to any brokerage or finder's fee or other commission or fee based upon arrangements made by or on behalf of SDHA relating to the transactions contemplated by this Affiliation Agreement.

3.19 Disclosure. No Disclosure Schedule or financial statement delivered to the District by SDHA pursuant to this Affiliation Agreement contains any untrue statement of any material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

#### ARTICLE 4

##### REPRESENTATIONS AND WARRANTIES OF THE DISTRICT

The District represents and warrants to SDHA that to the best knowledge of the District's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer:

4.1 Organization. The District is a local hospital district, duly organized and existing and in good standing under the Constitution and laws of the State of California, and has the full legal right, power and authority to own or lease its properties and to carry on its business as now being conducted. The District holds and will hold on the Closing Date all necessary licenses, contracts, and approvals required by local, state and federal governments, and any other regulatory agency necessary to properly conduct its business as it is now being conducted.

4.2 Authorization; Noncontravention; Consents. The District has the power to enter into this Affiliation Agreement and the Transfer Documents (collectively, the "Affiliation Documents"), and

to carry out its obligations under such agreements. The District has taken all required action to approve and adopt the Affiliation Documents and the Affiliation Documents will be, legally valid and binding agreements of the District, enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally or by the application of equitable principles) and no other proceeding on the part of the District is necessary to authorize the Affiliation Documents, and the transactions contemplated thereby. The execution and delivery of the Affiliation Documents and the consummation of the transactions contemplated thereby, do not and will not (i) conflict with the Local Hospital District Law of the State of California or any provision of the Bylaws of the District or (ii) conflict with, violate or constitute a default under, or result in the creation or imposition of any lien, charge, encumbrance or claim of any nature whatsoever upon any properties or assets of the District pursuant to, any provision of any indenture, mortgage, deed of trust, lien, lease, agreement, instrument, order, arbitration award, judgment or decree to which the District is a party or to which the District or any of its properties or assets are bound or any applicable law, ordinance, regulation, decree or order of any court or governmental entity. Except as set forth in Disclosure Schedule 4.2 previously delivered to SDHA, no authorization, consent, order or approval of, or filing or qualification with, any court, regulatory authority or other governmental body is necessary for the consummation by the District of the transactions contemplated by the Affiliation Documents. The District has, or will have on the Closing Date, all consents or approvals of any insurer, trustee or holder of any indebtedness of the District required in connection with the Affiliation Documents and the transactions contemplated thereby.

4.3 Financial Statements. The District has previously furnished to SDHA true and complete copies of the unaudited combined balance sheet of the District as of March 31, 1991 and the unaudited combined statements of revenue and expenses, changes

in fund balances and changes in financial position of the District for the nine months then ended. The District has also previously furnished to SDHA true and complete copies of the audited combined balance sheets of the District as of June 30, 1990 and June 30, 1989 and the audited combined statements of revenue and expenses, changes in fund balances and changes in financial position of the District for the two years then ended, and the related report of Deloitte & Touche, independent public accountants. (All of the foregoing financial statements, including the unaudited financial statements as of March 31, 1991, are collectively referred to as the "District Financial Statements".) The District Financial Statements fairly present the combined financial position of the District and the combined results of operations and changes in financial position of the District, for the respective periods then ended, all in accordance with generally accepted accounting principles consistently applied during the periods involved (except as otherwise stated therein). Except as set forth in Disclosure Schedule 4.3 previously delivered to SDHA, the District has no material liability or obligation, fixed or contingent, which is not reflected or reserved against on the balance sheets included in the District Financial Statements or otherwise set forth in the notes thereto, other than liabilities incurred in the ordinary course of business after the respective dates of such balance sheets, which in the aggregate do not materially adversely affect the financial condition, properties, business, or results of operations or prospects of the District.

4.4 Tax Status. The revenue from the District from its current operations is exempt from all federal, state, county and local income and franchise taxes.

4.5 Absence of Material Adverse Change; Conduct of Business. Except as set forth in Disclosure Schedule 4.5 previously delivered to SDHA, since March 31, 1991:

4.5.1 There has not been any material adverse change in the financial condition, properties, business, results of operations or prospects of the District;

4.5.2 No event has occurred which, so far as reasonably can be foreseen at this time, would result in any such change;

4.5.3 The District has conducted its business only in, and has not taken any action other than in, the usual and ordinary course of its business; and

4.5.4 The District has not:

4.5.4.1 Amended or otherwise changed its Bylaws;

4.5.4.2 Entered into any material commitment or transaction (including, without limitation, any material capital expenditure) other than in the ordinary course of business;

4.5.4.3 Granted any security interest in or otherwise encumbered any of its properties or assets;

4.5.4.4 Sold or otherwise disposed of any assets or properties other than in the ordinary course of business or entered into any joint venture, partnership or other agreement with respect thereto;

4.5.4.5 Entered into any fixed-term employment contract or deferred compensation arrangement with, or granted any increase in the compensation payable or to become payable to, any of its officers or key employees or made any material increase in any bonus, insurance, pension or other employee benefit plan, payment or arrangement made to, for or with any such officers or key employees (other than increases planned and budgeted for 1991); or

4.5.4.6 Incurred or guaranteed any indebtedness for borrowed money other than current liabilities incurred in the ordinary course of business.

4.6 Litigation; Investigation. Except as set forth in Disclosure Schedule 4.6 previously delivered to SDHA:

4.6.1 No investigation or review by any governmental entity with respect to the District is pending or threatened, nor has any governmental entity indicated to the District an intention to conduct the same.

4.6.2 There is no action, suit or proceeding pending or threatened against or affecting the District, at law or in equity, or before any federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, which either singularly or in the aggregate would, if adversely determined, result in any material adverse change in the financial condition, properties, business, results of operations or prospects of the District.

4.6.3 There is no disciplinary proceeding pending or threatened against any member of the District's medical staff.

4.7 Compliance with Applicable Law. The business of the District is not being conducted in violation of any applicable law, ordinance, regulation, decree or order of any court or any governmental entity except for violations which either singularly or in the aggregate do not and are not expected to have a material adverse effect on the financial condition, properties, business, results of operations or prospects of the District.

4.8 No Default. Except as set forth in Disclosure Schedule 4.8 previously delivered to SDHA, the District is not in default or violation, and no event has occurred which with notice or lapse of time or both would become a default or violation, of any term, condition or provision of:

4.8.1 The Local Hospital District Law or its Bylaws;

4.8.2 Any mortgage, deed of trust, indenture, contract, agreement, lease or other instrument to which the District is a party or by which it or any of its respective properties or assets may be bound, except for defaults and violations which either singularly or in the aggregate do not and are not expected to have a material adverse effect on the financial condition, properties, businesses, results of operations or prospects of the District; or

4.8.3 Any judgment, decree or order applicable to the District, except for violations which either singularly or in the aggregate do not and are not expected to have a material adverse

effect on the financial condition, properties, businesses, results of operations or prospects of the District.

4.8.4 The District is not in default or violation of any term, condition or provision with respect to any indebtedness for borrowed money. There are no unresolved disputes involving the District under any mortgage, deed of trust, indenture, contract, agreement, lease, or other instrument to which the District is a party or by which any of them may be bound or to which any of their properties may be subject involving an amount in excess of \$100,000.

4.9 Property. Except as set forth in Disclosure Schedule 4.9 previously delivered to SDHA, the District owns all real properties and all other assets and properties shown as owned by it on the balance sheets included in the District Financial Statements or purchased by it after such date, and such assets and properties are in each case free of all mortgages, deeds of trust, liens, charges and encumbrances of any nature whatsoever, except as stated on such balance sheets, the notes thereto, or Disclosure Schedule 4.9. Except as set forth in Disclosure Schedule 4.9, all real property (including fixtures and improvements) and all tangible personal properties owned by the District are in good operating condition and in good repair (subject to defects not material in the aggregate) and are in usable condition and conform in all material respects with all applicable building, zoning and other laws, ordinances, orders and regulations. Except as set forth in Disclosure Schedule 4.9, the District has no material liability, whether fixed or contingent, relating to the presence, spill, disposal, discharge, or release of any hazardous material (as hereinafter defined) into, upon, from or over real property owned by or leased to the District. As used in this paragraph, "hazardous material" means any hazardous or toxic substance, material or waste, including without limitation asbestos, that is regulated by any federal authority or by any state or local governmental authority where the substance, material or waste is located.

4.10 Insurance. Except as set forth in Disclosure Schedule 4.10 previously delivered to SDHA, all properties and assets of the District which are of an insurable character are insured against loss or damage by fire and other risks to the extent and in the manner customary for corporations engaged in similar businesses or owning similar assets. Disclosure Schedule 4.10 contains a description of all insurance policies held by the District concerning the businesses and properties of the District. All such policies are in the respective principal amounts set forth in Disclosure Schedule 4.10 and are in full force and effect and the District has received no notice of cancellation with respect to any of them.

4.11 Contracts. Except as set forth in Disclosure Schedule 4.11 previously delivered to SDHA, the District is not a party to or bound by, nor are any of its properties subject to, any:

4.11.1 Contract for the employment of any officer, employee or consultant or contract with a former officer, employee or consultant pursuant to which the District may be required to make annual payments which exceed \$100,000;

4.11.2 Employee retirement plan;

4.11.3 Mortgage, deed of trust, indenture, note or installment obligation, or other instrument for or relating to the borrowing of money by the District pursuant to which the District may be required to make annual payments which exceed \$100,000;

4.11.4 Guarantee of any obligation for borrowing or otherwise, excluding endorsements made for collection in the ordinary course of business pursuant to which the District may be required to make annual payments which exceed \$100,000;

4.11.5 Agreement or arrangement for the sale or lease of any of its assets having a fair market value in excess of \$100,000 other than in the ordinary course of its business or for the grant of any preferential rights to purchase or lease any of its assets having a fair market value in excess of \$100,000, or any partnership, joint venture or similar agreement pursuant to which

the District may be required to make annual payments which exceed \$100,000;

4.11.6 Contracts pursuant to which it is or may be obligated to make payments, contingent or otherwise, in excess of \$100,000 and arising out of the prior acquisition of real or personal property or of all or part of the stock, business or assets of other companies;

4.11.7 Contract with any labor union;

4.11.8 Lease of real property or any lease or similar arrangement for the use by it of personal property pursuant to which it may be required to make annual payments which exceed \$100,000; or

4.11.9 Any other written contract, agreement or other instrument which is material to the business of the District.

True and complete copies of the Bylaws of the District as in effect as of the date of this Agreement and all contracts, agreements and other instruments referred to in Disclosure Schedule 4.11 have previously been delivered or made available to SDHA.

4.12 Licenses, Permits and Rights. The District owns or has the right to use in accordance with the terms thereof all licenses, permits, consents, approvals or authorizations of any public or governmental agency, and all other licenses and rights, used or useful in its business which are material to the conduct of its business (as now being conducted), without any known material conflict with the rights of others, and in each case subject to no material lien, charge or encumbrance, and each of the foregoing is valid and in full force and effect. No event has occurred and is continuing which permits, or after notice or lapse of time or both would permit, modifications or terminations of the foregoing which, in the aggregate, would have a material adverse effect on the financial condition, properties, businesses, results of operations or prospects of the District.

4.13 Labor Relations. Except as set forth in Disclosure Schedule 4.13 previously delivered to SDHA:

4.13.1 The District has paid or made provision for the payment for all salaries and wages accrued through the date of this Affiliation Agreement and has complied in all material respects with all applicable laws, rules and regulations relating to the employment of labor, including those relating to wages, hours, collective bargaining and the payment and withholding of taxes, and has withheld and paid to the appropriate governmental authority, or is holding for payment not yet due to such authority, all amounts required by law or agreement to be withheld from the wages or salaries of its employees;

4.13.2 There are no material controversies pending or threatened between the District and any of its employees, or any labor union or other collective bargaining unit representing or attempting to represent any of its employees; and

4.13.3 No union or other collective bargaining unit which is not a party to a memorandum of understanding with the District set forth in Disclosure Schedule 4.13 has been certified or recognized by the District as representing any of its employees.

4.14 Employee Retirement Income Security Act of 1974. No District Employee Pension Benefit Plan is subject to Title IV of the Employee Retirement Income Security Act of 1974 ("ERISA"), nor is the District required to contribute to any plan subject to ERISA.

4.15 Brokers or Finders. No broker or finder is entitled to any brokerage or finder's fee or other commission or fee based upon arrangements made by or on behalf of the District relating to the transactions contemplated by this Affiliation Agreement.

4.16 Cost Reports. The District has, or as of the Closing Date will have, timely filed or caused to be filed all cost reports and other reports required by law or by contract, including without limitation contracts with Medicare, Medi-Cal, Blue Cross and other third party payors and insurers.

4.17 Hospital License. The Hospital is duly licensed by the State of California as a 465-bed hospital. No disciplinary proceedings by any regulatory authority are pending or threatened

for the purpose of bringing charges which would materially affect the business of the Hospital. The Hospital is certified for participation in the Medicare program and is qualified for and participating in the Medi-Cal program. The foregoing licenses and Medicare certifications are valid and in full force and effect and are not impaired in any manner.

4.18 Hospital Survey. The Hospital was surveyed by the JCAHO in March 1990 and received accreditation for a three-year period which expires in March 1993. All of the Hospital's records, methods of organization and operation have been properly maintained since the last survey in the same manner as prior to such survey, except to the extent and in the manner that recommendations for future compliance resulting from such surveys were adopted and implemented. The accreditations are valid and in full force and effect and are not impaired in any manner.

4.19 Third Party Payor Contracts. The District has previously delivered to SDHA a true and complete list of all third party payor contracts to which the District is a party.

4.20 Capital Budget. Disclosure Schedule 4.20 previously delivered to SDHA contains the District's capital and operating budgets for the current fiscal year. The District has previously delivered to SDHA the District's master plan for the development of the Hospital.

4.21 No Subsidiaries or Affiliates. Except as set forth in Disclosure Schedule 4.21, the District does not have any subsidiaries or affiliates. An affiliate of the District is a person or entity that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under control with, the District.

4.22 Disclosure. No Disclosure Schedule or financial statement delivered to SDHA by the District pursuant to this Affiliation Agreement contains any untrue statement of any material fact or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

## ARTICLE 5

### SDHA'S OBLIGATIONS BEFORE CLOSING

SDHA covenants that from the date of this Affiliation Agreement until the Closing it is bound by the obligations stated in Article 5, except as specifically permitted by this Affiliation Agreement or otherwise consented to in writing by the District.

5.1 Representations and Warranties True at Closing. All representations and warranties of SDHA set forth in this Affiliation Agreement shall also be true and correct as of the Closing Date as if made on that date, except to the extent that any of them may become untrue because of events beyond the control of SDHA, and SDHA is unable to make them true as of the Closing Date despite its best efforts to do so.

5.2 Consents of Third Parties. SDHA shall use its best efforts to obtain the consents of all third parties required for the consummation of the transactions contemplated hereby.

5.3 Satisfaction of Conditions. SDHA shall take all steps reasonably necessary to cause the conditions precedent to the consummation of the transactions contemplated by this Affiliation Agreement to be satisfied.

5.4 Authorization by GHC. SDHA shall take all necessary action to cause GHC to approve and adopt the Transfer Documents.

## ARTICLE 6

### THE DISTRICT'S OBLIGATIONS BEFORE CLOSING

The District covenants that from the date of this Affiliation Agreement until the Closing it is bound by the obligations stated in Article 6, except as specifically permitted by this Affiliation Agreement or otherwise consented to in writing by SDHA.

6.1 Access to Premises and Information. SDHA and its counsel, accountants, and other representatives shall have access during normal business hours and upon reasonable prior notice to

all properties, books, accounts, records, contracts, and documents of or relating to the District. The District shall furnish or cause to be furnished to SDHA and its representatives all data and information concerning the businesses, finances, and properties of the District that may reasonably be requested.

6.2 Conduct of Business in Normal Course. The District shall carry on its business and activities diligently and in substantially the same manner as they previously have been carried out, and shall not make or institute any unusual or novel methods of patient care, purchase, sale, lease, management, accounting, or operation that will vary materially from those methods used by the District as of the date of this Affiliation Agreement.

6.3 Preservation of Business and Relationships. The District shall use its best efforts to preserve its assets and business organizations intact, to keep available its present officers and employees, and to preserve its present relationships with suppliers, patients, and others having business relationships with them.

6.4 Bylaws. The District shall not amend or agree to amend its bylaws.

6.5 Maintenance of Insurance. The District shall continue to carry its existing insurance, subject to variations in amounts required by the ordinary operations of its business.

6.6 Employees and Compensation. The District shall not undertake or permit any of the following acts or events after the date of this Affiliation Agreement and before the Closing Date without the prior written consent of SDHA:

6.6.1 Any increase in salaries payable or to become payable by the District to any officer or employee (other than any increases required under the terms of any memorandum of understanding in effect on the date of this Affiliation Agreement or otherwise made in the ordinary course of business);

6.6.2 Any increase in benefits payable to any officer or employee under any bonus or pension plan or other contract or commitment;

6.6.3 Any modification of any memorandum of understanding to which the District is a party or by which it may be bound;

6.6.4 Any new contract, commitment, or transaction not in the usual and ordinary course of business;

6.6.5 Any new contract, commitment, or transaction in the usual and ordinary course of business requiring total payments by the District in excess of \$100,000, other than contracts with third party payors;

6.6.6 Any capital expenditure or expenditures in excess of \$1,000,000 in the aggregate;

6.6.7 Any lease of capital equipment or property under which the annual lease charge is in excess of \$100,000;

6.6.8 Sale or disposal of any capital assets with a net book value in excess of the following amounts:

Individual transaction: \$100,000

In aggregate: \$500,000

6.6.9 Commencement, termination or substantial modification of any significant clinical program or service; or

6.6.10 Any action that ultimately requires an application under 22 California Code of Regulations 70105, which requires prior approval under 22 California Code Regulations Section 70301, or that requires a special permit under 22 California Regulations Code Section 70351.

6.7 Representations and Warranties True at Closing. All representations and warranties of the District set forth in this Affiliation Agreement shall also be true and correct as of the Closing Date as if made on that date, except to the extent that any of them may become untrue because of events beyond the control of the District, and the District is unable to make them true as of the Closing Date despite its best efforts to do so.

6.8 Consents of Third Parties. The District shall use its best efforts to obtain the consents of all third parties required for the consummation of the transactions contemplated hereby.

6.9 Satisfaction of Conditions. The District shall take all steps reasonably necessary to cause the conditions precedent to the consummation of the transactions contemplated by this Agreement to be satisfied.

## ARTICLE 7

### CONDITIONS TO OBLIGATIONS OF SDHA AND THE DISTRICT

The obligations of SDHA and the District to effect the Affiliation hereunder are, at their respective elections, subject to the satisfactory fulfillment of each of the following conditions, any or all of which may be waived either in whole or in part by SDHA or the District to the extent permitted by applicable law:

7.1 Articles of Incorporation of GHC. The current Articles of Incorporation of GHC are attached hereto as Exhibit 7.1. An amendment of the articles of incorporation of GHC, in the form attached hereto as Exhibit 7.1, shall have been duly filed with the Secretary of State of the State of California.

7.2 Tax Status. GHC shall have received a ruling from the Internal Revenue Service determining that it is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and that it is other than a private foundation by virtue of Section 509(a)1 of the Internal Revenue Code. In addition, GHC shall have received a ruling from the Franchise Tax Board of the State of California that it is exempt from taxation under Section 23701d of the Revenue and Taxation Code of the State of California.

7.3 Bylaws. Effective as of the Closing Date:

7.3.1 The bylaws of SDHA shall have been duly amended in substantially the form attached hereto as Exhibit 7.3.1.

7.3.2 The bylaws of GHC shall have been duly adopted in substantially the form attached hereto as Exhibit 7.3.2.

7.4 Election of Directors of SDHA. SDHA shall have elected the persons designated in Exhibit 7.4 attached hereto as directors

of SDHA effective as of the Closing Date. After the Closing Date, directors of SDHA shall be elected solely in accordance with the bylaws of SDHA and shall include the following:

7.4.1 One member of the board of directors of SDHA shall be chosen from the five District Approved Directors described in Section (2)(b)(i) of Article V of the GHC bylaws (the "District Approved Directors");

7.4.2 The Chief of the Medical Staff of Grossmont Hospital shall be an ex-officio, voting member of the board of directors of SDHA.

7.4.3 Two members of the SDHA Community Board shall be chosen from the five District Approved Directors of GHC.

7.4.4 The Chief of Staff and the Chief of Staff-Elect of the Grossmont Hospital Medical Staff shall be ex-officio, voting members of the SDHA Community Board.

7.4.5 The Finance Committee of SDHA shall include one member chosen from the five District Approved Directors of GHC.

7.4.6 The Nominating and Bylaws Committee of SDHA shall include two (2) members chosen from the GHC board of directors, one of whom shall be selected from the five District Approved Directors.

7.5 Election of Directors and Officers of GHC. SDHA shall have elected and the District shall have approved, the persons designated in Exhibit 7.5 attached hereto as directors of GHC, and such directors shall have elected the persons designated in Exhibit 7.5 as officers of GHC. After the Closing Date, directors of GHC shall be elected solely in accordance with the bylaws of GHC.

7.6 Antitrust Review. Each of the parties, in reliance upon the opinion of Morgan, Lewis and Bockius, special antitrust counsel, has determined that the consummation of the transactions contemplated by this Affiliation Agreement does not require any notices to be filed with the Federal Trade Commission or the Antitrust Division of the Department of Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules

and regulations thereunder. Prior to the Closing Date each of the parties, in reliance upon the opinion of Morgan, Lewis and Bockius, shall determine to its reasonable satisfaction that the consummation of the Affiliation would not violate any federal or state antitrust laws including, without limitation, the Sherman Antitrust Act of 1890, the Clayton Act of 1914, the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the Cartwright Act (collectively, the "Antitrust Laws").

7.7 IRS Letter Rulings. The parties shall have obtained any private letter rulings each deems necessary from the Internal Revenue Service regarding (a) the tax-exempt status of GHC and SDHA; and (b) the tax consequences of the Affiliation and any transfer of assets pursuant to the Affiliation.

7.8 Governmental and Regulatory Consents. On the Closing Date all material filings required to be made with, and material consents, approvals and relevant rulings required to be obtained from, governmental and regulatory authorities of the United States and the State of California in connection with the execution, delivery and performance by SDHA and the District of this Affiliation Agreement and the consummation of the transactions contemplated hereby shall have been made or obtained (as the case may be). The parties acknowledge that the hospital license to be issued to GHC by the State of California, Department of Health Services will not be issued prior to the Closing Date. The issuance of such license shall not be a condition to either party's obligations hereunder, provided that the parties have received reasonable assurance that such license shall be issued within a reasonable period of time after the Closing Date.

7.9 Litigation. On the Closing Date there shall be no effective injunction, writ or preliminary restraining order or other order of any nature issued by a court or governmental agency of competent jurisdiction directing that any of the transactions provided for in this Affiliation Agreement not be consummated as provided in this Affiliation Agreement, and immediately prior to the Closing Date no proceeding or lawsuit shall have been commenced

or be pending or be threatened by any governmental or regulatory agency or any other person with respect to the transactions contemplated by this Affiliation Agreement, which either party, in good faith and with the advice of counsel, believes makes it undesirable or inadvisable to consummate the Affiliation.

7.10 Opinion of Bond Counsel. SDHA and the District shall have obtained the opinion of Orrick, Herrington & Sutcliffe, bond counsel, to the effect that:

7.10.1 The Affiliation and the transactions contemplated under this Affiliation Agreement will not violate any term or provision of any indenture, loan agreement, agreement, obligation or document ("Bond Document") related to the following bonds (collectively the "Bonds"): (a) \$9,605,000, Grossmont Hospital District, Refunding Revenue Bonds, Series A (1985); (b) \$35,000,000 Grossmont Hospital District, Revenue Bonds, Series 1987A; (c) \$8,737,000, California Health Facilities Financing Authority Loan/Working Capital Loan, Series A (1986); (d) \$6,000,000, California Health Facilities Authority, Variable Rate Demand Revenue Bonds (Sharp Convalescent Centers, Inc.), 1984 Series A; (e) \$20,000,000, California Health Facilities Financing Authority ("CHFFA"), Hospital Revenue Bonds (SDHA), Series 1988B; (f) \$25,000,000, CHFFA, Hospital Revenue Bonds (SDHA), Series 1988A; and (g) \$47,501,090.52, CHFFA, Hospital Revenue Bonds (SDHA), Series 1989A.

7.10.2 The Affiliation will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation; and,

7.10.3 No consent of, or notice to any trustee, insurer, guarantor, surety, letter of credit bank, the California Health Facilities Financing Authority or any other third party or any governmental or regulatory authority or agency of the United States or the State of California is required under any Bond Document in connection with the Affiliation.

7.11 Legislation. No action shall have been taken and no law, rule, regulation, order, judgment, preliminary or permanent

injunction, or decree shall have been proposed, promulgated, enacted, entered, enforced or deemed applicable to the transactions contemplated by this Affiliation Agreement by any Federal, state, or local governmental authority or by any court or other tribunal which SDHA or the District, in good faith and with the advice of counsel, believes: (a) prohibits, restricts, delays or makes unlawful the consummation of the transactions contemplated by this Affiliation Agreement or the satisfaction of any of the conditions to the consummation of such transactions or otherwise impairs the material, contemplated economic benefits to the parties of such transactions; (b) requires the divestiture by any party or any of their respective subsidiaries of all or any portion of their businesses, assets or properties or imposes any limitation on the ability of any of them to conduct their businesses and own such assets and properties; (c) imposes any limitations on the ability of the District or SDHA to exercise effectively all rights of membership, ownership, and control of their businesses and operations; or (d) otherwise adversely affects the parties.

7.12 Report of ERISA Counsel. SDHA and the District shall have obtained a written report of Orrick, Herrington & Sutcliffe, ERISA counsel, to the effect that the Affiliation will not result in any material adverse effect on any employee pension benefit plan maintained by any of the parties or to which any of the parties is required to contribute on behalf of any of its employees.

## ARTICLE 8

### CONDITIONS TO OBLIGATIONS OF SDHA

The obligation of SDHA to consummate the Affiliation is subject to the fulfillment of each of the following conditions, any or all of which may be waived either in whole or in part by SDHA to the extent permitted by applicable law:

8.1 Due Diligence Investigation. The District shall have furnished all information requested by SDHA, its counsel,

accountants, and other representatives for their due diligence review of the respective financial conditions, assets, businesses, results of operations and prospects of the District. The board of directors of SDHA, shall not have determined that the financial condition, assets, business, results of operations or prospects of the District differ adversely and materially from the financial condition, assets, business, results of operations or prospects of the District as described in Article 4 of this Affiliation Agreement and the Disclosure Schedules provided by the District.

8.2 Certified Copies of the District Resolutions. At the Closing, the District shall furnish SDHA with copies of resolutions duly adopted by the board of directors of the District approving the execution and delivery of the Affiliation Documents, the initial board of directors of GHC and all other necessary or proper action to enable the District to comply with the terms of the Affiliation Documents. Each such resolution shall be certified by the Secretary or Assistant Secretary of the District.

8.3 Opinion of the District's Counsel. At the Closing, the District shall furnish SDHA with the opinion, dated the Closing Date, of Jennings, Engstrand & Henrikson, counsel to the District, in form and substance satisfactory to SDHA and its counsel, to the effect that:

8.3.1 The District is a local hospital district, duly organized, validly existing and in good standing under the Constitution and the laws of the State of California;

8.3.2 To the best of such counsel's knowledge, the District has the power to carry on its business as it is now being conducted;

8.3.3 The District has the power to enter into the Affiliation Documents, and to carry out its obligations thereunder;

8.3.4 The District has taken all required action to approve and adopt the Affiliation Documents, and the Affiliation Documents are legally valid and binding agreements of the District, except insofar as enforcement thereof may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement,

moratorium of similar law or judicial decisions affecting the rights of creditors generally or by the application of equitable principles;

8.3.5 The execution and delivery of the Affiliation Documents and the consummation of the transactions contemplated thereby do not and will not conflict with any provision of the bylaws of the District, or breach or cause a default under any provision of any obligation, material to the District, under any indenture, mortgage, deed of trust, lien, lease, agreement, instrument, order, arbitration award, judgment or decree of which such counsel has knowledge and to which the District is a party or by which it is bound, or any applicable law, ordinance or regulation, except that such counsel expresses no opinion regarding Bond Documents or state or federal antitrust or income tax laws, rules or regulations;

8.3.6 All material filings required to be made with, and all material consents required to be obtained from, governmental and regulatory authorities of the United States and the State of California in connection with the execution, delivery and performance of this Affiliation Agreement, and the consummation of the transactions contemplated hereby by the District have been made or obtained (as the case may be), other than any filings or consents required pursuant to the Antitrust Laws or any Bond Documents;

8.3.7 Except for matters set forth in such opinion, such counsel knows of no suit or proceeding pending or threatened against or affecting the District which would materially adversely affect the business or assets of the District; and

8.3.8 A favorable opinion as to such other matters incident to the matters herein contemplated as SDHA and its counsel may reasonably request.

8.4 Representations; Warranties; Agreements; Covenants. The representations and warranties of the District contained in this Affiliation Agreement shall be true and correct in all material respects at the date of this Affiliation Agreement and at the

Closing Date, except for representations and warranties specifically relating to a time or times other than the date of this Affiliation Agreement, which shall be true and correct in all material respects at such time or times, and except for changes permitted by this Affiliation Agreement, with the same force and effect as if made on and as of the Closing Date, and the District shall comply in all material respects with all agreements and covenants required by this Affiliation Agreement to be performed by it at or prior to the Closing.

8.5 Compliance Certificate. On the Closing Date, the District shall have delivered to SDHA a certificate dated the Closing Date, and signed on behalf of it by its president or vice president, to the effect that the conditions specified in Section 8.4 of this Affiliation Agreement have been satisfied.

8.6 Consents. SDHA shall have obtained all material consents of third parties necessary for SDHA to enter into this Affiliation Agreement and the transactions contemplated hereby.

8.7 Certification of Financials. At the Closing, the District shall have delivered to SDHA a certificate dated the Closing Date, and signed by the Chief Financial officer of the District, certifying that nothing has come to such officer's attention which would give such officer reason to believe that (a) the unaudited financial statements delivered under this Affiliation Agreement by the District have not been prepared in substantial accordance with generally accepted accounting principles applied on a consistent basis and (b) there have been any material changes in the current or long-term debt of the District or any material decrease in the assets or fund balances of the District as compared with the amounts shown on the audited financial statements of the District.

8.8 Licenses, Authorizations and Consents of Agencies. The District shall have delivered to GHC the license issued by the State of California to operate Grossmont Hospital. In addition, GHC shall have determined, to its reasonable satisfaction, that GHC will be able to procure, within a reasonable period after the

Closing Date, all licenses, authorizations and consents from all appropriate agencies reasonably necessary or convenient for GHC to operate the Hospital as it is currently being operated. Such licenses shall include, without limitation, licenses issued by the Department of Health Services, State of California, California State Board of Pharmacy and continued certification by Medicare and Medi-Cal. GHC shall use its reasonable efforts to procure such licenses, authorizations and consents from all appropriate agencies.

## ARTICLE 9

### CONDITIONS TO OBLIGATIONS OF THE DISTRICT

The obligations of the District to consummate the Affiliation are subject to the fulfillment of each of the following conditions, any or all of which may be waived either in whole or in part by the District to the extent permitted by applicable law:

9.1 Due Diligence Investigation. SDHA shall have furnished all information requested by the District, its counsel, accountants, and other representatives for their due diligence review of the financial condition, assets, business, results of operations and prospects of SDHA. The board of directors of the District shall not have determined that the financial condition, assets, business, results of operations or prospects of SDHA differ adversely and materially from the financial condition, assets, business, results of operations or prospects of SDHA as described in Article 3 of this Affiliation Agreement and the Disclosure Schedules provided by SDHA.

9.2 Certified Copies of SDHA and GHC Resolutions. At the Closing, SDHA shall furnish the District with copies of:

9.2.1 Resolutions duly adopted by the board of directors of SDHA approving the execution and delivery of this Affiliation Agreement, and all other necessary or proper corporate

action to enable SDHA to comply with the terms of this Affiliation Agreement;

9.2.2 Resolutions duly adopted by the board of directors of GHC approving the execution and delivery of the Transfer Documents;

9.2.3 Resolutions duly adopted by SDHA amending the bylaws of SDHA as set forth in Section 7.3.1; and

9.2.4 Resolutions duly adopted by GHC amending its articles of incorporation as set forth in Section 7.1 and adopting bylaws as set forth in Section 7.3.2; and,

9.2.5 Such other resolutions relative to SDHA as the District or its counsel may reasonably request.

Each such resolution shall be certified by the Secretary or Assistant Secretary of SDHA or GHC, as the case may be.

9.3 Opinion of SDHA's Counsel. At the Closing, SDHA shall furnish the District with the opinion, dated the Closing Date, of Carr, McClellan, Ingersoll, Thompson & Horn, special counsel to SDHA, in form and substance satisfactory to the District and its counsel, to the effect that:

9.3.1 SDHA and GHC are each corporations duly organized, validly existing and in good standing under the laws of the State of California;

9.3.2 To the best of such counsel's knowledge, SDHA and GHC each have the corporate power to carry on their respective businesses as they are now being conducted;

9.3.3 SDHA has the corporate power to enter into this Affiliation Agreement and to carry out its obligations hereunder;

9.3.4 GHC has the corporate power to enter into the Transfer Documents;

9.3.5 SDHA has taken all required corporate action to approve and adopt this Affiliation Agreement and this Affiliation Agreement is a legally valid and binding agreement of SDHA, except insofar as enforcement thereof may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or

similar law or judicial decisions affecting the rights of creditors generally or by the application of equitable principles;

9.3.6       GHC has taken all required corporate action to approve and adopt the Transfer Documents, and the Transfer Documents are legally valid and binding agreements of GHC, except insofar as enforcement thereof may be limited by any applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar law or judicial decisions affecting the rights of creditors generally or by the application of equitable principles;

9.3.7       The execution and delivery of the Affiliation Documents, and the consummation of the transactions contemplated thereby do not and will not conflict with any provision of the articles of incorporation or the bylaws of SDHA or GHC, or breach or cause a default under any provision of any obligation, material to SDHA or GHC, under any indenture, mortgage, deed of trust, lien, lease, agreement, instrument, order, arbitration award, judgment or decree of which such counsel has knowledge and to which SDHA or GHC is a party or by which either is bound, or any applicable law, ordinance or regulation, except that such counsel expresses no opinion regarding Bond Documents or state or federal antitrust or income tax laws, rules or regulations;

9.3.8       All material filings required to be made with, and all material consents required to be obtained from, governmental and regulatory authorities of the United States and the State of California in connection with the execution, delivery and performance of this Affiliation Agreement, and the consummation of the transactions contemplated hereby by SDHA and GHC have been made or obtained (as the case may be), other than filings or consents required pursuant to the Antitrust Laws or any Bond Documents;

9.3.9       Except for matters set forth in such opinion, such counsel knows of no suit or proceeding pending or threatened against or affecting SDHA or GHC which would materially adversely affect the business or assets of SDHA or GHC; and

9.3.10 A favorable opinion as to such other matters incidental to the matters herein contemplated as the District and its counsel may reasonably request.

9.4 Representations; Warranties; Agreements; Covenants. The representations and warranties of SDHA contained in this Affiliation Agreement shall be true and correct in all material respects at the date of this Affiliation Agreement and at the Closing Date, except for representations and warranties specifically relating to a time or times other than the date of this Affiliation Agreement, which shall be true and correct in all material respects at such time or times, and except for changes permitted by this Affiliation Agreement, with the same force and effect as if made on and as of the Closing Date, and SDHA shall comply in all material respects with all agreements and covenants required by this Affiliation Agreement to be performed by it at or prior to the Closing.

9.5 Compliance Certificate. On the Closing Date, SDHA shall have delivered to the District a certificate dated the Closing Date, and signed on behalf of SDHA by its chairman or president, to the effect that the conditions specified in Section 9.4 of this Affiliation Agreement have been satisfied.

9.6 Consents. The District shall have obtained all material consents of third parties necessary for the District to enter into this Affiliation Agreement and the transactions contemplated hereby.

9.7 Certification of Financials. At the Closing, SDHA shall have delivered to the District a certificate dated the Closing Date, and signed by the Senior Vice President and Chief Financial Officer of SDHA, certifying that nothing has come to such officer's attention which would give such officer reason to believe that (a) the unaudited financial statements delivered under this Affiliation Agreement by SDHA have not been prepared in substantial accordance with generally accepted accounting principles applied on a consistent basis and (b) there have been any material changes in the current or long-term debt of SDHA or any material decrease in

the assets or fund balances of SDHA as compared with the amounts shown on the audited financial statements of SDHA.

9.8 Licenses, Authorizations and Consents of Governmental and Regulatory Authorities. The District shall have determined, to its reasonable satisfaction, that GHC will be able to procure within a reasonable period after the Closing Date all licenses, authorizations and consents from all appropriate agencies reasonably necessary or convenient for GHC to operate the Hospital. Such licenses shall include, without limitation, licenses issued by the Department of Health Services, State of California, California State Board of Pharmacy and continued certification by Medicare and Medicaid. The District shall use its best efforts to assist GHC in procuring such licenses, authorizations and consents from all appropriate agencies.

## ARTICLE 10

### POST-CLOSING COVENANTS

10.1 Amendment of GHC's Articles of Incorporation and Bylaws. SDHA covenants that during the term of the Lease Agreement and any extension thereof it shall not, as the sole member of GHC, permit or cause GHC, without the prior written consent of the District, to amend: (i) Subparagraph (b) (5) of Article Second or subparagraph (b) or Article Fifth of GHC's Articles of Incorporation, in the form attached hereto as Exhibit 7.1; or (ii) Section 1c and Section 5 of Article IV, the last two sentences of Section 2a of Article V, Section 2b (i) and (ii) of Article V, Section 9 of Article VI, Section 7 of Article VII, and Section 3 of Article XIII of GHC's bylaws in the form attached hereto as Exhibit 7.3.2.

10.2 Mission Statements and Strategic Plans. SDHA hereby endorses the District's Mission Statement dated May, 1991, and Strategic Plan, dated May, 1991, copies of which have previously been delivered to SDHA. The District hereby endorses SDHA's Mission Statement and Strategic Plan, copies of which have

previously been delivered to the District. The parties acknowledge that their mission statements and strategic plans may change from time to time and the endorsement contained in this Section 10.2 shall not prohibit any such changes or revisions.

10.3 Relationships with Physicians. SDHA shall adhere to its policy governing relationships with physicians, a copy of which is attached hereto as Schedule 10.3, and shall cause GHC and other members of the SDHA health care system to adhere to the policy. Such policy shall not be materially modified or amended without discussing such changes with GHC's Board of Directors and the Executive Committee of the Grossmont Hospital Medical Staff.

10.4 District Approved Directors; Size of Board. The method of selecting District Approved Directors (as defined in Section (2)b (i) of Article V of the GHC Bylaws), shall not be changed without the consent of the District. The number of voting members of the board of directors of GHC shall not exceed fifteen (15) without the consent of the District.

10.5 Removal of Directors. The five District approved directors of GHC described in Section (2)b(i) of Article V of the GHC bylaws may not be removed under Section 5222 of the California Nonprofit Corporation Law by SDHA, as the sole statutory member of GHC, without the written consent of the District.

10.6 Transfer of Membership. SDHA shall not transfer or assign its statutory membership in GHC without the District's prior written consent. A merger, consolidation or other transaction or reorganization of SDHA in which SDHA is the surviving corporation shall not be considered an assignment of SDHA's statutory membership in GHC for purposes of this paragraph.

10.7 Joint Ventures with Physicians. Nothing in this Affiliation Agreement shall prohibit GHC or any SDHA Affiliate from entering into joint ventures with physicians.

10.8 Organizational Goals. The parties believe that the continuation of Grossmont Hospital's identity as a local institution meeting the needs of the communities served by the

District is essential. To this end, the following organizational goals are to be accomplished after Closing:

10.8.1 Representatives of the organized Medical Staff of Grossmont Hospital shall continue to participate in the process leading to the adoption of the annual operating budget, capital budget and strategic plan. Medical Staff participation as currently planned will be implemented by GHC before the commencement of the next budget/planning cycle following the Closing Date.

10.8.2 The Grossmont Hospital Medical Staff long-range planning, building, and capital equipment committees shall continue in existence.

10.9 Amendment of SDHA Master Indenture. SDHA agrees not to amend the provisions of Section 3.11 of the SDHA Master Indenture (relating to withdrawal from the SDHA Obligated Group) without the written consent of the District.

10.10 Grossmont Hospital Foundation Articles of Incorporation and Bylaws. Immediately following the next Grossmont Hospital Foundation board of directors' meeting, the District shall deliver to SDHA a copy of resolutions duly adopted by such board of directors, and certified by its Secretary or Assistant Secretary, approving amendments to Grossmont Hospital Foundation's articles of incorporation and bylaws as provided in Section 1.1.3 hereof.

10.11 Survival of Provisions. All of the provisions set forth in Sections 7.4, 7.5, 8.8, and 9.8, and in Articles 1, 3, 4, 10, 11 and 13 of this Affiliation Agreement shall remain in full force and effect after the closing of the Affiliation transaction and the consummation of this Affiliation Agreement and shall survive the closing and consummation.

## ARTICLE 11

### CONFIDENTIAL INFORMATION

Except insofar as data and information may be required by law to be disclosed, each of the parties to this Affiliation Agreement shall at all times hold in strict confidence and not use to the detriment of any party all data and information obtained in connection with this Affiliation Agreement which relates to the business of any other party.

## ARTICLE 12

### TERMINATION OF AFFILIATION

12.1 Failure to Close by Specified Date. This Affiliation Agreement may be terminated and the Affiliation may be abandoned by action of either of the board of directors of the District or SDHA if the Affiliation shall have not become effective on or before July 31, 1991, or such later date as shall have been approved by the boards of directors of the District and SDHA.

12.2 Breach or Material Change. This Affiliation Agreement may also be terminated and the Affiliation may be abandoned at or prior to the Closing Date by action of the board of directors of the District or SDHA, if:

12.2.1 Such party shall have discovered any material error, misstatement or omission in any of the representations or warranties of either of the other parties contained in this Affiliation Agreement or either of the other parties shall have otherwise materially breached any such representation or warranty, any such representation or warranty shall not be correct or accurate in all material respects at and as of the Closing Date with the same effect as if made at such time or either of the other parties shall have failed to comply in any significant respect with any of the terms, covenants, conditions or agreements contained in

this Affiliation Agreement to be complied with or performed by such other parties at or prior to the Closing; or

12.2.2 There shall have been any material adverse change in the financial condition, properties, businesses, results of operations or prospects of any of the other parties, or any event shall have occurred which is likely to result in any such change.

## ARTICLE 13

### MISCELLANEOUS

13.1 Modification or Amendment. At any time prior to the Closing Date, the parties to this Affiliation Agreement may, by written agreement, make any modification or amendment of this Affiliation Agreement approved by the boards of directors of the District and SDHA.

13.2 Waiver of Conditions. The conditions to each of the parties' obligations to consummate the Affiliation are for the sole benefit of such party and may be waived by such party in whole or in part to the extent permitted by applicable law.

13.3 Indemnification.

13.3.1 Indemnification by the District. The District shall protect, indemnify and hold SDHA (which, for purposes of this Section 13.3.1 shall include SDHA's and GHC's directors, officer's, employees, and agents) harmless, and upon SDHA's request defend SDHA, from and against any and all claims, actions, suits, demands, judgments, penalties, liabilities, damages, costs, expenses and losses of any kind whatsoever (including, without limitation, reasonable attorneys' fees and disbursements) (collectively, "Losses") resulting from, arising out of or relating to any breach of the District's representations, warranties, covenants, agreements or obligations hereunder.

13.3.2 Indemnification by SDHA. SDHA shall protect, indemnify and hold the District (which, for purposes of this

Section 14.3.2 shall include not only the District but also its director's, officer's, employees and agents) harmless, and upon the District's request defend the District from and against any and all Losses of any kind whatsoever resulting from, arising out of or relating to any breach of SDHA's representations, warranties, covenants, agreements or obligations hereunder.

13.3.3 Attorneys' Fees. In the event that any claim or contest regarding this Affiliation Agreement is brought by one party to this Affiliation Agreement against another party or parties, the party or parties against whose favor such claim or contest is resolved shall pay all costs and reasonable attorneys' fees incurred by the other party or parties as a result of such claim or contest, together with interest on any amount recovered (other than attorneys' fees) from the date judgment is entered at the maximum amount permitted by applicable law.

13.4 Governing Law. This Affiliation Agreement shall be governed by and construed in accordance with the laws of the State of California.

13.5 Invalidity. In the event that any one or more of the provisions contained in this Affiliation Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in this Affiliation Agreement shall not in any way be affected or impaired thereby. To the extent permitted by applicable law, each party to this Affiliation Agreement waives any provision of law which renders any provision of this Affiliation Agreement invalid, illegal or unenforceable in any respect. In the event any provision of this Affiliation Agreement shall be held invalid, illegal or unenforceable, the parties shall use all reasonable efforts to substitute a valid, legal and enforceable provision which implements the purposes and intents of this Affiliation Agreement.

13.6 Notices. Any notice or communication to be given under this Affiliation Agreement by any party to the others shall be in writing and shall be deemed to have been given when delivered or

two days after the date sent by registered or certified mail, postage prepaid, as follows:

To the District:

Grossmont Hospital District  
P. O. Box 158  
La Mesa, CA 92044-0300  
Attention: Chief Executive  
Officer

To SDHA:

3131 Berger Avenue, Suite 100  
San Diego, CA 92123  
Attention: President and Chief  
Executive Officer

or to such other persons or addresses as may be designated in writing by the party to receive such notice.

13.7 Entire Agreement. This Affiliation Agreement (including any exhibits, documents and instruments referred to in this Affiliation Agreement):

13.7.1 Constitutes the entire agreement, supersedes all other prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter of this Affiliation Agreement;

13.7.2 Is not intended to confer upon any person other than the parties to this Affiliation Agreement and GHC any rights or remedies under this Affiliation Agreement; and

13.7.3 Shall not be assignable by operation of law or otherwise.

13.8 Captions. The article and section captions in this Affiliation Agreement are for convenient reference only, do not constitute part of this Affiliation Agreement and shall not limit or otherwise affect any of the provisions of this Affiliation Agreement.

13.9 Costs. The parties shall each pay their respective costs for professional and other services rendered with respect to the transactions contemplated by this Affiliation Agreement, and SDHA and the District shall each pay one-half of the costs of the professional services described in Section 7.10 (Bonds) and Section 7.12 (ERISA).

13.10 Counterparts. This Affiliation Agreement may be executed by the parties in separate counterparts, each of which shall be deemed to be an original.

IN WITNESS WHEREOF, San Diego Hospital Association and Grossmont Hospital District cause this Agreement to be executed as of the date first written above.

SAN DIEGO HOSPITAL ASSOCIATION

By 

Its Chairman

GROSSMONT HOSPITAL DISTRICT

By 

Its Chief Executive Officer



AFFILIATION AGREEMENT

Exhibit 1.1.3

**AMENDED AND RESTATED**

**ARTICLES OF INCORPORATION**

**OF**

**GROSSMONT HOSPITAL FOUNDATION**

ARTICLE I

The name of this corporation is Grossmont Hospital Foundation.

ARTICLE II

(A) This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for charitable purposes.

(B) The specific purpose of this corporation is to provide support and assistance to Grossmont Hospital District, ~~which is a political subdivision of the State of California and is, a~~ **general acute care hospital** located in the County of San Diego, ~~and to Grossmont Hospital District's which is leased and operated by Grossmont Hospital Corporation, a California nonprofit public benefit corporation, and to Grossmont Hospital's activities,~~ programs, services and facilities.

(C) This corporation is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of ~~1954~~ **1986** or the corresponding provision of any future United States internal revenue law. Notwithstanding any other provision of these Articles, this corporation shall not, except to an insubstantial degree, engage

in any activities or exercise any powers that are not in furtherance of the purposes of this corporation, and the corporation shall not carry on any other activities not permitted to be carried on (i) by a corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1954 1986 or the corresponding provision of any future United States internal revenue law, or (ii) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1954 1986 or the corresponding provision of any future United States internal revenue law. No substantial part of the activities of this corporation shall consist of carrying on propaganda, or otherwise attempting to influence legislation, and this corporation shall not participate in or intervene in (including publishing or distributing statements) any political campaign on behalf of or in opposition to any candidate for public office.

### ARTICLE III

~~The name and address in the State of California of the corporation's initial agent for service of process are:~~

~~John H. Whitney~~

~~Jennings, Engstrand & Henriksen~~

~~2255 Camino del Rio South~~

~~San Diego, California 92108~~

All the property and assets of this corporation are irrevocably dedicated to the charitable purposes set forth in Article II(B) 7 above. No part of the net earnings, property or assets of this corporation shall ever inure to the benefit of any director, officer or member thereof or to the benefit of any private individual. Upon the winding up and dissolution of this corporation, its assets remaining after paying or adequately providing for the debts, obligations and liabilities of the corporation shall be distributed to Grossmont Hospital District Corporation. If Grossmont Hospital District Corporation is not then in existence, any remaining assets shall be distributed to ~~such nonprofit corporation(s) selected by this corporation's board of governors which, in the board's judgment, is (are) engaged in hospital or health related activities in the general area formerly served by Grossmont Hospital District and which is (are) then qualified under Section 501(c)(3) of the Internal Revenue Code of 1954 or the corresponding provision of any future United States internal revenue law~~ Grossmont Hospital District, a political subdivision of the State of California organized and existing pursuant to the Local Hospital District Law (Div. 23 of the Health & Safety Code).

#### ARTICLE V IV

Amendments of these Articles of Incorporation may be adopted if approved by the board of governors of this corporation and approved by the board of directors of Grossmont Hospital District Corporation.

[C:\037\MVH\GrHospDt\GHF4Ans.ORG GHF4Ans.LAM]



AFFILIATION AGREEMENT

Exhibit 1.1.3

BYLAWS

OF

GROSSMONT HOSPITAL FOUNDATION

A California Nonprofit Public Benefit Corporation

PREAMBLE

The purpose of this corporation is to provide assistance and support to Grossmont Hospital ~~District and its activities,~~ ~~programs, services and facilities~~ Corporation in the development of high quality, accessible and affordable inpatient and outpatient services to the residents of the communities served by Grossmont Hospital.

ARTICLE I

OFFICES

The principal office of the corporation shall be located at such place within the county of San Diego, State of California, as the Board of Governors may determine. Subordinate offices may be established at any place within San Diego County by the Board of Governors.

ARTICLE II

MEMBERS

This corporation shall have no statutory members as defined in Corporations Code Section 5056.

ARTICLE III

BOARD OF GOVERNORS

Section ~~±~~ 3.01. TITLE. The directors of this corporation shall be designated by the name or title of "Governors."

Section ~~±~~ 3.02. NUMBER, DESIGNATION AND TERM OF OFFICE.

(a) The seven ~~(7)~~ persons holding the following offices or positions shall be ex-officio members of the Board of Governors, without voting privileges: ~~two members of the Board of Governors, without voting privileges; two members of the Board of Directors of Grossmont Hospital District Corporation, as selected by the District Corporation Board; Chief of the Medical Staff at Grossmont District Hospital ("Hospital"); Executive Assistant to the Chief of the Medical Staff; Administrator/CEO of the Hospital; President of the Hospital Auxiliary; and the Executive Director, or President, of Grossmont Hospital Foundation.~~

(b) Until changed by amendment of these Bylaws, at least twelve (12) but no more than thirty-six ~~(36)~~ Governors shall be appointed by the Board of Directors of Grossmont Hospital ~~District Corporation~~, after receiving the recommendation ~~of the Board Development and Nominating Committee and the approval~~ of the Board of Governors. The authorized number of Governors so appointed shall be fixed, within those limits, by a resolution adopted by the Board of Governors. Each such Governor shall hold office for a term of ~~two~~ three (3) years commencing on July 1st and ending on June 30 ~~three (3) years later~~ and until a

successor has been appointed. The terms ~~of the first governors appointed~~ shall be staggered so that one-half ~~third~~ third (1/3) of the Governors' terms of office expire ~~on June 30, 1986, and one-half expire on June 30, 1987~~ each year.

Section 3 3.03. POWERS. Subject to the provisions and limitations of the California Nonprofit Public Benefit Corporation Law and any other applicable laws, the corporation's activities and affairs shall be managed, and all corporate powers shall be exercised, by or under the direction of the Board of Governors. Without limiting the generality of the foregoing, the Board of Governors shall have the power to:

(a) Appoint and remove, at the pleasure of the Board of Governors, all the other officers, agents, and employees of the corporation; prescribe powers and duties for them that are consistent with law, with the Articles of Incorporation, and with the Bylaws; fix their compensation and require from them security for faithful performance of their duties.

(b) Designate any place within the State of California for the holding of any Governors meetings;

(c) Adopt, make and use a corporate seal and to alter the form thereof from time to time as in their judgment they may deem best, provided such seal shall at all times comply with the provisions of law.

Section 4 3.04. PLACE OF MEETINGS. Meetings of the Board of Governors shall be held at any place within California that has been designated by resolution of the Board of Governors or in

the notice of meeting or, if not so designated, at the principal office of the corporation.

Section 5 ~~3.05~~. ANNUAL MEETING AND OTHER REGULAR MEETINGS.

A regular annual meeting of the Board of Governors shall be held without other notice than this bylaw, on the third Tuesday of May each year at 5:00 p.m. at the principal office of the corporation. The Board of Governors may provide by resolution the time and place, within the State of California, for the holding of additional regular meetings of the Board of Governors without other notice than such resolution.

Section 6 ~~3.06~~. SPECIAL MEETINGS. Special meetings of the Board of Governors may be called by the Chairman, the Secretary, or any two Governors. The person or persons authorized to call special meetings of the Board of Governors may fix any place, within the State, as the place for holding any special meeting of the Board of Governors called by them.

Section 7 ~~3.07~~. NOTICE. Written notice of a special meeting shall be delivered personally or by mail to each member of the Board of Governors and to each local newspaper of general circulation, radio or television station requesting notice in writing. Such notice must be delivered personally or by mail at least 24 hours before the time of such meeting as specified in the notice. The call and notice shall specify the time and place of the special meeting and the business to be transacted. No other business shall be considered at special meetings. Such written notice may be dispensed with as to any Governor who at or prior to the time the meeting convenes files with the secretary a

written waiver of notice. Such waiver may be given by telegram. Such written notice may also be dispensed with as to any Governor who is actually present at the meeting at the time ~~is~~ ~~it~~ convenes.

Section 8- ~~3.08~~ QUORUM. One-third (1/3) of the authorized number of Governors with voting privileges shall constitute a quorum for the transaction of business, except to adjourn. The authorized number shall be determined by resolution of the Board of Governors as provided by ~~Article III, Section 2-(b)~~ ~~3.02(b)~~. Every action taken or decision made by a majority of the Governors present at a duly held meeting at which a quorum is present shall be the act of the Board of Governors, subject to the more stringent provisions of the California Nonprofit Public Benefit Corporation Law, including, without limitation, those provisions relating to (a) approval of contracts or transactions in which a Governor has a direct or indirect material financial interest-; (b) approval of certain transactions between corporations having common directorships, (c) creation of the appointments to committees of the Board of Governors, and (d) indemnification of Governors. A meeting at which a quorum is initially present may continue to transact business, despite the withdrawal of some Governors, if any action taken or decision made is approved by at least a majority of the required quorum for that meeting.

Section 9 ~~3.09~~ ADJOURNMENT. The Board of Governors may adjourn any regular, adjourned regular, special or adjourned special meeting to a time and place specified in the order of

adjournment. Less than a quorum may so adjourn from time to time. A copy of the order or notice of adjournment shall be conspicuously posted on or near the door of the place where the meeting was held within 24 hours after the time of the adjournment. If the original meeting is adjourned for more than 24 hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the Governors who were not present at the time of adjournment.

Section ~~10~~ 3.10. PUBLIC MEETINGS. Meetings of the Board of Governors shall be open to the public except:

(a) The Board of Governors may hold closed sessions during a meeting to consider the appointment, employment or dismissal of an employee or to hear complaints or charges brought against such employee by another person or employee unless such employee requests a public hearing. The term "employee" shall not include the offices of Board of Governors, Chairman, or Vice-Chairman. Any action taken during a closed session regarding the appointment, employment or dismissal of an employee must be reported when the open meeting is resumed or at the next public meeting, along with any roll call vote taken thereon.

(b) The Board of Governors may hold a closed session to confer with, or receive legal advice from, its legal counsel regarding pending litigation when discussion in open session would prejudice the Board's position in the litigation.

~~(c)~~ (c) Prior to or after holding any closed session, the Board of Governors must state one of the foregoing reasons for the closed session. Only those matters covered in the

statement can be considered in the closed session. In the case of special, adjourned and continued meetings, the statement of the general reason or reasons for the closed session must be made a part of the notice provided for the special, adjourned or continued meeting.

Section ~~11~~ 3.11. RESIGNATIONS. Except as provided below, any Governor may resign by giving written notice to the Chairman or the Secretary of the Board of Governors. The resignation shall be effective when the notice is given unless it specifies a later time for the resignation to become effective. Except on notice to the Attorney General of California, no Governor may resign if the corporation would be left without a duly elected Governor or Governors.

Section ~~12~~ 3.12. VACANCIES. Any vacancy occurring in the Board of Governors and Governorship to be filled by reason of an increase in the number of Governors may be filled by the Board of Directors of Grossmont Hospital ~~District~~ Corporation, after receiving the ~~recommendations of the Nominating Committee~~ recommendation of the Board of Governors.

Section ~~13~~ 3.13. REIMBURSEMENT. With the exception of the Executive Director, ~~or President~~, Governors shall receive no compensation for their services as Governors or officers, but the Board of Governors may determine by resolution to reimburse Governors' actual and necessary expenses incurred in the conduct of the corporation's business.

Section ~~14~~ 3.14. RESTRICTION ON INTERESTED GOVERNORS. Not more than 49% of the persons serving on the Board of Governors at

any time may be interested persons. An interested person is (1) any person being compensated by the corporation for services rendered to it within the previous 12 months, whether as a full-time or part-time employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a Governor as Governor; and (2) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person. However, any violation of the provisions of this paragraph section shall not affect the validity or enforceability of any transaction entered into by the corporation.

Section ~~15.~~ 3.15. ATTENDANCE. Three consecutive unexcused absences shall constitute cause for consideration of removal from the Board of Governors. A majority vote of the total voting members of the ~~Board~~ Board, with ratification by the Board of Directors of Grossmont Hospital Corporation, shall be required for removal.

#### ARTICLE IV

##### OFFICERS

Section ~~4.~~ 4.01. OFFICERS. The officers of the corporation shall be a Chairman, Vice Chairman (~~the number thereof to be determined by the Board of Governors~~), Immediate Past Chairman, a Secretary, a Chief Financial Officer, and an Executive Director ~~or President. The Board of Governors shall, by resolution, determine whether the office of Executive Director shall bear that name or be designated as the office of President.~~ The

Chairman and Vice Chairman must be selected from the membership of the Board of Governors. The Board of Governors may elect or appoint such other officers as it shall deem desirable. Any two or more offices may be held by the same person, except that the Chairman ~~or the President~~ may not serve concurrently as the Secretary or as the Chief Financial Officer of the corporation.

Section 2 4.02. ELECTION AND TERM OF OFFICE. The officers of the corporation, except the Executive Director, ~~or President~~, shall be elected annually by the Board of Governors at the regular annual meeting of the Board of Governors and shall serve at the pleasure of the Board of Governors. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is convenient. Each officer shall hold office until his successor shall have been duly elected and shall have qualified.

Section 3 4.03. REMOVAL. Any officer elected or appointed by the Board of Governors may be removed by vote of a majority of the authorized number of members of the Board of Governors with or without cause whenever, in its judgment, the best interests of the corporation would be served thereby, subject to the rights, if any, of any officer under any written contract of employment.

Section 4 4.04. RESIGNATION. Any officer may resign at any time by giving written notice to the corporation. The resignation shall take effect as of the date the notice is received or at any later time specified in the notice and, unless otherwise specified in the notice, the resignation need not be accepted to be effective. Any resignation shall be without

prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 5 ~~4.05~~. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, or otherwise, shall be filled by the Board of Governors, ~~except the office of Immediate Past Chairman~~.

Section 6 ~~4.06~~. CHAIRMAN. The Chairman shall preside at all Board of Governors meetings. The Chairman shall have such other powers and duties as the Board of Governors or the bylaws may prescribe.

Section 7- ~~4.07~~. VICE CHAIRMEN CHAIRMAN. If the Chairman is absent or disabled, ~~the Vice Chairman, if any, in order of their rank as fixed by the Board of Governors, or, if not ranked, a Vice Chairman designated by the Board of Governors,~~ shall perform all duties of the Chairman. When so acting, ~~a~~ the Vice Chairman shall have all powers of and be subject to all restrictions on the ~~the~~ Chairman. The Vice Chairman shall have such other powers and perform such other duties as the Board of Governors or the bylaws may prescribe.

Section 8 ~~4.08~~. EXECUTIVE DIRECTOR. The Executive Director ~~, or President,~~ shall be appointed by the Board of Governors, subject to ratification by the Board of Directors of Grossmont Hospital ~~District~~ Corporation. The Executive Director ~~, or President,~~ shall be the chief executive and operating officer of the corporation, subject to the control of the Board of Governors. The Executive Director ~~, or President,~~ shall be the general manager of the corporation and shall supervise and

direct the corporation's activities and employees. He shall report to the Chairman between Board of Governors meetings and to the Board of Governors at each meeting.

Section 9 ~~4.09~~. SECRETARY.

(a) Book of Minutes. The Secretary shall keep or cause to be kept, at the corporation's principal office or such other place as the Board of Governors may direct, a book of minutes of all meetings, proceedings, and actions of the Board of Governors and of committees of the Board. The minutes of meetings shall include the time and place that the meeting was held, whether the meeting was annual, regular, or special, and, if special, how authorized, the notice given and the names of those present at Board of Governors and committee meetings. The Secretary shall keep or cause to be kept, at the principal office in California, a copy of the articles of incorporation and bylaws, as amended to date.

(b) Notices, Seal, and Other Duties. The Secretary shall give, or cause to be given, notice of all meetings of members, of the Board of Governors and of committees of the Board required by these Bylaws to be given. The Secretary shall keep the corporate seal in safe custody and shall have such other powers and perform such other duties as the Board of Governors or the Bylaws may prescribe.

Section ~~9~~ ~~4.10~~. CHIEF FINANCIAL OFFICER.

(a) Books of Account. The Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and accounts of the Corporation's

properties and transactions. The Chief Financial Officer shall send or cause to be given to the Governors such financial statements and reports as are required to be given by law, by these bylaws, or by the Board of Governors. The books of account shall be open to inspection by any Governor at all reasonable times.

(b) Deposit and Disbursement of Money and Valuables.

The Chief Financial Officer shall deposit, or cause to be deposited, all money and other valuables in the name and to the credit of the corporation with such depositories as the Board of Governors may designate, shall disburse the corporation's funds as the Board may order, shall render to the Chairman, and the Board of Governors, when requested, an account of all transactions as Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as the Board of Governors or the Bylaws may prescribe.

~~(c) Bond. The Chief Financial Officer shall give the corporation a bond in the amount and with the surety or sureties specified by the Board of Governors for faithful performance of the duties of the office and for restoration to the corporation of all of its books, papers, vouchers, money, and other property of every kind in the possession or under the control of the Chief Financial Officer on his or her death, resignation, retirement, or removal from office.~~

ARTICLE V

## COMMITTEES OF THE BOARD

Section ~~±~~ 5.01. CREATION AND APPOINTMENT. The Board of Governors may create one or more committees of the Board, each consisting of one or more Governors constituting less than a quorum of the Board and supplemented by such other advisors as the Board of Governors may wish to appoint. The Board may delegate this authority to the Executive Committee or the Board Chairman. The Executive Director ~~or President~~ or his delegate shall serve as an ex officio member of all committees of the Board of Governors. Appointments to a committee of the Board of Governors shall be made in accordance with the procedure adopted by the Board of Governors in connection with the creation of a committee. One or more Governors may be appointed as alternate members of any such committee, who may replace any absent member at any meeting. A committee created under this section shall not exercise the authority of the Board of Governors.

Section ~~2. BOARD DEVELOPMENT AND~~ 5.02. OFFICER NOMINATING COMMITTEE. The ~~Board Development and~~ Officer Nominating Committee shall consist of the current Chairman, Immediate Past Chairman, and not less than ~~two~~ three (3) other members of the Board of Governors. The Committee shall nominate candidates for the ~~Board of Governors for the~~ offices of Chairman, Vice Chairman, Secretary, and Chief Financial Officer, and for the two at-large members of the Executive Committee. The committee shall propose candidates for office to the Board of Governors for approval, and the Board will recommend these to the District

~~Corporation~~ Board of Directors for appointment as per Article  
~~III, Section 1(b).~~ ~~3.01(b).~~

Section ~~3~~ ~~5.03~~. MEETINGS. The time and place of regular meetings of a committee of the Board of ~~governors~~ ~~Governors~~ shall be determined by the committee. Special meetings may be called at any time by the committee chairman or any two committee members. Notice of the time and place of special meetings shall be given to each committee member by one of the following methods: (a) by personal delivery of written notice; (b) by first-class mail, postage prepaid; (c) by telephone, either directly to the member or to a person at the ~~members~~ ~~member's~~ office who would reasonably be expected to communicate that notice promptly to the member; or (d) by telegram, charges prepaid. All such notices shall be given or sent to the member's address or telephone number as shown on the records of the corporation. Notices sent by first-class mail shall be deposited in the United States mails at least four days before the ~~time~~ ~~date~~ set for the meeting. Notices given by personal delivery, telephone, or telegraph shall be delivered, telephoned, or given to the telegraph company at least 48 hours before the time set for the meeting. The notice shall state the time of the meeting, and the place if the place is other than the principal office of the corporation. It need not specify the purpose of the meeting. A majority of the membership of a committee shall constitute a quorum. Minutes of committee meetings shall be kept and filed with the corporate records.

ARTICLE VI

EXECUTIVE COMMITTEE

Section ~~±~~ ~~6.01~~. EXECUTIVE COMMITTEE. The Executive Committee shall consist of seven voting members: the Chairman, Immediate Past Chairman, Vice Chairman, Secretary, Chief Financial Officer, and two at-large members of the Board of Governors nominated by the ~~Board Development and Officer~~ Nominating Committee and approved by the Board of Governors. The Executive Director ~~or President~~ shall be an ex officio member of the committee. The Executive Committee shall have all the authority of the Board of Governors between Board meetings, except with respect to:

- (a) Fixing the reimbursement of expenses incurred by Board members;
- (b) Adopting proposed amendments or repeal of bylaws or new bylaws;
- (c) Amending or repealing any resolution of the Board of Governors which by its express terms is not so amendable or ~~repeala~~ repealable;
- (d) Approving any contract or transaction to which the corporation is a party and in which one or more Governors has a material financial interest, except as provided in ~~paragraph (3) of subdivision (d) of Section 5233~~ Section 5233(d)(3) of the California Corporations Code.

Section 2 ~~6.02~~. MEETINGS. The time and place of regular meetings of the Executive Committee shall be determined by resolution of the Board of Governors. Special meetings may be called at any time by the Committee chairman or any two Committee members. All meetings of the Executive Committee shall be open to the public to the same extent as meetings of the Board of Governors and the procedural requirements as to notice shall be the same as those set forth in Sections 7 ~~3.07~~ and 9 ~~of Article III 3.09~~. A majority of the membership of the Executive Committee shall constitute a quorum. Minutes of Committee meetings shall be kept and filed with the corporate records.

#### ARTICLE VII

##### CONTRACTS, CHECKS, DEPOSITS, AND GIFTS

Section 1 ~~7.01~~. CONTRACTS. The Board of Governors may authorize any officer or officers, agent or agents of the corporation, in addition to the officers so authorized by these Bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 2 ~~7.02~~. CHECKS, DRAFTS, ETC. All checks, drafts, or orders for the payment of money shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the Board of Governors. In the absence of such determination by the Board of Governors, such instruments shall

be signed by the Chief Financial Officer and countersigned by the Chairman or a Vice Chairman of the corporation.

Section ~~3~~ ~~7.03~~. DEPOSITS. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks or savings and loan associations as the Board of Governors may select.

Section ~~4~~ ~~7.04~~. GIFTS. The Board of Governors may accept on behalf of the corporation any contribution, gifts, bequests or devises for the general purposes or for any special purpose of the corporation.

#### ARTICLE VIII

##### RECORDS AND REPORTS

Section ~~1~~ ~~8.01~~. MAINTENANCE OF CORPORATE RECORDS. The corporation shall keep:

- ~~(1)~~ ~~(a)~~ Adequate and correct books and records of account;
- ~~(2)~~ ~~(b)~~ Written minutes of the proceedings of its Board and committees of the Board.

Section ~~2~~ ~~8.02~~. INSPECTION BY ~~DIRECTORS~~ GOVERNORS. Every Governor shall have the absolute right at any reasonable time to inspect the corporation's books, records, documents of every kind, physical properties, and the records of each of its subsidiaries. The inspection may be made in person or by the Governor's agent or attorney. The right of inspection includes the right to copy and make extracts of documents.

Section ~~3~~ ~~8.03~~. ANNUAL REPORT. ~~(a)~~ The Board of Governors shall cause an annual report to be sent to the

Governors and to the Board of Directors of Grossmont Hospital District Corporation within 120 days after the end of the corporation's fiscal year. That report shall contain the following information, in appropriate detail, for the fiscal year:

- (1) The assets and liabilities, including the trust funds, of the corporation as of the end of the fiscal year.
- (2) The principal changes in assets and liabilities, including trust funds.
- (3) The revenue or receipts of the corporation, both unrestricted and restricted to particular purposes.
- (4) The expenses or disbursements of the corporation for both general and restricted purposes.
- (5) Any information required by Section 4, ~~8.04~~ below.

~~(b)~~ The annual report shall be accompanied by any report on it of independent accountants or, if there is no such report, by the certificate of an authorized officer of the corporation that such statements were prepared without audit from the corporation's books and records.

Section 4 ~~8.04~~. ANNUAL STATEMENT OF CERTAIN TRANSACTIONS AND INDEMNIFICATIONS. ~~(a)~~ As part of the annual report, the corporation shall annually prepare and mail or deliver to each Governor, and to the Board of Directors of Grossmont Hospital District Corporation, a statement of any transaction or indemnification of the following kind ~~kinds~~:

- (1) Any transaction (i) in which the corporation, its parent, or its subsidiary was a part, and (ii) in which an

"interested person" had a direct or indirect material financial interest, and (iii) which involved more than \$50,000, or was one of a number of transactions with the same interested person involving, in the aggregate, more than \$50,000. For this purpose, an "interested person" is either of the following:

~~(a)~~ (I) Any Governor or officer of the corporation, its parent, or subsidiary (but mere common directorship shall not be considered such an interest); or

~~(b)~~ (II) Any holder of more than 10 percent of the voting power of the corporation, its parent, or its subsidiary.

(2) Any indemnifications or advances aggregating more than \$10,000 paid during the fiscal year to any officer or Governor of the corporation under Section 9.01, 9.02, or 9.03 of these Bylaws, unless that indemnification has already been approved by the Board of Governors under Section 5238(e)(2) of the California Corporations Code.

(b) The statement shall include a brief description of the transaction, the names of interested persons involved, their relationship to the corporation, the nature of their interest, provided that if the transaction was with a partnership in which the interested person is a partner, only the interest of the partnership need be stated.

#### ARTICLE IX

#### INDEMNIFICATION

Section ~~±~~ 9.01. RIGHT OF INDEMNITY. To the fullest extent permitted by law, this corporation shall indemnify its Governors, officers, employees, and other persons described in Section 5238~~(a)~~~~(a)~~ of the California Corporations Code, including persons formerly occupying any such position, against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any "proceeding," as that term is used in that Section, and including an action by or in the right of the corporation, by reason of the fact that the person is or was a person described in that section. "Expenses," as used in this bylaw, shall have the same meaning as in Section 5238~~(a)~~~~(a)~~ of the California Corporations Code.

Section ~~±~~ 9.02. APPROVAL OF INDEMNITY. On written request to the Board of Governors by any person seeking indemnification under Section 5238~~(b)~~~~(b)~~ or Section 5238~~(e)~~~~(c)~~ of the California Corporations Code, the Board of Governors shall promptly determine under Section 5238~~(e)~~~~(e)~~ of the California Corporations Code whether the applicable standard of conduct set forth in Section 5238~~(b)~~~~(b)~~ or Section 5238~~(e)~~~~(c)~~ has been met and, if so, the Board of Governors shall authorize indemnification. If the Board of Governors cannot authorize indemnification because the number of Governors who are parties to the proceeding with respect to which indemnification is sought prevents the formation of a quorum of Governors who are not parties to that proceeding, the Board of Governors shall promptly cause an application to be

made for court authorization pursuant to Corporations Code Section 5238(e)(3)(e)(3).

Section 3 9.03. ADVANCEMENT OF EXPENSES. To the fullest extent permitted by law and except as otherwise determined by the Board of Governors in a specific instance, expenses incurred by a person seeking indemnification under ~~Section 1 and 2 of Article VIII~~ Sections 9.01 and 9.02 of these Bylaws in defending any proceeding covered by those sections shall be advanced by the corporation before final disposition of the proceeding, on receipt by the corporation of an undertaking by or on behalf of that person that the advance will be repaid unless it is ultimately determined that the person is entitled to be indemnified by the corporation for those expenses.

#### ARTICLE X

#### INSURANCE

The corporation shall have the right to purchase and maintain insurance to the full extent permitted by law on behalf of its officers, Governors, employees, and other agents, against any liability asserted against or incurred by any officer, Governor, employee, or agent in such capacity or arising out of the officer's, governor's employee's, or agent's status as such.

#### ARTICLE XI

#### FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of July and end on the last day of June in each year.

ARTICLE XII

SEAL

The Board of Governors shall provide a corporate seal, which shall be circular of form, and shall have inscribed thereon the name of the corporation, the date of its incorporation, and the word "California."

ARTICLE XIII

AMENDMENT OF BYLAWS

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Governors, subject to ratification by the Board of Directors of Grossmont Hospital District Corporation.



1679188

EXHIBIT 7.1

**ENDORSED  
FILED**  
In the Office of the Secretary of State  
of the State of California

AFFILIATION AGREEMENT

JAN 2 1991

**ARTICLES OF INCORPORATION**

MARCH FONG EU, Secretary of State

**OF**

**GROSSMONT HOSPITAL CORPORATION**

**FIRST:** The name of this corporation is: **GROSSMONT HOSPITAL CORPORATION.**

**SECOND:** (a) This corporation is a nonprofit public benefit corporation and is not organized for the private gain of any person. It is organized under the Nonprofit Public Benefit Corporation Law for charitable purposes.

(b) The specific purposes of this corporation are:

(1) To establish, maintain, conduct, and operate a hospital or hospitals and related, associated and complementary facilities and services, such as, but not limited to, skilled nursing, extended care, outpatient care, home care, and other health care programs, activities, services and facilities;

(2) To carry on any educational activities related to rendering care to the sick and injured, or to the promotion of health;

(3) To promote and carry on scientific research related to care of the sick and injured, or to the promotion of health;

(4) To participate in any activity designed and carried on to promote the general health of the community;

(5) To operate and maintain this corporation and its assets for the benefit of the communities served by Grossmont Hospital District, a political subdivision of the State of California, organized and existing pursuant to Local Hospital District Law (Division 23 of the California Health & Safety Code), and which is located in San Diego County, California; and

(6) Generally to do anything and everything necessary, expedient or incidental to the foregoing.

**THIRD:** (a) This corporation is organized and operated exclusively for charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986 or the corresponding provisions of any future United States internal revenue law.

(b) Notwithstanding any other provision of these Articles, this corporation shall not, except to an insubstantial degree, engage in any activities or exercise any powers that are not in furtherance of the purpose of this corporation, and this corporation shall not carry on any other activities not permitted to be carried on: (1) by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 or the corresponding provision of any future United States internal revenue law; or (2) by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1986 or the corresponding provision of any future United States internal revenue law.

(c) No substantial part of the activities of this corporation shall consist of lobbying or propaganda, or otherwise attempting to influence legislation, except as provided in Section 501(h) of the Internal Revenue Code of 1986, and this corporation shall not participate in or intervene in (including publishing or distributing statements) any political campaign on behalf of or in opposition to any candidate for public office except as provided in Section 501(h) of the Internal Revenue Code of 1986.

FOURTH: The name and address in California of the corporation's initial agent for service of process are:

Peter K. Ellsworth  
3131 Berger Avenue  
San Diego, CA 92123

FIFTH: (a) All of the properties, monies and assets of this corporation are irrevocably dedicated to charitable purposes set forth in Article SECOND above. No part of the net earnings of this corporation shall inure to the benefit of any of its directors, trustees, officers or members, or to any private individuals.

(b) In the event that this corporation is wound up and dissolved, after paying or adequately providing for the debts, obligations, and liabilities of this corporation, including this corporation's allocable share of the debt of any obligated group of which this corporation is a member, the remaining assets of this corporation shall be distributed to a nonprofit corporation, foundation, or fund which is organized and operated exclusively for charitable purposes and which has established and maintained its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, or the corresponding provision of any future United States internal revenue law, and which is qualified for exemption from taxation under Section 23701d of the California Revenue and Taxation Code, or the corresponding section of any future California revenue and tax law, to be held in irrevocable trust for the purposes set forth in Article SECOND, or for other health related purposes for the benefit of the communities served by

Grossmont Hospital District. Such nonprofit corporation shall be the San Diego Hospital Association, a California nonprofit public benefit corporation, if it qualifies as a distributee pursuant to the foregoing provisions of this Article. Otherwise, a qualified distributee shall be selected and designated by the Board of Directors of this corporation.

Jordan W. Clements  
 JORDAN W. CLEMENTS, Incorporator

STATE OF CALIFORNIA )  
 )  
 COUNTY OF SAN MATEO )      ss.

On this 21<sup>st</sup> day of December, 1990, before me, the undersigned, a Notary Public in and for the State of California with my principal office in the County of San Mateo, personally appeared JORDAN W. CLEMENTS, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same.

IN WITNESS WHEREOF, I have subscribed my name and affixed my official seal hereto as of the date first hereinabove written.

Leslie Donahue  
 Notary Public  
 State of California

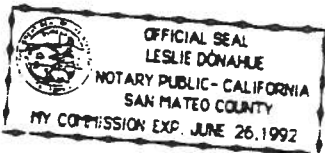


EXHIBIT 7.1  
AFFILIATION AGREEMENT

AMENDMENT  
OF  
ARTICLES OF INCORPORATION  
OF  
GROSSMONT HOSPITAL CORPORATION

Article FIFTH, Section (b) of the Articles of Incorporation of Grossmont Hospital Corporation is amended to read as follows:

FIFTH: (b) In the event that this corporation is wound up and dissolved, after paying or adequately providing for the debts, obligations, and liabilities of this corporation, including this corporation's allocable share of the debt of any obligated group of which this corporation is a member, the remaining assets of this corporation shall be distributed to Grossmont Hospital District, a political subdivision of the State of California, organized and existing pursuant to the Local Hospital District Law (Division 23 of the California Health & Safety Code), and which is located in San Diego County, California. In the event that Grossmont Hospital District no longer exists, the remaining assets of this corporation shall be distributed to a nonprofit corporation, foundation, or fund which is organized and operated exclusively for charitable purposes and which has established and maintained its tax-exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, or the corresponding provision of any future United States internal revenue law, and which is qualified for exemption from taxation under Section 23701d of the California Revenue and Taxation Code, or the corresponding section of any future California revenue and tax law, to be held in irrevocable trust for related purposes for the benefit of the citizens of the communities formerly within the boundaries of Grossmont Hospital District. Such nonprofit corporation shall be the San Diego Hospital Association, a California nonprofit public benefit corporation, if it qualifies as a distributee pursuant to the foregoing provisions of this Article. Otherwise, a qualified distributee shall be selected and designated by the Board of Directors of this corporation.



EXHIBIT 7.3.1  
AFFILIATION AGREEMENT

Adopted 2-27-90

BYLAWS OF  
SAN DIEGO HOSPITAL ASSOCIATION

ARTICLE I  
PRINCIPAL OFFICE

The principal office for the transaction of the business of San Diego Hospital Association (referred to hereinafter as the "Association" or the "corporation") is hereby fixed and located at such place within the County of San Diego, State of California, as the Board of Directors may, from time to time, designate.

ARTICLE II

SEAL

The corporation shall have a common seal bearing the inscription "San Diego Hospital Association, Incorporated 1946".

ARTICLE III

PURPOSE

The general purpose of the corporation is to promote health care through supporting and/or operating, directly or through wholly-owned subsidiaries or other appropriate management arrangements, hospitals and medically-

related facilities and activities in the State of California. The specific and primary purposes for which this corporation is formed are to support and be responsive to the needs of its publicly supported, tax-exempt subsidiaries. The corporation shall have all the powers authorized by law for a nonprofit corporation to do all necessary or incidental acts in the furtherance of these purposes.

#### ARTICLE IV

##### MEMBERSHIP

Section 1. Qualification for Members. The membership of the Association shall be drawn from a broad cross section of San Diego County, but shall not be limited to residents of that County. All persons of good moral character, without regard to race, religion or political affiliation are eligible for membership when they have demonstrated their interest in the objectives of the Association by making contributions in one of the amounts mentioned below.

Section 2. Classes of Members. Association Members shall be divided into classes as follows:

- a. Life Members shall be those persons who were Association Members on June 28, 1982.
- b. Regular Members shall be those persons who contribute One Hundred Dollars (\$100.00) or more

to the Association through the Sharp Hospitals Foundation in any year on or after February 1, 1987. Their term of Regular Membership shall be from February 1 of each year to January 31 of the following year. Persons who contribute this amount to the Association shall be Regular Members from the date the Association receives the contribution to the following January 31.

c. Board Members shall be those persons who are then serving as members of the Sharp Community Board of Trustees (referred to hereinafter as the "Sharp Community Board") or the Association's Board of Directors (referred to hereinafter as the "Board of Directors").

d. Corporate contributors may be admitted to Regular Membership on the same terms as natural persons. Each such corporate member may name an individual of its choice to represent the corporate member at meetings.

e. Notwithstanding any other provisions of these bylaws, neither Association Members nor any class of Association Members shall be "members" as that term is defined in Section 5056 of the California Nonprofit Corporation Law.

Section 3. Meetings of the Members.

a. The annual meeting of Association Members shall be held on the fourth Tuesday of February each

year at a time and place within San Diego County to be determined by the Board of Directors or on such other date as may be designated by the Board of Directors.

b. Notice of the annual meeting of Association Members shall be given by mail at least twenty (20) days in advance of the meeting to each person who is an Association Member on the record date. The record date for the annual meeting shall be the January 31 preceding the annual meeting.

c. The presence of twenty-five (25) Association Members shall constitute a quorum.

#### ARTICLE V

##### SHARP COMMUNITY BOARD OF TRUSTEES

Section 1. Purpose. The purpose of the Sharp Community Board shall be to conduct meetings which provide a forum to inform Board members regarding health-care issues of local and national concern and to hear reports and provide advice on the policies and activities of the Association and its subsidiaries. The Sharp Community Board may review and comment on activities of the subsidiary corporations and may provide advice on policies and procedures. The members of the Sharp Community Board shall bring the community perspective to Sharp's affairs and shall provide a place to recruit new volunteer participants for the Sharp system. The

Sharp Community Board shall also elect its own membership pursuant to Article V, Section 2 below, and shall elect the members of the Board of Directors pursuant to Article VII below.

Section 2. Membership, Election and Nomination.

a. The members of the Board of Directors of the Association at the time these bylaws are adopted shall be the initial members of the Sharp Community Board. The elected members (as distinguished from ex officio members) shall serve the remainder of their existing directors' term and until their successors are elected as members of the Sharp Community Board. The terms of the ex officio members shall be commensurate with the term of their office. As terms expire or vacancies occur, the Sharp Community Board shall elect persons to fill those vacancies. In addition, the Sharp Community Board shall elect such additional members as may be necessary and appropriate to complete its membership pursuant to Section 2.b. following. The nominating and bylaws committee referred to in Section 3 of Article X below shall provide nominations for these elections and the elections shall be made from those nominations, except for those nominations provided by the medical staffs of the respective hospitals pursuant to Section 3 following.

b. The Sharp Community Board shall consist of up to thirty (30) elected members. All elected members shall be elected for three (3) year terms. In addition there shall be six (6) ex officio members with full voting rights; namely, the Chief of Staff of Sharp Memorial Hospital, the Chief of Staff of Sharp Cabrillo Hospital, the Chief of Staff of Community Hospital of Chula Vista, the Chairman of the Advisory Council, the Chairman of the Board of Children's Hospital and Health Center and the Chairman of the Sharp Hospitals Foundation. The Board of Directors may designate additional ex officio members from time to time as it deems appropriate.

c. The Chairman of the Board of Directors shall preside at the meetings of the Sharp Community Board. In his absence the Vice Chairman shall preside.

Section 3. Qualifications for Sharp Community Board Membership. Not less than seventy-five (75) percent of the membership of the Sharp Community Board shall be residents of San Diego County. Any adult person who shall have demonstrated his or her interest in the goals and objectives of San Diego Hospital Association shall be eligible to serve on the Sharp Community Board. The Sharp Community Board shall include at least three (3) members who are, at the time of their election, members in good standing

of the medical staff of each Sharp Hospital, including the Chiefs of Staff who serve ex officio. One (1) of the three (3) physicians from each hospital shall be elected by the Sharp Community Board from a slate of four (4) nominees proposed by the Executive Medical Board of the respective Hospital. Termination of the medical staff membership of any physician serving on the Sharp Community Board as a nominee of the Executive Medical Board shall create a vacancy on the Sharp Community Board to be filled following the same nominating procedure as that followed for the person being succeeded. The Sharp Community Board shall also include at least four (4) members, including the Chief of Staff of Community Hospital of Chula Vista who serves ex officio, who are members of the board of directors of Community Hospital of Chula Vista.

ARTICLE VI

MEETINGS OF THE SHARP COMMUNITY BOARD

Section 1. Annual Meeting. One regular meeting of the Sharp Community Board shall be known as its annual meeting and shall be held on the fourth (4th) Tuesday of May of each year or at such other time as the Board of Directors may fix by resolution. At its annual meeting, the Sharp Community Board shall elect its membership and the members of the Board of Directors.

Section 2. Regular Meetings. Regular meetings of the Sharp Community Board shall be held on the fourth (4th) Tuesday of February , May (the annual meeting), August, and November, or at such other times as the Board of Directors may from time to time specify by resolution. No notice need be given of any regular meeting of the Sharp Community Board except that notice of the annual meeting shall be given at least ten (10) days in advance to all of the members of the Sharp Community Board. Such notice, in addition to specifying the time and place of the meeting, shall include the names of persons nominated for election to the Sharp Community Board and the Board of Directors.

Section 3. Special Meetings. Special meetings of the Sharp Community Board may be called by the Chairman of the Board of Directors or by request of any five (5) members of the Sharp Community Board. The call for a special meeting shall be in writing, shall fix the date of the meeting (which shall be not less than fourteen [14] days nor more than thirty [30] days after the call), the place of the meeting (which shall be within the City of San Diego), and the time of the meeting, and shall state the purpose for which the meeting is to be held.

Section 4. Quorum. A majority of the number of persons then serving on the Sharp Community Board shall constitute a quorum for the transaction of business, and the

act of a majority of such persons present at any meeting at which there is a quorum shall be the act of the Sharp Community Board.

Section 5. Place of Meeting. Meetings of the Sharp Community Board shall be held at such place within the County of San Diego as may be designated from time to time by resolution of the Board of Directors.

## ARTICLE VII

### BOARD OF DIRECTORS

Section 1. Powers. The Board of Directors is the governing body of the corporation and is the "board of directors" as that term is described in Section 5210 of the California Nonprofit Corporation Law. The administrative powers of the corporation shall be vested in the Board of Directors, which shall have charge, control and management of the property, assets and funds of the corporation; and shall have the power and authority to do and perform all acts and functions not inconsistent with these bylaws or with the articles of incorporation of this corporation. The Board of Directors may, from time to time, delegate certain of its management powers to committees of the Board of Directors or to one (1) or more of its officers. However, ultimate responsibility shall be vested in the Board of Directors. The boards of all corporations of which San Diego Hospital

Association is the sole member and all committees referred to in these bylaws shall report to the Board of Directors.

In addition to its other powers and duties, the Board of Directors shall elect the officers of the Association annually. It shall be the sole member of subsidiary corporations. As such, it shall elect the members of all subsidiary boards of directors. Nominations for subsidiary boards shall be made in accordance with the process specified in the bylaws of the respective subsidiary corporations.

Section 2. Membership. The initial members of the Board of Directors shall be the members of the Executive Committee of the Board of Directors of the Association at the time these bylaw amendments are adopted. The Board of Directors shall consist of no more than twelve (12) persons, including ex officio with vote the chiefs of staff of Sharp Memorial Hospital, Sharp Cabrillo Hospital and Community Hospital of Chula Vista. The directors shall be elected by the Sharp Community Board, from nominees provided by the nominating and bylaws committee referred to in Section 3 of Article X below. Members of the Board of Directors shall represent the medical and lay leaders of the Association and its subsidiaries. In electing directors of the Association, the Sharp Community Board shall be carrying out the function

described in Section 5220(d) of the California Nonprofit Corporation Law.

Section 3. Term and Rotation. The initial members of the Board of Directors (elected as distinguished from ex officio) shall all be deemed to be serving an initial three (3) year term commencing on their election to the Association's Executive Committee in March 1988. The terms of initial members who are serving ex officio shall be commensurate with their terms of office. No elected director may serve more than three (3) consecutive three (3) year terms on the Board of Directors. After an absence of at least one (1) year, however, a person may be elected again for as many as three (3) consecutive terms of three (3) years each. The initial Board of Directors shall adopt a procedure, notwithstanding their above qualification to serve, to deal with appropriate rotation of Board members to ensure an orderly rotation and continuity of governance.

Section 4. Exception to Rotation. There shall be excluded from the restrictions on consecutive terms set forth in the preceding Section 3, the Chairman of the Board and the President of the corporation, who shall be eligible to continue to serve on the Board of Directors so long as they continue to be elected to their respective offices.

Section 5. Restriction on Interested Parties. Not more than forty-nine (49) percent of the persons serving on

the Board of Directors at any time may be interested persons as that term is defined in Section 5227 of the California Nonprofit Corporation Law.

Section 6. Vacancies in the Board of Directors.

Vacancies in the Board of Directors before the expiration of term of office shall be filled by the Board of Directors. Directors so elected shall complete the unexpired term. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Section 7. Qualifications for Board of Directors

Membership. All directors must be members of the Sharp Community Board at the time of their election and shall retain membership on the Sharp Community Board for the duration of their term on the Board of Directors, notwithstanding any other provision of these bylaws. Not less than seventy-five (75) percent of the membership of the Board of Directors shall be residents of San Diego County. At least two (2) members of the Board of Directors, including the Chief of Staff of Community Hospital of Chula Vista who serves ex officio, shall be members of the board of directors of Community Hospital of Chula Vista. Within these qualifications, any adult person who shall have demonstrated his interest in the goals and objectives of San Diego Hospital Association and who is willing to devote time and

personal expertise of use to the Association in the development of its policies shall be eligible to serve on the Board of Directors.

Section 8. Compensation of Directors. No director shall receive any salary or other compensation for his service as such director, but he may be reimbursed for his reasonable expenses incurred in such service. However, any director may be compensated as an officer or employee of the Association.

#### ARTICLE VIII

##### MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Annual Meeting. One regular meeting of the Board of Directors shall be known as the annual meeting of the Board and shall be held on the fourth (4th) Tuesday of May of each year or at such other time as the Board of Directors may fix by resolution. No notice need be given of the annual meeting. At its annual meeting, the Board of Directors shall elect the officers of the Association for one (1) year terms and shall transact such other business as may be necessary or appropriate. The election of members of subsidiary boards by the Board of Directors as sole member of the subsidiary corporations shall take place at this time and shall follow the procedure set forth in the subsidiary corporation bylaws.

Section 2. Regular Meetings. Regular meetings of the Board of Directors shall be held on the fourth (4th) Tuesday of each month except December when the meeting shall be on the second (2nd) Tuesday. The Board meetings on the fourth (4th) Tuesday of February, May, August and November may be held either before or after the meeting of the Sharp Community Board. The Board of Directors may fix such other regular times for its meetings as it may deem appropriate. No notice need be given of any regular meeting of the Board of Directors.

Section 3. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or by any five (5) members of the Board. Special meetings so called shall be held not less than two (2) or more than thirty (30) days following such call. Written notice of special meetings, however called, shall be mailed to each member of the Board at least two (2) days before the date of such special meeting. This notice shall state the business for the transaction of which the special meeting has been called. Where the urgency of the business makes this notice impractical, the Board may proceed under Sections 8, 10 or 11 of this Article VIII.

Section 4. Adjourned Meetings. A quorum of the directors may adjourn any Board meeting to meet again at a stated day and hour; provided, that in the absence of a

quorum, a majority of the directors present at any Board meeting, either regular or special, may adjourn from time to time, until the time fixed for the next regular meeting of the Board. If the meeting is adjourned for more than twenty-four (24) hours, notice of adjournment must be given prior to the time of the adjourned meeting to directors who were not present at the time of adjournment. If the meeting is adjourned for no more than twenty-four (24) hours, no notice of the time or place or purpose of holding an adjourned meeting need be given to any absent director if the time and place is fixed at the adjourned meeting.

Section 5. Quorum. A majority of the number of directors serving pursuant to Article VII, Section 2 above shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors.

Section 6. Attendance. Members of the Board of Directors shall strive to attend all meetings of the Board. Illness shall be regarded as a valid excuse as shall absence from the City when the Chairman of the Board shall have been notified in advance. The Board of Directors may consider other excuses at its discretion.

Section 7. Place of Meeting. Meetings of the Board of Directors shall be held at such place as may be

designated from time to time by resolution of the Board of Directors.

Section 8. Consent to Meetings. The transactions of any meeting of the Board of Directors however called and noticed or wherever held, shall be as valid as though the meeting had been duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 9. Removal. Members of the Board of Directors may be removed in accordance with the provisions of Section 5222 of the California Nonprofit Corporation Law. Failure to attend three (3) consecutive regular meetings of the Board of Directors without valid excuse shall be regarded as a basis for removal from office.

Section 10. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall have the same effect as a unanimous vote of the Board and shall be filed with the minutes of the proceedings of the Board.

Section 11. Telephone Meetings. Members of the Board of Directors may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another.

ARTICLE IX

OFFICERS

Section 1. Designation, Qualification, Selection and Terms of Office. The officers of the Association shall be a Chairman of the Board, a President, a Vice Chairman, a Secretary, a Treasurer (collectively the "named officers"), and such other officers as shall be appointed in accordance with the provisions of Section 2 of this Article IX. Only the named officers need be directors. The named officers shall be elected by the Board of Directors at the annual meeting of the Board, and each shall hold and continue in office until resignation, removal or disqualification to serve, or until a successor shall be elected.

Section 2. Other Officers. Either the Board of Directors or the Chairman of the Board may, in their or his discretion, appoint one (1) or more assistant secretaries, one (1) or more assistant treasurers and such other officers, agents, and employees as they or he may deem necessary or advisable, each of whom shall have such powers and authority,

and shall perform such duties as are or may be conferred or prescribed by these bylaws, or as the Chairman of the Board or the Board of Directors may from time to time direct or determine. Subject to the foregoing provisions of this section, any assistant secretary or assistant treasurer may exercise any of the powers of the Secretary or the Treasurer, respectively.

Section 3. Removal and Resignation. Any officer may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board of Directors, or, except in the case of an officer chosen by the Board of Directors, by an officer upon whom such power of removal shall have been conferred by a majority of the directors acting at a regular or special meeting of the Board of Directors.

Any officer may resign at any time by giving written notice to the Board of Directors or to the Chairman of the Board. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, or any other cause shall be filled in the manner provided in these bylaws for

regular appointments to such office, except that if such vacancy occurs in the office of Chairman of the Board, President, Vice Chairman, Secretary or Treasurer, the successor may be chosen at any regular or special meeting of the Board of Directors.

Section 5. Chairman of the Board. The Chairman of the Board shall preside, if present, at all meetings of the Board of Directors and all meetings of the Sharp Community Board. He shall be an ex officio member of all standing committees with full voting rights, and shall have the general powers and duties usually vested in the office of the Chairman of the Board of a corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or the bylaws.

Section 6. President. The President is the Chief Executive Officer of the corporation and has, subject only to the policy control of the Board of Directors, full responsibility for supervision, direction and control of the business and affairs of the corporation and all of its employees. The President has the general powers and duties of management usually vested in the office of president and chief executive officer of a corporation and such other powers and duties as may be prescribed by the Board of Directors. The President shall be authorized to participate

in the deliberations of all committees of the corporation, except the audit committee.

Section 7. Vice Chairman. In the absence of the Chairman of the Board, the Vice Chairman shall perform all the duties of the Chairman, and when so acting shall have all the powers of, and be subject to all the restrictions upon the Chairman. The Vice Chairman shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board of Directors or the bylaws.

Section 8. Secretary. The Secretary shall keep or cause to be kept a book of the minutes, at the principal office of the corporation or such other place as the Board of Directors may order, of all meetings of directors, with the time and place of their holding, whether regular or special, and if special, how authorized, the notice thereof given and the names of those present at Board meetings.

The Secretary shall give or cause to be given, notice of all the meetings of the Sharp Board of Directors required by the bylaws or by law to be given, shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Sharp Board of Directors or the bylaws.

Section 9. Treasurer. The Treasurer shall be the chief financial officer of the Association and shall cause to

be kept and maintained adequate and correct accounts of the properties and business transactions of the Association.

#### ARTICLE X

##### COMMITTEES OF THE BOARD OF DIRECTORS

Section 1. Committees. Committees of the Sharp Board of Directors shall be standing or special. Standing committees shall include an executive committee, an audit committee, and a nominating and bylaws committee. There shall also be such other standing and special committees as the Sharp Board of Directors may authorize. All standing committees shall meet at least annually. All committees, whether standing or special, shall keep written records of their meetings and shall report to the Board at least annually or more frequently as specified herein or directed by the Board. The procedural provisions of Sections 3, 4, 5, 6, 7, 8, 10 and 11 of Article VIII shall apply to all committees of the Board. Every committee shall have appropriate physician and non-physician representation in accordance with the purposes of the committee. Special committees need not consist entirely of directors. Non-board committee members shall be chosen for their demonstrated interest in San Diego Hospital Association and for their willingness to devote their time and personal expertise to the Association in the furtherance of its goals.

Section 2. The Executive Committee. The executive committee shall consist of the Chairman of the Board, the President, the Vice Chairman, the Secretary, and the Treasurer of San Diego Hospital Association.

Except as to those powers which cannot be delegated pursuant to Section 5212(c) of the California Nonprofit Corporation Law, the Board of Directors may delegate to the executive committee any of the power and authority of the board in the management of the business and the affairs of the Association.

Meetings of the executive committee shall be held on call of the Chairman of the Board.

Section 3. The Nominating and Bylaws Committee. The Board of Directors may act as its own nominating committee or may appoint a nominating committee to make appropriate nominations. In either case the committee shall provide nominations for the Sharp Community Board, the Board of Directors, the officers of the Association, and, in accordance with the process specified in the bylaws of the respective subsidiary corporations, the directors or trustees of subsidiary boards.

Section 4. Audit Committee. The audit committee shall act as the audit committee for the Association and all of its subsidiaries the Association as the Board of Directors shall designate. It shall act as the agent of the Board of

Directors. It shall review the annual financial reports prepared by the corporation's outside auditors and shall report to the appropriate boards directly concerning its findings. It shall also meet with both internal and outside auditors from time to time and perform all other audit review functions which it deems appropriate to insure accurate and complete reporting of the financial condition of the corporation and its subsidiaries and affiliates to the appropriate boards of directors.

Section 5. Special Committees. The Board of Directors may have special committees for such special purposes as circumstances warrant.

Section 6. Appointment of Committees. All committees and committee chairmen shall be appointed by the Chairman of the Board and confirmed by the Board of Directors. Committee members and chairmen shall continue to serve until replaced by the Chairman of the Board and the Board of Directors, or, in the case of directors, until their terms as directors expire, whichever occurs first.

Section 7. The Advisory Council. There shall be an Advisory Council made up of such persons as the Board of Directors may consider appropriate to advise and assist the President and the Board of Directors in furtherance of the overall policies and objectives of the Association and its subsidiaries, especially in the area of community relations.



medical staff, including staff privileges and appeal of all medical staff decisions, are delegated to the Boards of Trustees of the hospitals, all such matters to be set forth in their bylaws.

Section 2. Evaluation of Medical Care and its Evaluation. The evaluation of medical care and the quality of service shall be the primary function of the boards of trustees of the Association's hospital subsidiaries. Other functions of the boards of trustees shall be as outlined in the respective hospital subsidiary's bylaws.

#### ARTICLE XIII

##### AMENDMENTS

These bylaws may be amended or repealed and new bylaws adopted by the vote of a majority of the directors at any meeting of the Board of Directors at which a quorum is present.

-----

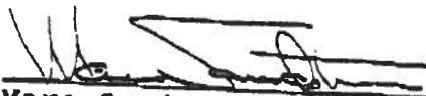
#### CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and acting secretary of San Diego Hospital Association, a California public benefit corporation; and

2. That the foregoing Bylaws, comprised of twenty-six (26) pages, including the signature page, constitute the Bylaws of said corporation as duly adopted at the Board of Directors meeting duly held on February 27, 1990. The Bylaws have not been amended or modified since February 27, 1990.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of the corporation this 27<sup>th</sup> day of February, 1990.

  
 \_\_\_\_\_  
 Marc Sandstrom, Secretary

RESOLUTIONS OF THE BOARD OF DIRECTORS

OF

SAN DIEGO HOSPITAL ASSOCIATION

RESOLVED, that Article V, Section 2b of the Bylaws of this Corporation shall be amended in its entirety to read as follows:

"The Sharp Community Board shall consist of not less than thirty (30) nor more than fifty (50) elected members until changed by amendment of these Bylaws duly adopted by this corporation's Board of Directors. The exact number of directors shall be fixed, within the limits specified, by a resolution duly adopted by the Board of Directors of this corporation. All elected members shall be elected for three (3) year terms. In addition there shall be six (6) ex officio members with full voting rights; namely, the Chief of Staff of Sharp Memorial Hospital, the Chief of Staff of Sharp Cabrillo Hospital, the Chief of Staff of Community Hospital of Chula Vista, the Chief of Staff of Sharp Healthcare Murrieta, the Chairman of the Board of Children's Hospital and Health Center, and the Chairman of the Sharp Hospitals Foundation. The Board of Directors may designate additional ex officio members from time to time as it deems appropriate."

RESOLVED FURTHER, that the first paragraph of Article X, Section 2 shall be amended in its entirety as follows:

"Section 2. The Executive Committee. The Executive Committee shall consist of the Chairman of the Board and the President of the Corporation, and six (6) other members of the Board of Directors of the Corporation as selected by the Board of Directors."

Adopted May 16, 1991

RESOLUTIONS OF THE BOARD OF DIRECTORS

OF

SAN DIEGO HOSPITAL ASSOCIATION

RESOLVED, that the fourth sentence of Article V, Section 2b of the Bylaws of this Corporation shall be amended in its entirety to read as follows:

"In addition there shall be eight (8) ex officio members with full voting rights; namely, the Chief of Staff of Sharp Memorial Hospital, the Chief of Staff of Sharp Cabrillo Hospital, the Chief of Staff of Community Hospital of Chula Vista, the Chief of Staff of Grossmont Hospital, the Chief of Staff-Elect of Grossmont Hospital, the Chief of Staff of Sharp Healthcare Murrieta, the Chairman of the Board of Children's Hospital and Health Center, and the Chairman of the Sharp Hospitals Foundation."

RESOLVED FURTHER, that the following two sentences shall be added to the end of Article V, Section 3 of the Bylaws of this Corporation:

"The Sharp Community Board shall also include at least two (2) members who, at the time of their election, were District Approved Directors, as such term is defined in the Grossmont Hospital Corporation Bylaws."

RESOLVED FURTHER, that the second sentence of Article VII, Section 2 of the Bylaws of this Corporation shall be amended in its entirety to read as follows:

"The Board of Directors shall consist of no more than fourteen (14) persons, including ex officio with vote, the chiefs of staff of Sharp Memorial Hospital, Sharp Cabrillo Hospital, Community Hospital of Chula Vista and Grossmont Hospital."

RESOLVED FURTHER, that Article VII, Section 7 of the Bylaws of this Corporation shall be amended to include the following new sentence immediately following the third sentence of that section:

"At least one member of the Board of Directors shall be, at the time of election, a District Approved Director, as such term is defined in the Grossmont Hospital Corporation Bylaws."

RESOLVED FURTHER, that the following sentence shall be added to the end of Article X, Section 3 of the Bylaws of this Corporation:

"At least two (2) members of the Nominating and Bylaws Committee shall be members of the Board of Directors of Grossmont Hospital Corporation, with one of such Directors at the time of appointment being a District Approved Director, as such term is defined in the Grossmont Hospital Corporation Bylaws."

RESOLVED FURTHER, that the following sentence shall be added to the end of Article X, Section 5 of the Bylaws of this Corporation:

"If the Board of Directors has a Finance Committee, at least one member of the Finance Committee shall be, at the time of appointment, a District Approved Director, as such term is defined in the Grossmont Hospital Corporation Bylaws."

RESOLVED FURTHER, that the foregoing resolutions shall become effective only upon the consummation of the affiliation between Grossmont Hospital District and this Corporation.

Adopted May 28, 1991



EXHIBIT 7.3.2  
AFFILIATION AGREEMENT

**BYLAWS OF**  
**GROSSMONT HOSPITAL CORPORATION**  
**A California Nonprofit Public Benefit Corporation**

**ARTICLE I**

**NAME**

The name of this corporation shall be Grossmont Hospital Corporation, a California nonprofit public benefit corporation.

**ARTICLE II**

**PRINCIPAL OFFICE**

The principal office for the transaction of the business of the corporation shall be located at Grossmont Hospital, 5555 Grossmont Center Drive, La Mesa, California.

**ARTICLE III**

**SEAL**

The corporation shall have a seal bearing the inscription "Grossmont Hospital Corporation, a California nonprofit public benefit corporation, Incorporated January 2, 1991".

**ARTICLE IV**

**MEMBERSHIP**

1. Sole Member.

a. The sole member of the corporation is San Diego Hospital Association, a California nonprofit public benefit corporation (hereinafter "SDHA").

b. SDHA shall exercise its voting rights as the sole member of the corporation through SDHA's Board of Directors (hereinafter the "SDHA Board"). These voting rights shall include the right to vote (i) for the election of directors of the corporation, (ii) on a disposition of substantially all of the assets of the corporation, (iii) on a merger of the corporation and (iv) on a dissolution of the corporation. Additionally, SDHA through the SDHA Board shall have all of the rights afforded members under the California Nonprofit Corporation Law. Nothing

provided herein, however, shall constitute any members of SDHA as members of this corporation.

c. The corporation shall not have the power to issue any other memberships.

2. Meetings of the Sole Member of Grossmont Hospital Corporation.

a. The annual meeting of the sole member of Grossmont Hospital Corporation shall be held at a time and place within San Diego County to be determined from time to time by the sole member. Special meetings of the sole member may be held at the call of the sole member, the Grossmont Hospital Corporation Board, or the President of this corporation.

b. Notice of annual meetings or special meetings of the sole member shall be given by mail to the sole member. Such written notice shall be mailed not less than ten (10) days in advance of the date of the meeting, and in the case of a special meeting shall state the purpose for which it is called. The notice of any meeting at which directors are to be elected shall include the names of all those persons who are nominees at the time the notice is given. Notwithstanding the foregoing, the sole member may waive notice, consent to the holding or approve the minutes of any annual or special member meeting in accordance with Section 5511(e) of the California Nonprofit Corporation Law.

3. Quorum. A quorum of the SDHA Board shall constitute a quorum at any member meeting of this corporation. If a quorum is present the affirmative vote of the majority of those present at the meeting, entitled to vote and voting on any matter shall be the act of the member, unless the vote of a greater number is required by law, by the Articles, or by these Bylaws, except that those present at a duly called or held member meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough persons to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of those persons required to constitute a quorum.

4. Transfer of Membership. Membership may be transferred to another person or corporation meeting the qualifications of the transferring member as authorized by the Board of Directors of the transferring member.

5. Distributions to Member. This corporation shall not make any contributions or donations to the member, and shall not make any distributions of any gains, profits or dividends to the member. The foregoing shall not prohibit this corporation from making payments to the member for repayment of indebtedness or services rendered or other payments made in the ordinary course of business.

This corporation shall not make any other contributions or donations to any other person or entity unless they are primarily for the benefit of this corporation, Grossmont Hospital District, or the communities served by Grossmont Hospital District.

## ARTICLE V

### BOARD OF DIRECTORS

1. Powers of the Board. The governing board of the corporation shall be known as the Board of Directors. The administrative powers of the corporation shall be vested in the Board of Directors, which shall have charge, control and management of the property, assets and funds of the corporation; shall fill vacancies among members of the Board for unexpired terms as provided in Section 4 of this Article V; and shall have the power and authority to do and perform all acts and functions not inconsistent with these Bylaws or with the Articles of Incorporation of this corporation.

2. Election of the Board.

a. The number of Directors shall be fifteen (15). Thirteen members of the Board of Directors shall be elected at the annual meeting of the sole member and shall hold office until their successors are elected and qualified or their term expires, subject to death, resignation or removal as provided in these bylaws. One member of the Board of Directors shall be a member of the Grossmont Hospital Medical Staff designated by the Grossmont Hospital Medical Staff Executive Committee. The Immediate Past Chief of the Medical Staff shall be an ex-officio, voting member of the Board of Directors.

b. The initial members of the Board of Directors shall be residents of Grossmont Hospital District and their election shall be subject to the approval of the Board of Directors of Grossmont Hospital District. Thereafter:

(i) Five (5) of such directors (the "District Approved Directors") shall be registered voters in the Grossmont Hospital District and shall be subject to the approval of the Board of Directors of Grossmont Hospital District at the time of appointment. The Grossmont Hospital District Board's approval of any such director shall not be unreasonably withheld. If the Grossmont Hospital District Board reasonably rejects any of the five directors so elected by the sole member, the sole member shall elect another director who shall also be subject to the approval of the Grossmont Hospital District Board, which approval shall not be unreasonably withheld.

(ii) Five (5) of the other Directors, excluding the ex-officio member and the member designated by the Medical

Executive Committee, shall be registered voters in Grossmont Hospital District.

c. The terms of the directors, other than the ex-officio director, shall be three (3) years each; except that the terms of some of the initial members of the Board shall be shortened so that the terms are staggered and the terms of no more than five (5) directors elected by the member expire in any one year. The terms of the five District Approved Directors shall be staggered so that the terms of no more than 2 of such directors expire in any one year. Nothing herein shall prohibit the reelection of a director for additional or successive terms of office; provided, however, that no director, other than ex officio directors, shall serve more than nine (9) consecutive years on the Board of Directors. A director who has served the maximum number of consecutive years may be re-elected to the Board of Directors one year or more after his or her prior term expired. During such period in which the former director is not serving, he or she may serve on committees or in other capacities and such service shall not prohibit such person from being re-elected to the Board of Directors one year after his or her prior term as a director expired.

d. At each annual member meeting, a number of directors shall be elected by the sole member equal to the number of directors whose terms shall have expired at the time of such meeting.

3. Restriction on Interested Parties. Not more than forty-nine (49) percent of the persons serving on the Board of Directors at any time may be interested persons as that term is defined in Section 5227 of the California Nonprofit Corporation Law.

4. Vacancies on the Board of Directors. All vacancies on the Board of Directors, excluding the ex-officio member and the member designated by the Medical Executive Committee, may be filled by a majority of the remaining directors then in office, whether or not less than a quorum, with the approval of the member and with the approval of the Board of Directors of Grossmont Hospital District in the case of District Approved Directors vacancies, which approval shall not be unreasonably withheld. No directors' resignation will be effective if, as a result of such resignation, the Board of Directors would be left without a duly elected director or directors in charge of corporate affairs. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. Each director so appointed to fill a vacancy shall hold office thereafter for the remainder of the unexpired term of his predecessor and until the election and qualification of his successor.

5. Compensation of Directors. Until May 1, 1996, Directors shall each be paid a monthly fee of \$500. Thereafter, no director shall receive any fee for his service as such director, but he may be reimbursed for his reasonable expenses incurred in such service.

6. Indemnification of Directors and Officers. The corporation shall indemnify all of its officers, directors and other agents against all liabilities and costs of defense incurred by such person in the exercise of his or her duties with respect to this corporation except in those cases where such indemnification cannot be provided under Section 5238 of the California Nonprofit Corporation Law.

## ARTICLE VI

### MEETINGS OF THE BOARD OF DIRECTORS

1. Annual Meeting. At the first meeting following the annual meeting of the sole member, the Board of Directors shall elect officers and shall transact such other business as may be necessary or appropriate.

2. Regular Meetings. Regular meetings of the Board of Directors shall be held without call at such times as the Board of Directors may from time to time specify by resolution. No notice need be given of any regular meeting of the Board of Directors.

3. Special Meetings. Special meetings of the Board of Directors may be called by the President of the corporation and shall also be called within fourteen (14) days of the receipt by the President of a written request signed by any two (2) members of the Board of Directors. Written notice of special meetings shall be mailed to each member of the Board of Directors at least five (5) days before the date of such special meeting. This notice shall state the business for the transaction of which the special meeting has been called.

4. Adjourned Meetings. A quorum of the directors may adjourn any Board meeting to meet again at a stated day and hour; provided, that in the absence of a quorum, a majority of the directors present at any Board meeting, either regular or special, may adjourn from time to time, until the time fixed for the next regular meeting of the Board. If the meeting is adjourned for more than twenty-four (24) hours, notice of adjournment must be given prior to the time of the adjourned meeting to directors who were not present at the time of adjournment. If the meeting is adjourned for no more than twenty-four (24) hours, no notice of the time or place or purpose of holding an adjourned meeting need be given to any absent director if the time and place is fixed at the adjourned meeting.

5. Quorum. A majority of the authorized number of directors then holding office shall be necessary and sufficient to constitute a quorum for the transaction of business. The act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as otherwise provided in the Bylaws. If a quorum is otherwise present at a meeting, directors not attending may participate by telephone.

6. Attendance. Members of the Board of Directors shall strive to attend all meetings of the Board. Illness and absence from the city shall be regarded as valid excuses when the President or his designee shall have been notified in advance. The Board of Directors may consider other excuses at its discretion. The Chief of Staff and the Chief of Staff-Elect of the Grossmont Hospital Medical Staff shall be invited to attend all open meetings of the Board of Directors and, as appropriate, closed meetings of the Board of Directors.

7. Place of Meeting. Meetings of the Board of Directors shall be held at such place within San Diego County as may be designated in the notice of meeting or as may, from time to time, be set by resolution of the Board of Directors.

8. Consent to Meetings. The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though it had been a meeting duly held after regular call and notice, if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

9. Removal. Directors of this Corporation may be removed in accordance with the provisions of Sections 5221, 5222 and 5223 of the California Nonprofit Corporation Law; provided, however, District Approved Directors may not be removed under Section 5222 without the written consent of the Board of Directors of Grossmont Hospital District, and the ex-officio Director and the Director designated by the Medical Executive Committee may not be removed under Section 5222 without the written consent of the Grossmont Hospital Medical Staff Executive Committee.

10. Action Without Meeting. Any action required or permitted to be taken by the Board under the provisions of the California Corporations Code, the Articles of Incorporation, or these Bylaws may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as unanimous vote of such directors. A certificate or other document filed on behalf of the Corporation

relating to any action taken by the Board without a meeting shall state that the action was taken by unanimous written consent of the Board without a meeting and that the bylaws of this Corporation authorized its directors to so act.

11. Open and Closed Meetings. Although this corporation is not subject to any open or public meeting requirements by law or otherwise, any regular or special meeting of the Board shall be open to the public during the conduct of all business except for the Board's consideration of any of the following matters:

a. Matters which pursuant to the Ralph M. Brown Act (California Government Code Sections 54950, et seq.), the Local Hospital District Law (Div. 23 of the California Health & Safety Code), or applicable case law may be conducted in closed session.

b. Any Agreements, contracts, business and marketing strategies, financial information, and any other competitive and strategic information, disclosure or discussion of which in an open and public meeting would in the opinion of the Board harm or potentially harm the corporation's ability to compete successfully.

At the conclusion of the open and public portion of each regular or special meeting, the meeting shall be closed to the public and the Board shall meet in closed session to discuss matters covered under subparagraphs (a) or (b) of this Section.

## ARTICLE VII

### OFFICERS

1. Designation, Qualification, Selection and Terms of Office. The officers of the corporation shall be a Chairman of the Board, a Vice-Chairman, a President, a Chief Executive Officer, a Secretary, a Treasurer, and such other officers as shall be appointed in accordance with the provisions of Section 2 of this Article VII. The Chairman, Vice-Chairman, Secretary, and Treasurer shall be elected by the Board of Directors from its membership at its annual meeting, and each shall hold and continue in office until he shall resign or shall be removed or otherwise become disqualified to serve, or until his successor shall be elected. The other officers shall be selected as provided herein.

2. Other Officers. The Board of Directors may, in its discretion, appoint one or more vice presidents, assistant secretaries, one or more assistant treasurers and such other officers, agents, and employees as it may deem necessary or advisable, each of whom shall hold office for the period, have such powers and authority, and shall perform such duties as are or may be conferred or prescribed by these bylaws, or as the Board of Directors may from time to time direct or determine. The Board may delegate to any officer the power to appoint and to prescribe the

authority and duties of any officer, agent or employee. Any assistant secretary or assistant treasurer may exercise any of the powers of the secretary or the treasurer, respectively.

3. Removal and Resignation. Any officer, other than the President and the Chief Executive Officer, may be removed, either with or without cause, by a majority of the directors at the time in office, at any regular or special meeting of the Board of Directors, or except in case of an officer chosen by the Board, by an officer upon whom such power of removal shall have been conferred by a majority of the directors acting at a regular or special meeting thereof.

Any officer may resign at any time by giving written notice to the Board of Directors or to the President of the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

4. Vacancies. A vacancy in any office because of death, resignation, removal, or any other cause shall be filled in the manner provided in these bylaws for regular appointments to such office, except that if such vacancy occurs in the office of the Chairman, Vice-Chairman, Vice-President, Secretary or Treasurer, the successor may be chosen at any regular or special meeting of the Board of Directors.

5. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors. He shall be an ex officio member of all standing committees, and shall have the general powers and duties usually vested in the office of the chairman of a board of directors, and shall have such other powers and duties as may be prescribed by the Board of Directors or the bylaws.

6. President. The President of SDHA shall be the President of this corporation and shall have, subject only to the policy control of the Board of Directors, full responsibility for supervision, direction and control of the business and affairs of the corporation and all of its employees. He shall be the Board's direct executive representative in the management of Grossmont Hospital Corporation. The President has the general power and duty of management usually vested in the office of president and such other powers and duties as may be conferred on him by the board from time to time. The President shall be authorized to participate in the deliberations of all committees. The President may delegate operational management of the institution to a chief executive officer and others appropriate to carry out the portions of his responsibilities he chooses to assign to them.

7. Chief Executive Officer.

a. The Chief Executive Officer of this corporation shall be chosen by the President and shall serve at the pleasure of the President, subject to the rights, if any, of the Chief Executive Officer under any contract of employment. The salary and benefits of the Chief Executive Officer shall be established by the President from time to time, subject to the rights, if any, of the Chief Executive Officer under any contract of employment. The President shall utilize a special committee to assist in the selection of any new Chief Executive Officer. This special committee shall be appointed by the Chairman of the Board and shall consist of four board members, one of whom shall be a member of the Grossmont Hospital medical staff and one of whom shall be a District Approved Director. The purpose of this special committee shall be to review the candidates presented to the committee by the President and to advise the President regarding the employment of any of such candidates. The person selected by the President shall be subject to the approval of the Board of Directors.

b. The President shall not terminate the Chief Executive Officer without previously consulting with the Board of Directors.

c. The Chief Executive Officer shall have such duties as are delegated to him by the President and shall have the general power and duty of management usually vested in the office of the Chief Executive Officer, subject to the President's supervision and control, and such other powers and duties as may be conferred on him by the President from time to time. The Chief Executive Officer shall be qualified for his responsibilities through education and experience.

8. Vice-Chairman. In the absence of the Chairman, the Vice-Chairman shall perform all the duties of the Chairman, and when so acting shall have all the powers of and be subject to all the restrictions upon the Chairman. The Vice-Chairman shall have such other powers and perform such other duties as from time to time may be prescribed for him by the Board of Directors or the bylaws.

9. Secretary. The Secretary shall keep, or cause to be kept, a book of the minutes, at the principal office of the corporation or such other place as the Board of Directors may order, of all meetings of trustees, with the time and place of their holding, whether regular or special, and if special, how authorized, the notice thereof given and the names of those present at Board meetings.

The Secretary shall give or cause to be given notice of all the meetings of the Board of Directors required by the bylaws or by law to be given, and he shall keep the seal of the

corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by the bylaws.

10. Treasurer. The Treasurer shall be the chief financial officer of the corporation and shall cause to be kept and maintained adequate and correct accounts of the properties and business transactions of the corporation.

## ARTICLE VIII

### BOARD COMMITTEES

1. Creation and Appointment. The Board may create one or more Board committees, each consisting of not to exceed seven Board members, and delegate to such committees any of the authority of the Board except with respect to those powers which cannot be delegated pursuant to Section 5212(c) of the California Nonprofit Public Benefit Corporation Law. Appointments to such committees shall be by a majority vote of the Board members then in office. The Chairman may appoint one or more directors as alternate members of any Board committee, who may replace any absent member at any meeting of the Committee.

2. Meetings and Action. Meetings and actions of Board committees shall be governed by, held and taken in accordance with the provisions of Article VI of these Bylaws, concerning meetings of the Board, with such changes in the context of those provisions as are necessary to substitute the committee and its members for the Board and its members, except that the time for regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee. The Board may adopt rules for the governance of any Board committee not inconsistent with the provisions of these Bylaws.

3. The Executive Committee. The Executive Committee is a Board committee composed of five members of the Board, one of whom shall be the President; provided that, if the President is not a member of the Board, he shall be an ex officio, non-voting member of the Executive Committee and the total number of members of the committee shall be increased to six. At least two members of the committee shall be District Approved Directors. The Executive Committee shall report to the next Board meeting all actions taken. The Chief Executive Officer may attend all meetings of the Executive Committee.

## ARTICLE IX

### OTHER COMMITTEES

1. Creation. The Chairman of the Board, subject to confirmation by the Board, or the Board itself may create other

committees, either standing or special, to serve the Board but which do not have the powers of the Board. Not more than seven Board members shall serve on any committee. At least two members of each committee shall be District Approved Directors.

2. Standing Committees. The standing committees shall be as follows, with the following composition and purposes:

a. Finance Committee.

- (1) Membership. Five Board members, the Chief Executive Officer and the Chief of Staff.
- (2) Purpose. To review on a periodic basis the financial condition of the corporation and to review operating and capital budgets of the corporation.

b. The Nominating Committee. The nominating committee of SDHA shall be the duly appointed and acting nominating committee of this corporation. The committee shall nominate all candidates to be voted upon in electing officers and members of the Board of Directors.

c. Human Resources Committee.

- (1) Membership. Five board members and the Chief Executive Officer.
- (2) Purpose. To review matters pertaining to human resource management and employee relations.

d. Facilities Planning and Development Committee.

- (1) Membership. Five Board members, the Chief Executive Officer and Chief of Staff.
- (2) Purpose. To review and make recommendations to the Board regarding facilities planning.

e. Business Development Committee.

- (1) Membership. Five Board members, the Chief Executive Officer and Chief of Staff.
- (2) Purpose. To review, develop and make recommendations to the Board regarding business development, strategy and decisions.

3. Special Committees. Special committees may be established by the Chairman of the Board with the concurrence of the Board for special tasks as circumstances warrant.

4. Appointment of Members and Chairmen. Committee members and committee chairmen shall be appointed by the Chairman of the Board and confirmed by the Board of Directors. One or more alternate members of any committee may be appointed, who may replace any absent member at any meeting of the committee. Committee members and chairmen shall continue to serve until replaced by the Chairman of the Board, with the concurrence of the Board, or until their terms as directors expire, whichever occurs first.

5. Meetings and Notice. Meetings of a committee may be called by the Chairman, the President, the chairman of the committee or a majority of the committee's voting members. Each committee shall meet as often as is necessary to perform its duties. Notice of a meeting of a committee may be given at any time and in any manner reasonably designed to inform the committee members of the time and place of the meeting.

6. Quorum. A majority of the voting members of a committee shall constitute a quorum for the transaction of business at any meeting of the committee. Each committee may keep minutes of its proceedings and shall report periodically to the Board.

7. Manner of Action. A committee shall take action by majority vote of a quorum.

8. Vacancies. A vacancy in any committee or any increase in the membership thereof shall be filled for the unexpired portion of the term by the Chairman of the board with approval of the Board.

## ARTICLE X

### QUALITY OF CARE

The Board of Directors shall establish and maintain appropriate medical, nursing and administrative staffing to provide acceptable quality of care in this institution. It shall be a principal objective of the Board to review and act on reports from administration and from physicians using the facility on quality of care matters.

## ARTICLE XI

### MEDICAL STAFF

1. Organization. A medical staff (the "Medical Staff") shall be organized for Grossmont Hospital (the "Hospital") with appropriate officers and bylaws. The Medical Staff shall be self

governing with respect to the professional work performed at the Hospital. Membership in the Medical Staff shall be a prerequisite to the exercise of admitting and clinical privileges in the Hospital, except as otherwise specifically provided in the Medical Staff bylaws.

2. Bylaws. The Medical Staff shall adopt bylaws, which shall be effective upon approval of the Board of Directors of the corporation, which shall not be unreasonably withheld.

3. Medical Staff Membership and Clinical Privileges. Membership on the Medical Staff shall be restricted to practitioners who are competent in their respective fields, worthy in character and in professional ethics, and who are currently licensed by the State of California. The bylaws of the Medical Staff may provide for additional qualifications for membership and privileges as appropriate. Mechanisms have been established to assess the quality of care provided by members of the Medical Staff. The Medical Staff executive committee shall make recommendations to the Board of Directors of the corporation for its approval pertaining to individual Medical Staff membership and clinical privileges. The bylaws of the Medical Staff shall establish a system for selection of Medical Staff chairmen. The mechanisms for corrective action, termination of membership, and fair-hearing procedures shall be as set forth in the Medical Staff bylaws, including appellate review by the Board in accordance with the Medical Staff bylaws.

## ARTICLE XII

### AUXILIARY ORGANIZATIONS

1. Formation. The Board may authorize the formation of auxiliary organizations to assist in the fulfillment of the purposes of the corporation. Each such organization shall establish its bylaws, rules and regulations, which shall be subject to Board approval and which shall not be inconsistent with these bylaws or the policies of the Board.

2. Existing Organizations. The Grossmont Hospital Auxiliary is an existing auxiliary organization whose purpose is to assist in the fulfillment of the purposes of the corporation. Its purposes and bylaws have been approved by the Board.

## ARTICLE XIII

### AMENDMENTS

1. Amendments by the Board of Directors. These bylaws may be amended or repealed and new bylaws adopted by the vote of a majority of all the directors at any meeting of the Board of Directors, subject to the approval of SDHA. The foregoing notwithstanding, any provision requiring the supermajority vote of the Board of Directors of this Corporation may not be amended without the requisite supermajority approval of the Board.

2. Amendments by the Member. These bylaws may be amended or repealed and new bylaws adopted by the member.

3. Name. The name of Grossmont Hospital shall not be changed without the approval of eleven (11) members of the Board of Directors.



CERTIFICATE OF SECRETARY

of

GROSSMONT HOSPITAL CORPORATION

a California Nonprofit Public Benefit Corporation

I hereby certify that I am the duly elected and acting Secretary of said corporation and that the foregoing Bylaws, comprising fourteen (14) pages, constitute the Bylaws of said corporation as duly adopted by the Board of Directors thereof.

---

Secretary

EXHIBIT 7.5

AFFILIATION AGREEMENT

GROSSMONT HOSPITAL CORPORATION

BOARD OF DIRECTORS AND OFFICERS

Directors

Term: Expires May

Mogens Bildsoe	1993
Art Butler	1993
Toni Daley	1993
Michael H. Erne	1992
Stephen J. Horrell	1994
George G. Hurst	1994
Victor E. Iacovoni, M.D.	1994
Adrian Jameson	1992
Rokay Kamyar, M.D. (immediate past chief of staff)	ex-officio
Curtis J. Kelly	1993
LeRoy W. Knutson	1994
Basil Maloney, M.D.	1994
Robert Muscio, Ed.D.	1993
Robert C. Pastore	1992
Eleanor Tobin	1992

Officers

George G. Hurst	Chairman
Stephen J. Horrell	Vice Chairman
Peter K. Ellsworth	President
Michael H. Erne	Chief Executive Officer
LeRoy W. Knutson	Secretary
Curtis J. Kelly	Treasurer
Michael H. Erne	Assistant Secretary
Steven M. Lash	Assistant Secretary
Steven M. Lash	Assistant Treasurer