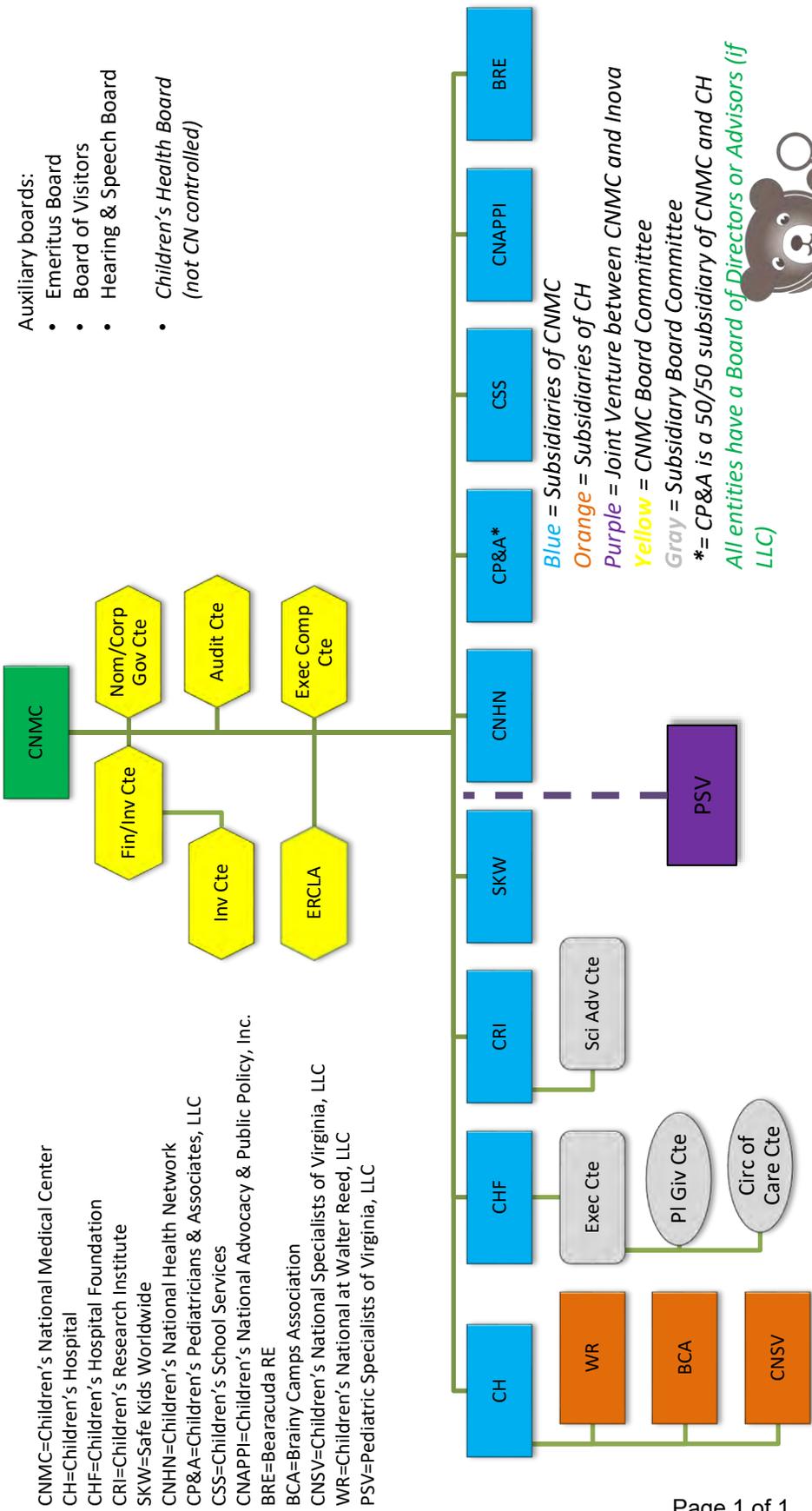


**Exhibit 1**

**Children's National Medical Center, Inc. Organizational Chart**

# Children's National Medical Center Corporate Governance Structure



- Auxiliary boards:
- Emeritus Board
  - Board of Visitors
  - Hearing & Speech Board
  - Children's Health Board (not CN controlled)

CNMC=Children's National Medical Center  
 CH=Children's Hospital  
 CHF=Children's Hospital Foundation  
 CRI=Children's Research Institute  
 SKW=Safe Kids Worldwide  
 CNHN=Children's National Health Network  
 CP&A=Children's Pediatricians & Associates, LLC  
 CSS=Children's School Services  
 CNAPPI=Children's National Advocacy & Public Policy, Inc.  
 BRE=Bearacuda RE  
 BCA=Brainy Camps Association  
 CNSV=Children's National Specialists of Virginia, LLC  
 WR=Children's National at Walter Reed, LLC  
 PSV=Pediatric Specialists of Virginia, LLC



**Exhibit 2**

**Children's National Medical Center: At a Glance (2017)**



**Children's National**®

## At A Glance 2017



### About Children's National

Children's National Health System, based in Washington, D.C., has been serving the nation's children since 1870. Children's National is #1 for babies and ranked in every specialty evaluated by *U.S. News & World Report* including placement in the top 10 for: Cancer (#7), Neurology and Neurosurgery (#9) Orthopedics (#9) and Nephrology (#10). Children's National has been designated two times as a Magnet® hospital, a designation given to hospitals that demonstrate the highest standards of nursing and patient care delivery. This pediatric academic health system offers expert care through a convenient, community-based primary care network and specialty outpatient centers. Home to the Children's Research Institute and the Sheikh Zayed Institute for Pediatric Surgical Innovation, Children's National is one of the nation's top NIH-funded pediatric institutions. Children's National is recognized for its expertise and innovation in pediatric care and as a strong voice for children through advocacy at the local, regional and national levels.

### Components of Children's National:

- The Sheikh Zayed Campus for Advanced Children's Medicine features an acute care hospital with 313 beds; a Level I pediatric trauma center, which serves three states; and a critical care transport program via ambulance, helicopter and fixed-wing airplane
- Seven outpatient centers that provide specialty care around the region, including an Ambulatory Surgery Center
- Children's National Specialists of Virginia, LLC, a private, physician office-based practice affiliated with Children's National
- Pediatric Specialists of Virginia, LLC, a joint physician practice with Inova Health System to enhance access to specialty care for children in Northern Virginia
- A primary care network that includes health centers within the District of Columbia and Children's Pediatricians & Associates (CP&A) throughout Maryland and the District of Columbia
- Children's National Health Network with 1,400 affiliated pediatricians
- Children's Research Institute, a leader in basic and clinical research programs
- Two large emergency departments, located at the main campus and on the United Medical Center campus
- Other programs that focus on school health services, mobile health services, community partnerships and safety campaigns



## Care

ANNUAL HOSPITAL  
ADMISSIONS

**14,895**



Average length of stay ..... **6.3 days**

Number of unique patients ..... **218,958**

Patients from Washington, D.C. .... 25.7%

Patients from Maryland ..... 55.62%

Patients from Virginia ..... 15.62%

Other patients ..... 3.06%



**2,010**  
**21**

PATIENTS FROM  
COUNTRIES AROUND THE  
WORLD SOUGHT CARE AT  
CHILDREN'S NATIONAL  
THROUGH THE GLOBAL  
SERVICES PROGRAM.

TOTAL  
OUTPATIENT VISITS  
**450,080**

**77,117** visits to off-campus outpatient clinics

**137,192** visits to on-campus outpatient clinics

**103,823** visits to Children's Health Centers

**120,484** visits to Emergency department

**11,464** visits to Children's National Specialists of Virginia, LLC



LABORATORY  
TESTS  
PERFORMED

**1,140,585**



DIAGNOSTIC  
IMAGING PROCEDURES  
PERFORMED

**123,554**

SURGICAL  
CASES PERFORMED  
**16,718**

Sheikh Zayed Campus for Advanced Children's Medicine **14,507**

Ambulatory Surgery Center in Montgomery County **2,211**

IN 2015  
CHILDREN'S NATIONAL  
PROVIDED  
**\$108,011,207**  
IN COMMUNITY BENEFIT.

MORE THAN  
**97,000** HOURS  
OF SERVICE DONATED  
BY **1,331**  
VOLUNTEERS.

IN 2015,  
CHILDREN'S NATIONAL  
PROVIDED  
**\$63,684,706**  
IN UNCOMPENSATED  
CARE

EMPLOYEES  
**6,647**

Nurses ..... 1,746

Physicians (including faculty  
and clinical associates) ..... 574

Physicians in training ..... 275

Other ..... 4,052

FTEs (full time equivalents) . 5,849

Employees by work state at a  
Children's National site

D.C. .... 5,825

MD ..... 754

VA ..... 68\*

Employees home state

D.C. .... 1,602

MD ..... 3,928

VA ..... 976

Other ..... 141



\*Children's National employed an additional 274 employees as a part of Pediatric Specialists of Virginia, LLC

## Research

There are more than 1,100 active clinical research projects conducted at Children's National.

More than 66.84 percent of Children's research funding comes from federal agencies, including 54.67 percent from the National Institutes of Health (NIH). Children's is ranked seventh in the country for NIH pediatric funding.

Children's researchers are investigating a multitude of pediatric diseases and novel treatments, including:

ADHD	Inborn errors of metabolism
Airway and lung diseases	Infectious disease
Asthma	Inflammatory disease
Autism	Intellectual and developmental disabilities
Bleeding disorders	Mental health
Brain and spinal cord injuries and protection	Muscular dystrophies
Childhood cancer, including blood, kidney and brain tumors	Neurofibromatosis
Cerebral palsy	Obesity and type 2 diabetes
Congenital heart disease	Pain medicine
Drug and device development	Renal disease
Epilepsy	Renal tumors
Fetal medicine	Sickle cell disease
HIV/AIDS	Stem cell transplantation
Immune therapy	Traumatic brain injury
	Urea cycle disorders

## Education

Clinical training is provided to 120 pediatric residents and 170 fellows and other graduate trainees each year.

Every year, pediatric training is provided for approximately 186 third-year medical students from the George Washington University (GW), 120 third-year medical students from Howard University and 200 fourth-year students from GW and other medical schools.

*(Most facts and statistics on these pages are based on Fiscal Year 2016; community benefit and uncompensated care are calculated from Fiscal Year 2015.)*

ACTIVE  
CLINICAL RESEARCH  
PROJECTS

1,100



CLINICAL TRAINING IS  
PROVIDED TO **120**  
PEDIATRIC RESIDENTS AND  
**170** FELLOWS AND  
OTHER GRADUATE TRAINEES  
EACH YEAR.

165

SCHOOL BASED  
NURSES



## Advocacy and Community

**Safe Kids Worldwide**, launched by Children's National in 1987, works to prevent accidental childhood injury, the leading cause of death in children 14 years and younger, through a global network of organizations. Our local coalition, Safe Kids District of Columbia, has performed a total of 972 car seat inspections in fiscal year 2016.

**The Child Health Advocacy Institute (CHAI)**, launched at Children's National 10 years ago, focuses on child-centered policies and works to address community health needs including mental health and health literacy. In partnership with community organizations, government agencies and individuals, CHAI supported over 90 programs and activities in fiscal year 2015, providing more than \$100 million in community benefit.

**Children's School Services (CSS)** provides the operational oversight and management of school nursing services in the District of Columbia Public Schools (DCPS) and DC Public Charter Schools (DCPCS), with oversight from the District of Columbia Department of Health. The 165 school-based nurses in the Children's School Services Program (CSS) had more than 482,607 health encounters with District of Columbia public school and charter students during the 2015-2016 school year.

[childrensnational.org](http://childrensnational.org) 1-888-884-BEAR



Children's National Health System  
 111 Michigan Ave NW  
 Washington, D.C. 20010

## Clinical Specialties and Programs

**Adolescent and Young Adult Medicine**

**Allergy and Immunology**

**Center for Cancer and Blood Disorders •**

- Blood and Marrow Transplant
- Hematology
- Oncology

**Children's National Heart Institute**

- Cardiac Anesthesiology
- Cardiac Critical Care
- Cardiology
- Cardiac Surgery

**Children's Pediatricians & Associates (CP&A)**

**Child and Adolescent Protection**

**Complex Care Program**

**Critical Care Medicine**

**Dermatology**

**Diagnostic Imaging and Radiology**

**Ear, Nose, and Throat (Otolaryngology)**

**Emergency Medicine and Trauma Services**

**Endocrinology and Diabetes**

**Ethics Program**

**Fetal Medicine Institute**

**General Pediatrics**

- Children's Health Centers
- Healthy Generations Program
- Mobile Health Program

**Hospitalist Medicine**

**Infectious Disease**

**Laboratory Medicine**

**Neonatology •**

**Nephrology •**

**Neurofibromatosis Institute**

**Center for Neuroscience and Behavioral Medicine •**

- Brain Tumor Institute (Neuro-Oncology Program)
- Epilepsy, Neurophysiology, and Critical Care Neurology
- Genetics and Metabolism
- Hearing and Speech
- Neurodevelopmental Pediatrics
- Neurogenetics
- Neurology
- Neuropsychology
- Neurosurgery
- Respiratory Care Services
- Spina Bifida/Spinal Defects Program

**Obesity Institute**

- IDEAL Clinic
- Weight-Loss Surgery Program (Bariatric Surgery)

**Oral Health**

**Pathology**

**Pharmacy**

**Psychiatry and Behavioral Sciences**

**Psychology and Behavioral Health**

**Pulmonary Medicine**

**Rehabilitation Medicine**

**Rheumatology**

**Sleep Medicine**

**Joseph E. Robert Jr. Center for Surgical Care**

- Anesthesiology, Pain, and Perioperative Medicine
- Craniofacial Program
- Ear, Nose, and Throat
- Gastroenterology, Hepatology, and Nutrition
- Ophthalmology
- Orthopaedic Surgery and Sports Medicine •
- Pain Medicine Care Complex
- Plastic and Reconstructive Surgery
- Surgery, General and Thoracic
- Trauma and Burn Surgery
- Urology

**Transport Medicine**



• Denotes specialty is top-ranked nationally by U.S. New & World Report

**Exhibit 3**  
**Lease Agreement**

**LEASE AGREEMENT**

by and between

**WTC LOT 17, LLC**  
(Landlord)

and

**CHILDREN'S HOSPITAL,**  
**a District of Columbia not-for-profit corporation**  
(Tenant)

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**Execution Copy**

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LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease"), made this 12<sup>th</sup> day of September, 2017 (the "Effective Date"), by and between WTC LOT 17, LLC, a Maryland limited liability company ("Landlord"), and CHILDREN'S HOSPITAL, a District of Columbia non-profit corporation ("Tenant").

WITNESSETH, that for and in consideration of the respective representations and agreements, the payment of the rent and performance of the provisions, obligations, agreements, covenants, terms, and conditions (collectively, the "terms") as hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord for the Term (as defined below), unless sooner terminated or extended as herein provided, the entire interior of that certain building to be constructed at 2900 North Campus Way, Lanham, Prince George's County, Maryland 20706 (the "Building"). The Building and the land (the "Land") more particularly described on Exhibit A-1 attached hereto upon which it is situated, to be known as Lot 17, [Account No. 4018263] located adjacent to Woodmore Towne Centre ("Shopping Center"). Landlord is the contract purchaser of the Land pursuant to a Purchase Agreement dated as of June 12, 2017 between Landlord and PR2 Woodmore Holding Company, L.L.C. Landlord anticipates obtaining fee simple title to the Land on or about the Acquisition/Finance Deadline. Tenant hereby acknowledges that Landlord is the contract purchaser of the Land. Landlord hereby acknowledges Tenant's obligation under this Lease is expressly contingent on Landlord's satisfaction of the Acquisition Contingency (hereinafter defined) and the Financing Contingency (hereinafter defined). The leased area is referred to herein as the "Premises", substantially as shown on Exhibit A attached hereto. The Premises (including the Land and the Building) are leased by Landlord to Tenant and are accepted and are to be used and possessed by Tenant on and subject to the following terms:

(1) PRINCIPAL LEASE PROVISIONS:

1.1 Landlord's Address:

WTC LOT 17, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401  
Attn: Walt Petrie, Chairman

With a copy to:

PETRIE RICHARDSON VENTURES, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401  
Attn: Terry L. Richardson, President and COO and  
Walt Petrie, Chairman

And a copy to:  
PETRIE RICHARDSON VENTURES, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401  
Attn: Warren B. Duckett, III, General Counsel

1.2 Tenant's Address:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Director, Ambulatory Services

With a copy to:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Vice President, Chief Legal Officer

With a copy to:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Charles Weinstein, Esq., Executive Vice President, Chief Real Estate and  
Facility Officer

1.3 Floor Area of Building for Taxes: 55,200 net rentable square feet using the BOMA Measurement. The exact gross area of the Building and the net rentable area shall be determined in accordance with Section 1.5 below.

1.4 Square Footage of Building for Building Expenses: 55,200 net rentable square feet using the BOMA Measurement. The exact net rentable area of the Building shall be determined in accordance with Section 1.5 below.

1.5 Agreed Area of the Premises: Landlord and Tenant agree that the net rentable area of the Building shall be 55,200 square feet as of the Commencement Date. At design development, the parties hereto shall confirm that the design of the Building equals 55,200 net rentable square feet using the BOMA Measurement and, if not, the Building shall be redesigned to reflect 55,200 net rentable square feet using the BOMA Measurement. Whether or not the Building equals exactly 55,200 net rentable square feet, calculations herein based upon floor area including without limitation Basic Annual Rental (defined below) and the Allowance (defined in Exhibit C) shall be computed as if the net rentable

square feet in the Building using BOMA Measurement equals 55,200 net rentable square feet. The architects shall utilize the following BOMA method of measurement: Standard Method for Measuring Floor Area in Office Buildings (ANSI/BOMA Z65.1 1996) ("BOMA Standard"), promulgated by the Building Owners and Managers Association (BOMA) ("BOMA Measurement"). All references in this Lease to floor area, square footage and other similar terms shall be deemed to refer to the net rentable area of the Premises per the BOMA Measurement.

1.6 Initial Term: The "Initial Term" shall be twenty (20) years commencing on the Commencement Date.

1.7 Commencement Date: The "Commencement Date" shall be the date which is the earlier to occur of ninety (90) days after (a) the later of (i) the date of Substantial Completion of the Landlord Work or (ii) the date of Substantial Completion of the Tenant Improvements, and (b) the date upon which Tenant opens for business in the Premises. The foregoing is subject to modification under the Work Agreement attached hereto as Exhibit C. There shall be no delay or extension of the Commencement Date or of the Rental Commencement Date resulting from any Tenant Delay. The Commencement Date and Rental Commencement Date shall be moved forward for one (1) day for each day of Landlord Delay.

1.8 Rental Commencement Date: The "Rental Commencement Date" shall be 180 days after the Commencement Date, subject to additional abatement as more fully provided in Section 4 below. Notwithstanding the foregoing, Tenant shall assume responsibility for all utility costs and janitorial expenses attributable to the Premises as of the date on which delivery of the Premises is tendered to Tenant following Substantial Completion of Landlord Work and Tenant Improvements.

1.9 Expiration Date: The date which is twenty (20) years following the Commencement Date.

1.10 Basic Annual Rental:

Time Period	Basic Annual Rental	Monthly Installment
Commencement Date – 180 days thereafter (Rental Commencement Date)	\$0	\$0
Day 181- end of Lease Year 1	\$1,048,800.00	\$174,800.00*
Lease Year 2	\$2,097,600.00	\$174,800.00
Lease Year 3	\$2,097,600.00	\$174,800.00
Lease Year 4	\$2,097,600.00	\$174,800.00
Lease Year 5	\$2,097,600.00	\$174,800.00
Lease Year 6	\$2,307,360.00	\$192,280.00
Lease Year 7	\$2,307,360.00	\$192,280.00
Lease Year 8	\$2,307,360.00	\$192,280.00

Lease Year 9	\$2,307,360.00	\$192,280.00
Lease Year 10	\$2,307,360.00	\$192,280.00
Lease Year 11	\$2,538,096.00	\$211,508.00
Lease Year 12	\$2,538,096.00	\$211,508.00
Lease Year 13	\$2,538,096.00	\$211,508.00
Lease Year 14	\$2,538,096.00	\$211,508.00
Lease Year 15	\$2,538,096.00	\$211,508.00
Lease Year 16	\$2,792,016.00	\$232,668.00
Lease Year 17	\$2,792,016.00	\$232,668.00
Lease Year 18	\$2,792,016.00	\$232,668.00
Lease Year 19	\$2,792,016.00	\$232,668.00
Lease Year 20	\$2,792,016.00	\$232,668.00

1.11 Use of Premises: The Premises shall be occupied subject to the terms hereof, including the Rules and Regulations attached hereto as Exhibit B, as may be promulgated or amended by Landlord from time to time, for the following uses and for no other purpose: medical office, ambulatory care and outpatient surgery facility (with no overnight stays) with related ancillary services (including the sale of drugs to Tenant's patients and other items to Tenant's patients typically offered for sale by a pharmacy), and general office use and uses incidental thereto including but not limited to (i) vending machines for employees and invitees of Tenant, (ii) kitchens, pantries and dining rooms consistent with those in comparable space in Comparable Buildings (hereinafter defined), (iii) conference and meeting rooms consistent with those in comparable space in Comparable Buildings, and (iv) facilities consistent with those in comparable space in Comparable Buildings for storage of equipment and supplies in connection with the foregoing (the "Permitted Use"). Landlord is in the process of obtaining the consent of all tenants in the Shopping Center whose consent is required for this Permitted Use of the Premises and agrees to indemnify, defend and hold harmless Tenant against any cost, loss or liability based upon any claim by such tenants that the Permitted Use or any part thereof is not permitted in the Building. Landlord represents and warrants that the Permitted Use is permitted by applicable zoning regulations, Laws and Project Documents (as such terms are hereinafter defined) in effect as of the Effective Date. Tenant shall ensure that ambulance operators refrain from use of sirens and lights in the Shopping Center and roads serving the Shopping Center, including the Access Roads except in instances when such ambulances are legally required to do so or where a prudent operator would find it appropriate to use lights and sirens.

1.12 Cost of Additional Services: To be charged at Landlord's out of pocket costs for such service excluding any charge for Landlord overhead or profit (which the parties agree is already included in the management fee), to the extent same does not exceed arms-length competitive prices paid in Comparable Buildings (hereinafter defined) for the services or goods provided.

1.13 Separate Tax Lot: The Land has been assigned a new lot and account number (the "New Tax Lot"), which includes only the Land and no other property (including, without limitation,

the Shopping Center), for all purposes of Prince George's County, Maryland property assessment and taxation. Tenant's obligations to reimburse Landlord for Taxes with respect to the Land shall be based solely on the New Tax Lot. Neither the Land nor the New Tax Lot shall be subject to any ground lease, and shall be owned by Landlord in fee simple.

2. DEFINITIONS:

2.1 Definitions : For purposes hereof, the following definitions shall apply:

"**Acceptance Period**" shall mean a period of fifteen (15) business days from Tenant's receipt of the Notice of Bona Fide Offer, during which time Tenant shall have the right to purchase the Real Property (or the applicable portion thereof) on the same terms and conditions as the Bona Fide Offer;

"**Access Roads**" shall have the meaning set forth in Section 2.13 hereof;

"**Acquisition Contingency**" shall have the meaning set forth in Section 2.17.1 hereof;

"**Acquisition/Financing Deadline**" shall mean a date which is the earlier of one hundred twenty (120) days after the date of DSP Approval for the Project or November 1, 2018;

"**Acquisition Lender**" shall have the meaning set forth in Section 2.17.2 hereof;

"**Acquisition Loan**" shall mean any existing fee or Mortgages covering the Real Property on which the Building is to be built or will be subject to such liens as of the Commencement Date;

"**Acquisition Loan Closing**" shall have the meaning set forth in Section 2.17.2 hereof;

"**ADA**" the Federal Americans with Disabilities Act;

"**Additional Rent**" shall mean all rental and other monetary obligations of Tenant set forth in this Lease (whether or not characterized as rent), except for Basic Annual Rent, as defined below;

"**Additional Signage**" shall have the meaning set forth in Section 9.4.3 hereof;

"**Affiliate**" in the case of Tenant shall mean (i) any entity controlling, controlled by or under common control with Tenant or Tenant's sole member, Children's National Medical Center; (ii) any entity resulting from the merger, consolidation or reorganization of Tenant or Children's National Medical Center with or into any other entity; and (iii) any entity having a tangible net worth and credit rating at least equal to that of Tenant as of the Effective Date which is acquiring all or substantially all of the assets of Tenant or Children's National Medical Center. "**Affiliate**" in the case of Landlord shall mean (i) any entity controlling, controlled by or under common control with Landlord or Petrie Richardson Ventures, LLC; and (ii) any entity owned or controlled directly or indirectly by Terry L. Richardson and/or Walt Petrie.

"**Agreed Upon Loan SNDA**" shall have the meaning set forth in Section 2.17.2 hereof;

"**Allowance**" shall have the meaning set forth in Section A.1.d of the Work Agreement attached hereto as Exhibit C;

"**Alterations**" shall have the meaning set forth in Section 9.3.1 hereof;

“**Applicable Reserve Bank**” shall mean the Federal Reserve Bank located nearest to the Premises;

“**Applicable Shopping Center Expenses**” shall have the meaning set forth in Section 2.13 hereof;

“**Approved Documents**” shall mean collectively, Construction Documents, Final Budget, and Updated Critical Path Construction Schedule.

“**Approved Landlord Work Plans**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C

“**Approved Plans and Specifications**” shall mean collectively, the Approved Landlord Work Plans and Specifications and the Approved Tenant Improvement Plans;

“**Approved Tenant Improvement Plans**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Arbitration**” shall mean commercial arbitration promulgated pursuant to Section 20.20 hereof;

“**Arbitration Rules**” shall mean the then-current rules for expedited commercial arbitration promulgated by the American Arbitration Association;

“**Authorized Assignee**” shall have the meaning set forth in Section 13.2 hereof;

“**Average Increase**” shall mean a fraction, which numerator equals the sum of the percentage increases in Taxes during the immediately preceding three (3) years, and the denominator being three (3);

“**Bankruptcy Code**” shall mean Title 11 of the United States Code, entitled Bankruptcy, 11 U.S.C. Section 101 et seq.;

“**Base Building Core**” shall mean the base Building core, including, but not limited to, stairs and stairwells, elevator shafts, bathrooms, lobby, corridors, water fountains, mechanical and janitorial closets;

“**Base Building Improvements**” shall mean collectively, the Base Building Structures, the Base Building Systems, the Base Building Core and the Exterior Facilities (each as defined in herein);

“**Base Building Specifications**” shall mean that mutually agreed-to specifications attached to the Lease as Exhibit C-1 and subject to modifications approved pursuant to the Lease and Work Agreement;

“**Base Building Structures**” shall mean the foundations, footings, roof, columns, structural steel, columns, joists, exterior walls, exterior windows and exterior doors, risers, conduits, floor slabs, load bearing elements and all other structural portions of the Building;

“**Base Building Systems**” shall mean all base Building systems and equipment, including, without limitation, the electrical, plumbing, vertical transportation/elevator, heating, air conditioning, ventilating, and fire-life safety systems and equipment;

“**Base Building Work**” shall have the meaning set forth in the Matrix of Base Building/Tenant Improvement Work, attached hereto as Exhibit C-3;

“**Basic Annual Rental**” shall have the meaning set forth in Section 5.1 and Section 1.10 hereof;

“**Bid Set**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**BOMA Measurement**” shall have the meaning set forth in Section 1.5 hereof;

“**BOMA Standard**” shall have the meaning set forth in Section 1.5 hereof;

“**Bona Fide Offer**” shall mean a written offer to purchase all or any portion of the Real Property from an offeror or offerors unrelated to Landlord;

“**Building**” means that certain building to be constructed at 2900 North Campus Way, Lanham, Prince George’s County, Maryland 20706;

“**Building Expenses**” shall have the meaning set forth in Section 2.2 hereof;

“**Building Standards**” shall mean the quality of the Work that is visible to the exterior of the Premises which shall be equal to or of greater quality than those Building standard materials and finishes as more particularly described on Exhibit C-1 attached hereto or, if not described, of equal to or of greater quality than those materials and found in Comparable Buildings;

“**Casualty**” shall have the meaning set forth in Section 10.1 hereof;

“**Change Order**” a written order signed by Tenant, Landlord, and the Contractor, authorizing a change in the Approved Documents, or a change to any date (including the Substantial Completion Date) which is in the Updated Critical Path Construction Schedule and which is likely to delay the Substantial Completion Date, or a change to any pricing for labor or materials which is likely to decrease or increase the amount of the Final Budget;

“**Change Order Delay**” shall have the meaning set forth in Section C.4.e of the Work Agreement attached as Exhibit C;

“**Change Order Reimbursement**” shall have the meaning set forth in Section C.4.c of the Work Agreement attached hereto as Exhibit C;

“**Commencement Date**” shall have the meaning set forth in Section 1.7 hereof;

“**Comparable Building(s)**” shall have the meaning set forth in Section 2.11 hereof;

“**Completion Extension Events**” shall have the meaning set forth in Section C.3.c of the Work Agreement attached hereto as Exhibit C;

“**Completion Guaranty**” shall mean the Development and Completion Guaranty in the form attached hereto as Exhibit E which will go into effect, if at all, only pursuant to the terms of Section 20.13 hereof;

“**Completion Notice**” shall have the meaning set forth in Section C.3.b of the Work Agreement attached hereto as Exhibit C;

“**Condemnation**” shall have the meaning set forth in Section 12.12 hereof;

“**Construction Contract**” shall mean both the Tenant Improvements Construction Contract and the Landlord Work Construction Contract, as context so requires;

**"Construction Documents"** shall have the Landlord Construction Documents and the Tenant Improvement Construction Documents;

**"Construction Drawings"** shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

**"Construction Financing Deadline"** shall have the meaning set forth in Section 2.17.2 hereof;

**"Construction Lender"** shall have the meaning set forth in Section 2.17.2 hereof;

**"Construction Loan Closing"** shall have the meaning set forth in Section 2.17.2 hereof;

**"Contingencies"** shall mean the Acquisition Contingency and the Financing Contingency;

**"Contractor"** shall mean The Whiting-Turner Contracting Company; James G. Davis Construction Corporation; and Clark Construction Group, or a replacement to which Landlord and Tenant consent, as set forth in Section B.2 of the Work Agreement attached hereto as Exhibit C;

**"Controllable Costs"** shall have the meaning set forth in Section 2.10 hereof;

**"Cost of the Work"** shall have the meaning set forth in Section C.4.d of the Work Agreement attached hereto as Exhibit C;

**"Cost Saving Capital Improvements"** shall have the meaning set forth in Section 2.14 hereof;

**"Critical Path Construction Schedule"** shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

**"Critical Repair"** shall have the meaning set forth in Section 8.6 hereof;

**"Damage or Destruction"** shall have the meaning set forth in Section 10;

**"Deemed Approval Procedure"** shall mean the following process by which a matter will be deemed to have been approved if the "Deemed Approval Procedure" is specified in the Lease. If the consent of a party is required under the Lease and if the Deemed Approval Procedure is specified, the party requesting approval will give the other party ten (10) business days' written notice of the matter requiring the other party's consent. The approving party may approve of some issues and disapprove of other issues. If the approving party has not disapproved any element of the matter within such period, giving written notice of such disapproval with reasons therefore, the party seeking approval will provide a second written notice of five (5) business days stating in bold letters that approval will be deemed to have been given unless disapproved within the five (5) business day period following the ten (10) business day period. During the five (5) business day period, senior officials from each party will consult in an attempt to resolve the matter. Unless another outcome is specified in the Lease, if the other party does not disapprove of the request during the second five (5) day business period, the request will be deemed to have been approved as of the end of such five (5) business day period. For clarity, a decision approving the request in part and disapproving the request in part shall be deemed dispositive of all matters within such request. Any matters not specifically disapproved shall be deemed approved.

**"Design Development Drawings"** shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

**“Design Professional or Design Professionals”** shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

**“Discount Rate”** shall have the meaning assigned in Section 14.2.5;

**“Dispute”** shall mean any claim, dispute or controversy arising out of or relating to this Lease (including the breach, termination or invalidity thereof, and whether arising out of tort or contract);

**“Dispute Resolution”** shall have the meaning set forth in Section 20.20 hereof;

**“DSP Approval”** shall mean final approval by the applicable governmental entities of the site plan for the Project;

**“Effective Date”** means the date first set forth on the first page of this Lease;

**“Estimated Project Budget”** shall mean either or both of the Landlord Work Budget and the Estimated Tenant Improvements Project Budget, as context requires;

**“Event of Default”** shall have the meaning set forth in Section 14.1 hereof;

**“Excluded Costs”** shall have the meaning set forth in Section A.2.a of the Work Agreement attached hereto as Exhibit C;

**“Executive Order”** shall mean Executive Order 13224 signed on September 24, 2001, and entitled “Blocking Property and Prohibiting transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism”;

**“Expense Adjustment Year”** means the twelve (12) month period of time upon which Landlord calculates its Building Expenses, as set forth in Section 2.3 hereof;

**“Expense Statement”** shall have the meaning set forth in Section 5.3 hereof;

**“Expiration Date”** shall have the meaning set forth in Section 1.9 hereof;

**“Exterior Facilities”** shall mean the landscaping, parking facilities, stormwater management facility, flagpoles, curbs, paved surfaces, gutters, fences, and exterior lighting;

**“Exterior Improvements”** shall mean all improvements to the Land and all on-site and off-site improvements necessary or appropriate for the use of the Premises, including but not limited to exterior entrance features, landscaping, utilities, retention, culverts, sidewalks, parking lots, exterior lighting, exterior pavilion signage, wayfinding signage, exterior building signage and roadway improvements;

**“Exterior Signage”** signs on the Building, at the higher of the top level of the Building façade or the parapet level of the Building facing Interstate 495/95 or the Shopping Center, which will be visible from Interstate 495/95 and/or the Shopping Center;

**“Failure of Building Structure or Services”** shall mean an event which results in the need for a significant repair to the Building structure or the roofing system or an event of service interruption associated within the HVAC, electrical, vertical transport, plumbing or life-safety services to the Building, as set forth in Section 8.6 hereof;

**“Fair Market Rental Rate”** shall mean the then-current fair market rental rate for new leases on like or similar space in comparable buildings, taking into account all relevant factors including but not

limited to base rent, additional rent, cash allowances, rent abatements, commissions and any additional rent concessions or inducements present in the market at that time;

“**FF&E**” shall mean all articles of personal property and all business and trade fixtures, machinery, and equipment, movable cabinetwork, furniture and movable partitions, owned or installed by Tenant at its expense, in the Premises;

“**Final Budget**” shall mean any updated Revised Budget as set forth in the Work Agreement attached hereto as Exhibit C;

“**Final Landlord Work Budget**” shall mean the Landlord Work Budget which incorporates the Contractor’s guaranteed maximum price bid on the Bid Set;

“**Final Tenant Improvements Budget**” shall mean the Tenant Improvements Budget which incorporates the Contractor’s guaranteed maximum price bid on the Bid Set for the Tenant Improvements;

“**Financing Contingency**” shall have the meaning set forth in Section 2.17.2 hereof;

“**Force Majeure**” or “**Force Majeure Event**” shall have the meaning set forth in Section C.2.e of the Work Agreement attached hereto as Exhibit C.

“**GAAP**” means generally accepted accounting principles consistently applied;

“**Hazardous Materials**” shall have the meaning set forth in Section 3.2.1 hereof;

“**Holdover Rent**” shall mean (i) for the first three (3) months of such holdover, one hundred ten percent (110%) of the Basic Annual Rental in effect during the last month of the Term as it may have been extended, and (ii) thereafter (125%) of the Basic Annual Rental in effect during the last month of the Term as it may have been extended, as set forth in Section 7.3 hereof;

“**IAQ**” shall mean Indoor Air Quality;

“**Initial Plans**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Initial Term**” shall have the meaning set forth in Section 1.6 hereof;

“**Interest Rate**” shall have the meaning set forth in Section 5.2 hereof;

“**Interstate**” shall mean Interstate 495/95;

“**Land**” the property described on Exhibit A-1 attached hereto;

“**Landlord**” means WTC LOT 17, LLC, a Maryland limited liability company and its successors and assigns;

“**Landlord Assumed Costs**” shall mean any costs specifically assumed by Landlord pursuant to this Work Agreement or the Lease, including the cost attributable to Excluded Costs;

“**Landlord Construction Drawings**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Landlord Contractors**” shall mean all contractors and subcontractors engaged by or on behalf of Landlord for the Premises, including the general contractor and the subcontractors;

“**Landlord Delay**” shall have the meaning set forth in the Section C.7.a of the Work Agreement attached hereto as Exhibit C;

“**Landlord Event of Default**” shall have the meaning set forth in Section 14.3 hereof;

“**Landlord Transfer**” or “**Transfer**” shall mean the direct or indirect sale, assignment or transfer of (i) Landlord’s interest under the Lease other than to a holder of a Mortgage or to an assignee of such mortgagee pursuant to a deed in lieu of foreclosure or foreclosure sale; or (ii) the transfer of control of Landlord or (iii) prior to the Commencement Date, the transfer of the ownership of more than fifty percent (50%) of the direct or indirect interest in Landlord held, directly or indirectly by Walt Petrie and/or Terry L. Richardson or by family trusts established for estate planning purposes that either controls or (iv) after the Commencement Date, the transfer of the ownership interests of more than twenty five percent (25%) of the direct or indirect interest in Landlord other than to family trusts or other estate planning purposes, established for estate planning purposes of either Walt Petrie and/or Terry L. Richardson.

“**Landlord Transferee**” shall mean the entity to which Landlord transfers its interest as set forth in Section 20.13 hereof.

“**Landlord Work**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Landlord Work Allowance**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Landlord Work Budget**” shall have the meaning set forth in Section A.2.a of the Work Agreement attached hereto as Exhibit C;

“**Landlord Work Construction Contract**” shall mean a construction contract with the Contractor for the Landlord Work;

“**Landlord Work Construction Documents**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Landlord Work Savings**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Landlord’s Architect**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Landlord’s Determination**” shall mean a statement of Landlord’s determination of the Fair Market Rental Rate for the Premises for the applicable Renewal Term, including detailed terms and conditions supporting such determination;

“**Landlord’s Engineer**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Landlord’s Financial Capacity**” shall have the meaning set forth in Section 20.15 hereof;

“**Landlord’s Lender**” shall have the meaning set forth in Section 2.17.2 hereof;

“**Landlord’s Parties**” shall mean Landlord’s parent, Affiliates and subsidiaries, and their directors, members, officers, employees and contractors;

“**Landlord’s Time/Cost Objections**” shall have the meaning set forth in Section A.4.e of the Work Agreement attached hereto as Exhibit C;

“**Landlord’s Time/Cost Objection Period**” shall mean a period of fifteen (15) business days from the date of the Landlord’s Time/Cost Objections to resolve Landlord’s concerns and objections;

“**Late Delivery Termination Notice**” shall have the meaning set forth in Section C.9 of the Work Agreement attached hereto as Exhibit C;

“**Latent Defects**” shall mean any non-conforming, defective or incomplete work items in the applicable component of Landlord’s Work which would not be apparent by a reasonable, non-invasive inspection

“**Law**” shall mean all statutes, laws, ordinances, rules, orders, regulations, decrees, notices, and requirements of the federal, state, and local governments and any of their departments and bureaus, and any rules and regulations issued by the Association of Fire Underwriters, or similar governing insurance body, which now or hereafter may be applicable to Tenant’s use of the Premises;

“**Lease**” shall mean that certain Lease Agreement between Landlord and Tenant dated as of the date hereof.

“**Lease Year**” shall have the meaning set forth in Section 2.5 hereof;

“**Liquidated Damages Amount**” shall have the meaning set forth in Section 14.2.5 hereof;

“**Major Subcontractors**” shall mean the subcontractors for the trades whose subcontract provides for or contemplates payments in the aggregate of \$100,000 to be employed in the construction of the Work.

“**Matrix**” shall mean the “Matrix of Base Building/Tenant Improvement Work”, attached hereto as Exhibit C-3.

“**Milestone Schedule**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Money Laundering Act**” shall mean the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders promulgated thereunder;

“**Monument**” shall mean any existing or future monument sign for the Building installed on the Land or at the Shopping Center, as set forth in Section 9.4.2 hereof;

“**Monument Signage**” identifying signage in a mutually agreed location, on any existing or future Monument, as set forth in Section 9.4.2 hereof;

“**Mortgage**” shall have the meaning set forth in Section 2.6 hereof;

“**Negotiation Period**” shall mean a period of thirty (30) days from Landlord’s receipt of the Notice of Interest during which time Landlord and Tenant shall negotiate in good faith in an effort to reach agreement on a definitive purchase and sale agreement;

“**New Tax Lot**” shall have the meaning set forth in Section 1.13 hereof;

“**Notice of Bona Fide Offer**” shall mean a written notice from Landlord to Tenant setting forth the price and all terms and conditions, with the name and address of the third party offeror, and containing a true and complete copy of the Bona Fide Offer;

“**Notice of Interest**” shall mean Tenant’s notice to Landlord that Tenant is interested in purchasing the Real Property, as set forth in Section 22 to the Lease;

“**OFAC**” shall mean the Office of Foreign Asset Control of the Department of the Treasury;

“**Other Capital Improvements**” shall have the meaning set forth in Section 2.2 hereof;

“**Outside Delivery Date**” shall mean the date which is twelve (12) months after the Substantial Completion Date set for in Exhibit C-2 with respect to such Work, subject to Completion Extension Events;

“**Outside Offer**” shall have the meaning set forth in Section 22 to the Lease;

“**Parking Area**” shall mean a surface parking lot located on the Real Property as depicted on Exhibit A-1 attached hereto and more particularly described in Section 3.4 hereof;

“**Permitted Capital Improvements**” shall have the meaning set forth in Section 2.2.1 hereof;

“**Permitted Use**” shall have the meaning set forth in Section 1.11 hereof;

“**person**” shall mean a natural person, a trustee, a corporation, a partnership, a limited liability company, and any other form of legal entity;

“**Possible Cost Increase**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Premises**” means the leased area substantially as shown on Exhibit A attached hereto;

“**Program Documents**” means delivery by the Project Architect to the Landlord and Tenant of documents incorporating: Architectural Narrative; Functional Space Program (including room name, department, net area, special requirements); and Overall Project Schedule. The Project Team (Perkins Eastman, Landlord, Tenant WT, JLL, HPP) will also deliver to the Landlord and Tenant the Project goals; Organizational Diagram, LEAN process documentation and Preliminary Project Budget. The Project Documents will provide the information in a form and content consistent with industry standards adequate for the Project Architect to begin preparation of the site plan for DSP Approval and of the plans and specifications for the Base Building Improvements.

“**Program Documents Delivery Date**” means the date the Program Documents are delivered to Landlord;

“**Prohibited Person**” shall have the meaning set forth in Section 20.17 hereof;

“**Project**” shall mean the development of the Land and Building as contemplated in this Lease;

“**Project Budget**” shall mean either or both of the Final Landlord Work Budget and the Final Tenant Improvements Budget, as context requires;

“**Project Documents**” shall have the meaning set forth in Section 20.18 hereof;

“**Punch List**” shall mean generate a punch list of non-conforming, defective or incomplete work items, if any, in the applicable component of Landlord Work;

“**Punch List Items**” shall have the meaning set forth in Section 7.1 hereof;

“**Punch List Notice**” shall have the meaning set forth in Section 7.1 hereof;

“**Qualified Sublease**” shall mean a sublease that: (a) obligates the sublessee to pay all rent, taxes, utilities and all other charges paid by Tenant (with respect to sublessee’s proportionate share of the Premises), and (b) has been approved in writing by Landlord, as set forth in Section 13.5 hereof;

“**Real Property**” shall have the meaning set forth in Section 2.7 hereof;

“**Records**” shall have the meaning set forth in Section 5.8 hereof;

“**Re-Election Notice**” written notice to Landlord either electing to rescind the exercise of the Renewal Option or to change Tenant’s renewal selection among the options set forth in Section 1(a), (b), (c), or (d) of Section 21 to the Lease;

“**Re-Election Period**” shall mean the ten (10) day period following the expiration of the Renewal Option Negotiation Period during which Tenant shall have the right to deliver the Re-Election Notice to Landlord.

“**Renewal Option**” shall have the meaning set forth in Section 21 to the Lease;

“**Renewal Option Negotiation Period**” shall mean a period of up to sixty (60) days after Landlord delivers the Landlord’s Determination to Tenant, during which the parties shall negotiate in good faith for to determine the Fair Market Rental;

“**Renewal Term**” shall have the meaning set forth in Section 21 to the Lease;

“**Rent**” or “**Rents**” or “**Rental**” shall mean all Basic Annual Rental and Additional Rent;

“**Rental Commencement Date**” shall have the meaning set forth in Section 1.8 hereof;

“**Required Capital Improvements**” shall have the meaning set forth in Section 2.15 hereof;

“**Required Landlord Insurance**” shall have the meaning set forth in Section 10.1 hereof;

“**Revised Budget**” a proposed revised Estimated Project Budget incorporating the results of each of the Contractors’ bid process as described in the Work Agreement attached hereto as Exhibit C;

“**Rolling Average Taxes**” shall have the meaning set forth in Section 2.8;

“**Rules and Regulations**” shall have the meaning set forth in Section 6.2 hereof and set forth on Exhibit B to the Lease;

“**Sale Notice**” shall mean written notice from Landlord to Tenant of Landlord’s desire to sell all or any portion of the Real Property, at any time during the Term, after the Rental Commencement Date, as may be extended hereunder;

“**Schematic Plans**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Shopping Center**” shall mean that certain outdoor shopping mall commonly known as Woodmore Towne Centre and which is located adjacent to the Land, as generally depicted on Exhibit A2 attached hereto;

“**SNDA**” shall have the meaning set forth in Section 2.17.2 hereof;

“**Soil Remediation**” shall have the meaning set forth in Section C.5.a of the Work Agreement attached hereto as Exhibit C;

“**Sublessee Recognition Agreement**” shall mean a non-disturbance and attornment consent and recognition agreement in form and substance acceptable to Landlord and reflecting the terms and provisions set forth in Section 13.5 hereof;

“**Subsequent SNDA**” shall have the meaning set forth in Section 17.3 hereof;

“**Substantial Completion of the Landlord Work**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Substantial Completion of the Tenant Improvements**” shall have the meaning set forth in Section C.3.a of the Work Agreement attached hereto as Exhibit C;

“**Successor**” shall mean on any termination of Landlord's interest in the Premises, (whether through foreclosure of a Mortgage or otherwise), the person or organization then holding title to the reversion of the Premises, and such person or organization assumes Landlord's obligations hereunder, as set forth in Section 17.2 hereof;

“**Tax Reduction**” shall have the meaning set forth in Section 2.8 hereof;

“**Taxes**” shall have the meaning set forth in Section 2.8 hereof;

“**Tenant**” means Children’s Hospital, a District of Columbia non-profit corporation;

“**Tenant Delay**” shall have the meaning set forth in Section B.7.b of the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements**” shall have the meaning set forth in the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Allowance**” shall have the meaning set forth in Section A.2.d of the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Budget**” shall mean a budget provided by Landlord for completing the Tenant Improvements as set forth in Section A.2.c of the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Construction Contract**” shall mean a construction contract between Landlord and the Contractor for the Tenant Improvements;

“**Tenant Improvements Construction Documents**” shall mean collectively, the Test Fit Plans, Tenant Improvements Development Drawings, and Tenant Improvements Construction Drawings as set forth in the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Construction Drawings**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Development Drawings**” shall have the meaning set forth in Section A.4.b of the Work Agreement attached hereto as Exhibit C;

“**Tenant Improvements Savings**” shall mean Tenant Improvement Allowance less the actual cost of the completed Tenant Improvements;

“**Tenant Network**” shall mean Tenant’s network of Children’s Pediatricians and Associates and any other primary care pediatric practices or support services owned or managed by Tenant or under contract to provide services to Tenant;

“**Tenant Termination Damages**” shall mean the sum of \$250,000, plus any actual and documented costs, including reasonable attorneys’ fees and costs, incurred by Tenant in connection with litigation to collect such amount;

“**Tenant’s Designee**” shall mean one individual designated by Tenant to approve Construction Documents and the Approved Plans and Specifications;

“**Tenant’s Emergency Generator**” shall mean one or more back-up power generators and/or other UPS systems and all necessary fuel tanks (if any), batteries (if any), and feeders and conduits extending from such generator/system to the Premises;

“**Tenant’s Parties**” shall include Tenant, its parent, Affiliates and subsidiaries and each of their directors, employees, contractors and officers;

“**Tenant’s Proportionate Share of Applicable Shopping Center Expenses**” shall have the meaning set forth in Section 2.9 hereof;

“**Tenant’s Representative**” shall mean a construction consultant and/or architect engaged by Tenant with respect to this project;

“**Tenant’s Time/Cost Objection Period**” shall mean a period of fifteen (15) business days from the date of the Tenant’s Time/Cost Objections to resolve Tenant’s concerns and objections;

“**Tenant’s Time/Cost Objections**” shall have the meaning set forth in Section A.4.d of the Work Agreement attached hereto as Exhibit C;

“**Tenant’s Renewal Notice**” shall mean written notice from Tenant of its intent to renew to Landlord on a date that is no earlier than twenty-four (24) months prior, and no later than twelve (12) months prior, to the expiration of the Initial Term (or prior to the then existing Term, as applicable);

“**Term**” shall have the meaning set forth in Section 4 hereof;

“**Termination Damages**” shall have the meaning set forth in Section 2.17 hereof;

“**Termination Date**” shall mean the date which is thirty (30) days after the date of Tenant’s Termination Notice;

“**Termination Notice**” shall have the meaning set forth in Section 2.17.1 hereof;

“**Terms**” means the respective representations and agreements, the payment of the rent and performance of the provisions, obligations, agreements, covenants, terms, and conditions set forth in the Lease;

"**Test Fit Allowance**" shall have the meaning set forth in Section 3.3.3 hereof;

"**Test Fit Costs**" shall have the meaning set forth in Section 3.3.3 hereof;

"**Test Fit Plans**" shall have the meaning set forth in Section 3.3.3 hereof;

"**Three Broker Method**" shall mean a process by which the parties will determine the Fair Market Rental Rate or "Fair Market Value" or other matter or value for which the Three Broker Method is specified for the purposes of this Lease if the parties cannot agree on such rate or such value within the time periods set forth in the Lease, if any. Landlord and Tenant will each select a broker to determine the Fair Market Rental Rate or "Fair Market Value" or other matter specified in the Lease. Within ten (10) days after their appointment, such brokers shall select a third broker. Each of such brokers shall be a licensed commercial real estate leasing broker and shall have not less than ten (10) years' experience related to the leasing of commercial office space in comparable buildings to the Premises and with respect to the third broker shall not have represented either party during the previous five (5) years. Concurrently with the appointment of the third broker, the two brokers selected by Landlord and Tenant, respectively, shall state, in writing, his or her determination of the Fair Market Rental Rate for the Renewal Term, or such other fair market determination as may be required supported by the reasons therefor. In the case of the Fair Market Rental Rate determination, the Fair Market Rental Rate shall not exceed Landlord's Determination of such Rental Rate. The third broker shall have the right to consult experts and competent authorities for factual information or evidence pertaining to a determination of the Fair Market Rental Rate or other determination and the market concession packages for the Renewal Term or other appropriate concessions or restrictions, but any such determination shall be made in the presence of both parties with full right on their part to cross-examine. The third broker shall, within thirty (30) days after being appointed, select which of the two (2) proposed determinations most closely approximates his or her determination of the Fair Market Rental Rate for the Renewal Term or other valuations or matters. The third broker shall have no right to propose a middle ground or any modification of either of the two proposed determinations, nor shall the third broker be entitled to mix a part of one determination with the other determination. The determination he or she chooses as that most closely approximating his or her determination of the Fair Market Rental Rate for the Renewal Term or other valuation or matter shall constitute the decision of the third broker and shall be final and binding upon the parties. The third broker shall render the decision in writing with counterpart copies to each party. The third broker shall have no power to add to or modify the provisions of this Lease. Each party shall pay the fees of its own broker and one-half (1/2) of the fees of the third broker. The fee paid by Landlord to any broker in connection with the determination of the Fair Market Rental Rate shall be separate and apart (and shall not be applied against) any brokerage commission due and owing in connection with the renewal or other services.

"**TI Costs**" shall mean any costs desired by Tenant in connection with the Tenant Improvements, including without architectural, consulting, engineering and legal fees directly related to obtaining the Development Documents, labor and materials, furniture (including systems furniture, built-in furniture and movable furniture, including design thereof) and equipment acquired for use in the Premises, including telephone/computer systems and voice/data wiring and cabling, incurred in connection with the Tenant Improvements;

"**Transfer Reassessment Increases**" shall have the meaning set forth in Section 2.8 hereof;

"**Transfer**" see "Landlord Transfer" for definition;

"**Updated Critical Path Construction Schedule**" shall mean any updated Critical Path Construction Schedule as set forth in the Work Agreement attached hereto as Exhibit C;

"Warm Shell" shall have the meaning set forth in the Exhibit C-1 attached to the Lease;

"Work" collectively, the Landlord Work and the Tenant Improvements;

"WQ" shall mean Water Quality.

2.2 Building Expenses: Tenant shall pay all Building Expenses for the Real Property, including for the Building, and for the Land. "Building Expenses" means all reasonable and customary expenses (computed on a calendar basis) paid or incurred by Landlord in connection with owning, maintaining, operating, managing, making non-capital replacements to (such as light bulbs), and repairing the Real Property, including the Building, and the Land or any part thereof, in a moderately standard, commercially reasonable and appropriate manner in accordance with sound accounting and management principles generally accepted with respect to the operation of Comparable Buildings, including, the following: (a) cost of wages and salaries of all employees engaged full time in the operation and maintenance of the Building and Land, including but not limited to payroll taxes, insurance and benefits, and the prorated cost of wages and salaries of all employees engaged part time in the operation and maintenance of the Building and Land, including but not limited to payroll taxes, insurance and benefits; (b) all Taxes; (c) electricity for the Building, water, sewer, and other fuel and utilities (to the extent not billed directly to Tenant); (d) maintenance, repair, replacement, repainting, and redecorating all or any part of the Real Property, subject to (h), below, including, but not limited to, the removal of snow, ice, and debris from the Real Property, lawn maintenance, and the policing and regulating of traffic with respect thereto including, without limitation, all Exterior Facilities (hereinafter defined); (e) an annual management fee equal to three and one quarter percent (3.25%) of the gross revenues of the Building; (f) personal property taxes on all personal property used by Landlord in connection with its management of the Real Property; (g) supplies, equipment, uniforms, equipment rental and sundries and sales and use taxes on supplies and sundries, payroll taxes and other personnel costs for the Building; (h) the annual amortization (on a straight line basis without interest) over their useful life (as determined in accordance with generally accepted accounting principles consistently applied ("GAAP")) of Cost Saving Capital Improvements, Required Capital Improvements and any other single expenditure for equipment, improvements or replacements in excess of \$25,000 ("Other Capital Improvements") will be included in Building Expenses (and for clarity any single expenditure of \$25,000 or less is a Building Expense, payable in the Expense Adjustment Year incurred); (i) the cost of fire protection and security system monitoring fees and maintenance; and (j) Tenant's Proportionate Share of Applicable Shopping Center Expenses (hereinafter defined).

2.2.1 Notwithstanding anything to the contrary contained in this Lease, Building Expenses shall not include (a) salaries, benefits and other compensation of officers, directors, partners, trustees, shareholders of the Landlord or of Landlord's Building manager senior to the property administrator (manager) for the Building; (b) any depreciation, amortization or any capital costs of improvements, replacements, additions and alterations or other capital expenditures, other than amortization of Cost Saving Capital Improvements, Other Capital Improvements or Required Capital Improvements ("Permitted Capital Improvements"); provided, however, that any such Permitted Capital Improvements shall be amortized on a straight line basis without interest, over their useful life as determined in accordance with GAAP and only the amortized amount shall be included annually in Building Expenses; (c) costs incurred due to violations by Landlord of any of the terms and conditions of

the Lease; (d) overhead and profit to subsidiaries or Affiliates of the Landlord for management services or administrative costs or related services in excess of the management fee or administrative fee which is included in Building Expenses (provided that the foregoing shall not apply to fees paid to Affiliates of the Landlord that provide other services (i.e. other than management and administrative services) to the Building, subject to the limitations set forth in the following clause (e)); (e) any amounts paid to any person, firm or corporation related or otherwise Affiliated with Landlord or any general partner, member, officer or director of Landlord or any of its general partners or its property manager, to the extent same exceeds arms-length competitive prices paid in Comparable Buildings for the services or goods provided; (f) any costs related to the original construction, addition and/or expansion of the Building or exterior improvements and the costs of repairing, replacing or otherwise correcting defects in the original construction, materials, equipment or design of the Building or any part thereof to the extent identified during the first thirty-six (36) months following the Commencement Date or the costs of repairing, replacing or otherwise correcting Latent Defects to the extent identified during the first thirty-six (36) calendar months following the Commencement Date; (g) interest, depreciation and amortization of funds borrowed by Landlord, whether secured or unsecured; (h) rental under any easement; (i) rentals and other related expenses incurred in leasing equipment or other items ordinarily considered to be of a capital nature, except minor equipment not affixed to the Building that is used in providing security or maintenance services to the Real Property provided that (1) such equipment is typically rented by owners of Comparable Buildings, and (2) such rental in the aggregate in any one year does not exceed \$50,000; (j) omitted; (k) repairs and other work occasioned by fire, or other casualty or condemnation or a conveyance in lieu thereof to the extent payable under Article 10; (l) any fines, interest (other than interest that is paid in connection with the normal payment of building expenses that are typically paid in installments by landlords of Comparable Buildings, but in no event shall Building Expenses include interest on debt or in the form of a late fee) or penalties; (m) any and all costs, expenses, and fees of any nature whatsoever in connection with the Shopping Center, except only the Tenant's Proportionate Share of Applicable Shopping Center Expenses; (n) any amounts reserved but not actually expended, such as contingency funds, reserve funds or sinking funds; (o) all costs hereunder that are actually reimbursed through warranties or service contracts held by the Landlord or its affiliate (it being understood that Landlord shall exercise commercially reasonable efforts to obtain any reimbursements to which it is entitled); (p) costs relating to maintaining Landlord's existence, either as a corporation, partnership, or other entity (such as without limitation trustee's fees, annual fees, partnership organization or administration expenses, deed recordation expenses, legal and accounting fees (other than with respect to Building operations), or relating to Landlord's general corporate overhead and general and administrative expenses; (q) any costs of selling, financing or mortgaging Landlord's interest in the Building and/or the Land; (r) legal, consulting or accounting fees, other than those relating to the normal operations of the Building which are typically passed through to tenants in Comparable Buildings; (s) the costs of repairing or replacing the Base Building Structure, Base Building Systems, Exterior Facilities and Base Building Core (as such terms are hereinafter defined) or any portion thereof; (t) any costs incurred to clean up, contain, abate, remove, remediate or otherwise remedy Hazardous Materials in or around the Building or Land to the extent the responsibility of Landlord under Section 3.2; (u) costs (including without limitation, compensation to persons or management companies involved) incurred in the operation or management of any commercial concessions or amenities (excluding the fitness facility and rooftop terrace) servicing the Building to the extent such concessions or amenities are operated primarily

for the production of income and not for the overall convenience of tenants to the Building and their employees, guests and invitees; provided, however, to the extent such concessions or amenities are not operated primarily for the production of income or are operated for the overall convenience of tenants to the Building and their employees, guests and invitees, then any net income generated from such concessions or amenities shall be deducted from the cost thereof; (v) management fees paid to the building management firm for the management of the Building to the extent such fees exceed three and one quarter percent (3.25%) of the gross revenues from the Building; (w) omitted; (x) salaries, wages or other compensation paid to employees of Landlord or its managing agent, including accounting or clerical personnel, that do not dedicate one hundred percent (100%) of their time to the operation, management, maintenance, or repair of the Building, provided however, Building Expenses shall include Landlord's reasonable allocation (based on time spent in connection with the Building) of compensation paid for the salaries, wage, and other compensation and benefits paid to such employees who are assigned part-time to the operation, management, maintenance, or repair of the Building (it being understood and agreed that in no event shall Landlord allocate more than one hundred percent (100%) of the compensation and benefits for any single employee among the properties serviced by such employee); (y) costs, fees, dues, contributions or similar expenses for political, charitable or industry associations unless directly attributable to Tenant's specific use of the Premises; (z) all costs and expenses for any item or service (i) which Tenant pays directly to a third party or separately reimburses Landlord as otherwise provided for in this Lease, or (ii) to the extent Landlord is reimbursed from any other source (Landlord shall exercise commercially reasonable efforts to obtain any reimbursement to which it is entitled); (aa) cost of repairs necessitated by the gross negligence or willful misconduct of Landlord, its employees, contractors or vendors; (bb) omitted; (cc) deductions for income tax purposes attributable to depreciation of the Building or any improvements on the Land or any Building equipment other than the amortization of Permitted Capital Improvements in accordance herewith; (dd) any costs incurred by Landlord in order to bring the Building into compliance with all laws, ordinances, requirements, orders, directives, rules and regulations of federal, state, county and city governments and of all other governmental authorities having or claiming jurisdiction over the Building but only to the extent in effect as of the Effective Date and solely attributable to the Base Building Improvements; (ee) costs of signs in or on the Building if solely identifying the owner of the Building (provided that Tenant is not the Building owner) or the Shopping Center, or identifying the Shopping Center; (ff) costs incurred by Landlord in defending lawsuits (and any judgments or costs of settlement thereof) or in connection with Landlord asserting any lawsuit against any third party (other than Tenant or any person or entity for whom Tenant is responsible under this Lease or at law), unless any lawsuit asserted by Landlord is asserted for the purpose of obtaining reimbursements from warranties or other third parties (other than tenants) to which Landlord is entitled (but not in excess of the amount of reimbursement recovered); provided, however, in no event shall Building Expenses include legal fees and other costs and judgments relating to disputes with lenders; (gg) asset management fees; (hh) any component of the expenses which comprise any fee or expenses allocated to the Building in connection with any instruments which encumber the Land which would have been excluded from Building Expenses had such expense been incurred in connection with the Building; (ii) the cost of providing any service which is customarily included in management fees; (jj) any cost including overhead or profit for providing a service in excess of the actual cost of procuring the service (with the understanding that the management fee is intended to compensate Landlord for the overhead or profit in connection with the service unless additional fees are expressly permitted elsewhere in this Lease in

connection with specific services), (kk) omitted; and (ll) all expenses related to the use, maintenance and/or repair of any storage space utilized by Landlord.

2.3 Expense Adjustment Year: “**Expense Adjustment Year**” means the twelve (12) month period of time upon which Landlord calculates its Building Expenses. All expenses are based on the period from January through December of any calendar year.

2.4 Landlord: “**Landlord**” shall mean the entity hereinabove named as such, and its successors and assigns (each of whom shall have the same rights, remedies, powers, authorities, and privileges as it would have had, had it originally signed this Lease as Landlord), provided, however, Landlord shall maintain the Financial Capacity required pursuant to Section 20.15, below.

2.5 Lease Year: The first Lease Year shall commence on the Commencement Date and expire on the last day of the month which is twelve (12) full months thereafter. Thereafter, “**Lease Year**” means a period of twelve (12) consecutive calendar months beginning on the anniversary date of the second lease year.

2.6 Mortgage: “**Mortgage**” means any mortgage, deed of trust, sale-leaseback, ground lease, or other security interest made or granted by Landlord at any time, and all renewals, modifications, consolidations, extensions, and replacements thereof, in regard to all or any part of the Real Property.

2.7 Real Property: “**Real Property**” means (a) the Building (including the Premises), (b) all fixtures, equipment, and other improvements and personal property on, above, or under the Building, (c) street level entrances to the Building situated on the Land, (d) ramps, drives, service-ways, parking lots directly servicing the Building and situated on the Land, including the Parking Area, (e) walkways situated on the Land necessary for access to the Building, (f) landscaped areas appurtenant to the Building situated on the Land, and (g) any other improvements situated on the Land.

2.8 Taxes: “**Taxes**” means all real estate taxes, assessments (regular, special, or otherwise), metropolitan charges, sewer rents, ad valorem charges, water rates, rents and charges, front foot benefit charges, charges assessed or imposed by a local governing authority and/or the Federal Government in the form of a tax or fee on the Real Property or any portion thereof, such as the “rain tax”, and all other government impositions in the nature of any of the foregoing. If at any time during the Term the method of taxation prevailing at the Commencement Date shall be altered so as to cause the whole or any part of the items listed in the first sentence of this Section to be levied, assessed, or imposed, wholly or partly as a capital levy, or otherwise, on the rents received from the Building, wholly or partly in lieu of imposition of, or the increase of, taxes in the nature of real estate taxes issued against the Real Property, then the charge to Landlord resulting from such altered method of taxation shall be deemed to be within the definition of “Taxes.” If Tenant shall become aware that the Premises is being sold at a tax sale due to Landlord’s delinquent payment of Taxes, and if Tenant shall pay the delinquent Taxes in order to prevent such sale, then Landlord shall reimburse Tenant in an amount equal to the Taxes, interest and penalties so paid by Tenant; all reasonable charges (including reasonable attorney’s fees) incurred by

Tenant in preventing such sale; and interest at the Interest Rate. Notwithstanding anything to the contrary contained herein, Landlord will, within thirty (30) days of receiving notification thereof, send to Tenant notice of any increases in assessments for Taxes. Provided Tenant has requested Landlord to contest such Taxes by providing written notice to Landlord within thirty (30) days of receiving the notice of increase in assessments, and provided further that Landlord notifies Tenant, thirty (30) days before any formal contest must be filed, that it will not be contesting such Taxes, then Tenant will have the right, at Tenant's expense, to contest the amount or validity of Taxes by appropriate administrative and legal proceedings brought either in Tenant's name, Landlord's name or jointly with Landlord, as Tenant may deem appropriate, by counsel selected and engaged by Tenant. Landlord will execute and deliver to Tenant whatever reasonable documents may be necessary or proper to permit Tenant to contest Taxes or secure payment of any refund which may result from any such proceedings all at Tenant's cost. Tenant shall indemnify, defend and hold harmless Landlord and its parent, Affiliates and subsidiaries, and their directors, members, officers, employees, contractors and their employees (the "Landlord's Parties") from any costs, damages, claims, liabilities, expenses (including attorneys' fees, disbursements and costs), losses and costs arising out of any action by Tenant under this paragraph. Any refund resulting from a proceeding brought either by Tenant or Landlord or by them jointly, will be applied first to reimburse the party or parties who brought the proceeding for the costs incurred with the proceeding. Any remaining balance will be paid to Landlord. Upon Tenant's written request made not more than annually, Landlord shall deliver to Tenant copies of receipted tax bills. Notwithstanding anything to the contrary contained in the definition of Taxes, Taxes shall not include (i) any excise, franchise, grantor's, recordation, net income, inheritance, estate, succession, transfer, income, gift or profit tax, (ii) any business, professional or occupational tax, or (iii) any fines or penalties incurred as a result of the late payment of Taxes, or (ii) any taxes attributable to any portion of the Shopping Center other than the Real Property.

Notwithstanding anything to the contrary contained herein, if Landlord sells the Real Property or any interest therein after Tenant has declined to purchase the Real Property or such interest pursuant to Section 22 hereof, in lieu of the actual Taxes attributable to the Real Property for the three-year period commencing in the tax year after the sale takes place, Tenant will reimburse Landlord for the "Rolling Average Taxes" with respect to the Real Property, as hereinafter defined. The "Rolling Average Taxes" for the year following the year in which the sale takes place will mean the average of the Taxes payable for (i) the tax year prior to the tax year in which the sale takes place, (ii) the tax year in which the sale takes place and (iii) the first tax year after the sale takes place. The "Rolling Average Taxes" for the second tax year after the sale takes place will mean the average of the Taxes payable for (i) the tax year in which the sale takes place, (ii) the first tax year after the sale takes place and (iii) the second tax year after the sale takes place. The "Rolling Average Taxes" for the third tax year following the year in which the sale takes place will mean the average of the Taxes payable for the three tax years after the sale takes place. Thereafter, Tenant will reimburse Landlord for the actual assessed Taxes for the Real Property.

Landlord and Tenant agree that Tenant may have the right to apply for certain Tax reductions or Tax credits as a result of its occupancy of the Premises (the "Tax Reduction") by application of the provisions of the Prince George's County Code or the State of Maryland Tax-Property Article which are intended to benefit tenants. In the event Tenant has applied for and Landlord has received such Tax Reduction, Landlord agrees that on the later to occur of (i) October 31 of each of those

tax years, and (ii) thirty (30) days following the date Landlord actually obtains the benefit of the Tax Reduction resulting directly from the application of the laws described herein to Tenant's business operations in the Building, Landlord, at Landlord's election, either shall pay Tenant the amount of the Tax credit or shall direct Tenant to deduct the amount of the Tax Reduction from its next estimated payment or payments of Basic Annual Rental and Additional Rent due under this Lease. In the event Landlord fails to notify Tenant timely of Landlord's election as described in the preceding sentence, Tenant may deduct the amount of the Tax Reduction from its next estimated payment or payments of Basic Annual Rental and Additional Rent due under this Lease. Landlord shall cooperate with Tenant at Tenant's sole cost and expense in obtaining the Tax Reduction.

2.9 Tenant's Proportionate Share: "**Tenant's Proportionate Share of Applicable Shopping Center Expenses**" shall equal 4.21% (i.e., a percentage the numerator of which is the gross rentable area of the Premises and the denominator which is the gross area measured by the BOMA Standard of all rentable space within the Shopping Center as of the Effective Date). The Applicable Shopping Center Expenses are as defined in Section 2.13.

2.10 Controllable Building Expenses: Notwithstanding anything to the contrary contained in this Section 2, Landlord shall not include in Building Expenses during any calendar year, Controllable Costs (hereinafter defined) incurred in such calendar year in an amount greater than one hundred three percent (103%) of the aggregate amount of Controllable Costs incurred by Landlord during the prior calendar year. As used herein, the term "**Controllable Costs**" means all Building Expenses including Center Expenses except only: (1) costs for utilities for the Building paid by Landlord, (2) Taxes, (3) Tenant's pro rata share of insurance premiums required to be maintained by Landlord hereunder and included in Applicable Shopping Center Expenses, and (4) costs for snow and ice removal contracts for the Real Property.

2.11 Comparable Building(s): "**Comparable Building(s)**" shall mean the following tenant medical outpatient building(s) in the District of Columbia and Baltimore, Maryland metropolitan area submarkets: Kaiser New Hub Facility at 1701 Twin Springs Road, Halethorpe, Maryland 21227.

2.12 Shopping Center: "**Shopping Center**" shall mean that certain outdoor shopping mall commonly known as Woodmore Towne Centre and which is located adjacent to the Land, as generally depicted on Exhibit A-2 attached hereto.

2.13 Applicable Shopping Center Expenses: "**Applicable Shopping Center Expenses**" shall mean (i) Landlord's reasonable and customary costs to maintain, repair and operate (including road maintenance, road snow and ice removal, road-related landscaping, street lights and other reasonable and customary items) Ruby, Lockhart and Campus Way North for so long as such roadways provide direct access to the Land, as such roadways are depicted as the "**Access Roads**" on Exhibit A-2 attached hereto and (ii) the cost of insurance, if any, carried by Landlord directly attributable to maintaining, repairing and operating the areas set forth in the foregoing Section 2.13(i). Applicable Shopping Center Expenses shall not include any expenses ordinarily considered to be of a capital nature

with respect to the Shopping Center, including without limitation such costs attributable to the Access Roads.

2.14 Cost Saving Capital Improvements: "Cost Saving Capital Improvements" shall mean any equipment, device, capital improvement or replacement primarily acquired to achieve economies in the operation, maintenance and repair of the Building, the useful life of which is in whole or in part within the Term, but in no calendar year shall Building Expenses include an amount for the amortization of such Cost Saving Capital Improvements that is in excess of the annual Building Expenses reduction achieved by such Cost Saving Capital Improvements in such year. Provided that the originally named Tenant or its successor in interest is the sole tenant of the Building (irrespective of any subtenant who may occupy the space in the Building). Tenant or its Authorized Assignee shall have the right to approve any Cost Saving Capital Improvements before it is installed, such approval not to be unreasonably withheld, conditioned or delayed. The Deemed Approval Procedure will apply.

2.15 Required Capital Improvements: "Required Capital Improvements" shall mean any equipment, device, capital improvement or replacement required for the Building for any reason by any governmental authority, board or agency having jurisdiction over the Building or any part thereof, which requirement was first effective after the Commencement Date, the useful life of which is in whole or in part within the Term.

2.16 Additional Building Expense Criteria:

2.16.1 Building Expenses shall be reduced by all cash discounts, trade discounts or quantity discounts received by Landlord or Landlord's management company in the purchase of goods, utilities, or services in connection with the prudent operation of the Building and the Land.

2.16.2 Building Expenses paid by Tenant under this Lease shall reimburse Landlord for any actual costs incurred by Landlord but shall not provide a profit or overhead payment to Landlord other than the management fee described in Section 2.10.

2.16.3 Building Expenses shall not exceed one hundred percent (100%) of the actual Building Expenses incurred by Landlord in that calendar year.

2.16.4 In the calculation of Building Expenses, no expense shall be charged more than once.

2.16.5 Landlord's books and records shall be kept, and Building Expenses shall be calculated, in accordance with GAAP.

2.17 Lease Contingencies: In recognition that, as of the Effective Date, Landlord is the contract purchaser of the Land and does not yet have acquisition and construction lenders in place, the parties agree and acknowledge that this Lease is expressly contingent upon the satisfaction of the

Acquisition Contingency Deadline the Acquisition Contingency and the Financing Contingency (collectively, the “Contingencies”).

2.17.1 “**Acquisition Contingency**” means Landlord’s acquisition of fee simple title to the Land and recordation of an amendment to that certain Declaration dated January 14, 2010 and recorded with the Clerk of the Circuit Court in Prince George’s County on February 19, 2010, as Instrument #31436-115, as amended, which amendment will provide the activities listed in Section 6.1(ss) will be permitted within the Premises (“**Covenant Amendment**”) (the “**Acquisition Contingency**”) on or before the Acquisition/Finance Deadline, subject only to encumbrances set forth in the Project Documents. Landlord agrees to apply for and thereafter diligently pursue the site plan approval, for the Project immediately after receiving Tenant’s program documents. In the event that Landlord does not satisfy the Acquisition Contingency by the Acquisition/Finance Deadline, then Tenant shall have the right to terminate this Lease without penalty by the delivery of thirty (30) days’ written notice given to Landlord (“**Termination Notice**”) given within thirty (30) days following the Acquisition/Finance Deadline provided that Landlord has not satisfied the Acquisition Contingency within such period and evidence of such satisfaction reasonably acceptable to Tenant has been delivered to Tenant. If Landlord satisfies the Acquisition Contingency prior to the expiration of the thirty (30) day notice period, the Termination Notice shall be deemed withdrawn and of no effect. If Tenant terminates this Lease due to Landlord’s failure to satisfy the Acquisition Contingency, Landlord shall pay Tenant Termination Damages. The Termination Damages are to be paid as liquidated damages to compensate Tenant for its loss of a business opportunity and Tenant’s out-of-pocket costs and expenses in connection with the negotiation of this Lease and undertaking the planning and design of the Real Property, including but not limited to attorneys’, brokers, and design and engineering professionals’ fees. Termination of this Lease and receipt of the Tenant Termination Damages shall constitute Tenant’s sole remedy for Landlord’s failure to satisfy the Acquisition Contingency.

2.17.2 “**Financing Contingency**” means (a) obtaining and delivering to Tenant, within sixty days after the Effective Date of the Lease, a binding commitment (“**Commitment**”) from a reputable lending institution (“**Lender**”) for financing in an amount sufficient for Landlord’s acquisition of the Land and development of the Project in accordance with the requirements of this Lease (the “**Acquisition Loan**”); (b) closing the Acquisition Loan on or before the Acquisition/Finance Deadline, and (c) execution and delivery on or before the Acquisition/Finance Deadline of the Subordination, Non-Disturbance and Attornment Agreement (“**SNDA**”) by the Lender and Landlord in the form attached to and made a part hereof as Exhibit D with such modifications, if any, as are agreed upon between Tenant and Lender within sixty (60) days after the Effective Date of the Lease (the “**Agreed SNDA**”). If the parties agree to a different form of SNDA than the form attached as Exhibit D, the Lease will be amended to substitute the Agreed SNDA as Exhibit D. If Lender and Tenant have not agreed in writing to the form of the SNDA within sixty (60) days after the Effective Date, Tenant may terminate this Lease by delivery of Notice to Landlord at any time thereafter before the form of such SNDA has been agreed by Lender and Tenant. In the event the Lease is so terminated, the Lease will be of no further force or effect and neither party will have any further liability to the other. Each of the foregoing events set forth in Sections 2.17.1 and 2.17.2 are hereinafter referred to as a “**Termination Event**.” If a Termination Event shall occur, Tenant shall have the right to terminate this Lease without penalty for a period of up to one

hundred twenty (120) days after the Termination Event by the delivery to Landlord of a Termination Notice from the date the Termination Event occurs unless Landlord cures the deficiency upon which the Termination Event is based within thirty (30) days following receipt of the Termination Notice and evidence of such cure reasonably acceptable to Tenant has been delivered to Tenant. If Tenant terminates this Lease due to the occurrence of a Termination Event, Landlord shall pay Tenant the Tenant Termination Damages as liquidated damages and as Tenant's sole remedy. Notwithstanding the foregoing, the Termination Damages shall not be payable if the only Termination Event is the failure of Tenant and the Lender to agree upon the form of the SNDA.

3. PREMISES; CONSTRUCTION:

3.1 Premises: Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises.

3.2 Hazardous Materials:

3.2.1 Landlord represents and warrants to Tenant that as of the date the Acquisition Contingency is satisfied to the best knowledge of Landlord, based solely upon environmental reports to be provided to Tenant on or before such date, there are no Hazardous Materials located in, on or under the Real Property on which the Building is to be constructed in violation of any federal or state law. "Hazardous Materials" shall mean: (a) "hazardous wastes," as defined by the Resource Conservation and Recovery Act of 1976, as amended from time to time; (b) "hazardous substances," as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time; (c) "toxic substances," as defined by the Toxic Substances Control Act, as amended from time to time; (d) "hazardous materials," as defined by the Hazardous Materials Transportation Act, as amended from time to time; (e) oil or other petroleum products; and (f) any substance whose presence could be detrimental to the Building or hazardous to health or the environment. Landlord represents and warrants that as of the date the Acquisition Contingency is satisfied to the best knowledge of Landlord, based solely upon environmental reports to be provided to Tenant on or before such date, the Premises shall be free of all Hazardous Materials on the Commencement Date. Landlord covenants that Landlord shall not (whether in constructing the Building or thereafter) bring, keep or use any Hazardous Materials in the Building in violation of any environmental Law. Landlord has agreed to remediate at Landlord's expense, any Hazardous Materials present at the Real Property as of the date of Substantial Completion of the later of the Landlord Work or the Tenant Improvements and to insure that Hazardous Materials are not used in the construction of the Building in violation of any environmental Law. And, unless such Hazardous Materials were brought, kept or used in or about the Real Property by Tenant or its Affiliate, assignee or subtenant of Tenant or any of its employees, agents or contractors of any of them, Landlord shall, at all times, indemnify, defend and hold harmless Tenant against and from any and all claims, liens, suits, actions, debts, damages, costs, losses, liabilities, obligations, judgments, and expenses (including, without limitation, court costs and reasonable attorneys' fees), of any nature whatsoever, arising from or relating to (i) compliance with any environmental Laws by Landlord; (ii) a release of any Hazardous Material by Landlord; (iii) the threat of a release of any Hazardous Material by Landlord, and (iv) any Hazardous Materials in or on the Real Property as of the date hereof or used in the construction of the

Building. In addition, Landlord shall as, and to the extent, set forth in the Base Building Improvements plans, incorporate into the design and construction of the Building measures that would minimize the likelihood that any contamination (particularly contaminated vapors) would ever enter the Building. Landlord's obligations under this Lease shall arise whether or not any governmental authority or individual has taken or threatened any action in connection with the presence of any Hazardous Material. Notwithstanding the foregoing limitation as to Landlord's representation, Landlord has agreed to provide soil remediation pursuant to the Work Agreement attached as Exhibit C if required to remediate Hazardous Materials in connection with the completion of Landlord's Work.

3.2.2 Tenant shall, at all times, indemnify, defend and hold harmless Landlord against and from any and all claims, liens, suits, actions, debts, damages, costs, losses, liabilities, obligations, judgments, and expenses (including, without limitation, court costs and reasonable attorneys' fees), of any nature whatsoever, arising from or relating to (i) compliance with any environmental Laws or other Laws relating to the use, storage and/or disposal of medical waste and/or other biological materials by Tenant; (ii) a release of any Hazardous Material by Tenant or any Affiliate, assignee, subtenant of Tenant or any employee of any of them; or (iii) the threat of a release of any Hazardous Material by Tenant or any Affiliate, assignee or subtenant of Tenant or any employee, contractor or agent of any of them. Tenant's obligations under this Lease shall arise whether or not any governmental authority or individual has taken or threatened any action in connection with the presence of any Hazardous Material or other medical waste or biological materials.

### 3.3 Improvements:

3.3.1 Landlord Work: At Landlord's expense, Landlord shall construct the Landlord Work (as defined in Exhibit C) in and to the Premises and the Building substantially in accordance with the Work Agreement attached hereto and incorporated herein as Exhibit C. Landlord shall comply with all Laws now or hereafter in effect and relating to the Base Building Improvements (including the Base Building Structure, the Base Building Systems, Base Building Core and Exterior Facilities and the Landlord Work (as hereinafter defined)), Exterior Improvements and common areas on the Land (including those elements located within the Premises) and Landlord represents and warrants that the Building (including common areas therein, the Base Building Structure and the Base Building Systems) and land upon which the Building is located shall be in compliance with all Laws as of the Commencement Date, including, without limitation, applicable zoning and land use Laws and regulations. The Building will contain no asbestos.

3.3.2 Tenant Improvements: In addition, Landlord shall construct the Tenant Improvements (unless Tenant elects to hold the Tenant Improvements Construction Contract (as defined in Exhibit C), which shall be subject to Landlord's prior written approval (not to be unreasonably withheld, conditioned or delayed), shall, subject to the provisions of Exhibit C, be at Tenant's sole expense (subject to application of the Test Fit Allowance (defined below) and the Allowance). The cost of any such Tenant Improvements, to the extent of Tenant's responsibility pursuant to Exhibit C, shall be paid by Tenant as provided in Exhibit C subject to the Allowance. Any amounts incurred by Landlord or

Tenant in connection with the Tenant Improvements in excess of the Allowance shall be paid as provided in Exhibit C.

3.3.3 Test Fit Allowance: In addition to the Allowance, Landlord agrees to provide to Tenant an allowance (the "Test Fit Allowance") in an amount up to, but not exceeding Six Thousand Six Hundred Twenty-Four and 00/100 Dollars (\$6,624.00) (or \$0.12 per rentable square foot of the Leased Premises) to be applied solely toward those costs and expenses certified as being applicable by Landlord's Architect (hereinafter defined) (the "Test Fit Costs") incurred by Tenant in connection with the preparation of "test fit" plans and drawings for the Premises (the "Test Fit Plans"). Test Fit Costs shall be deducted by Landlord from that portion of the Test Fit Allowance not previously disbursed to Tenant, as invoices therefor are rendered to Landlord by Tenant as and when Test Fit Costs are actually incurred by Tenant. All Test Fit Costs in excess of the Test Fit Allowance shall be paid by Tenant.

3.4 Parking: The Landlord Work shall include a surface parking lot located on the Real Property as depicted on Exhibit A-1 attached hereto as the "Parking Area", which shall provide Tenant exclusive use, at no additional cost during the Term or any Renewal Term, with a minimum of four and one-half (4.5) parking spaces per 1,000 rentable square feet contained within the Building. The Landlord Work also shall include a loading area. The parking lot shall include a designated, covered drop-off area for patients in a location that is mutually acceptable to Landlord and Tenant. Tenant and its patients, invitees, employees, and contractors shall comply with all reasonable rules and regulations governing parking established by Landlord; provided, however, at all times during the Term such parking shall permit hourly parking without charge by Landlord. In the event that Tenant desires to establish additional rules and regulations with regard to parking at the Real Property, Landlord and Tenant shall cooperate to keep all rules consistent and compatible. Notwithstanding anything to the contrary contained in this Lease, throughout the Term Landlord shall provide all signage and striping in the Parking Area which is needed to provide the number, size and location of parking spaces in the Parking Area, including handicapped and stroller spaces, specified by Tenant which must comply with all applicable Laws. Landlord's costs to maintain, repair, replace and operate the Parking Area after final completion of the Landlord Work and all Punch List Items shall be included in Building Expenses.

3.5 Self Help Rights: If Landlord fails to commence, thereafter diligently prosecute and complete the Landlord Work and the Tenant Improvements pursuant to the Milestone Schedule, subject to delays associated with a Tenant Delay or Force Majeure Event as set forth in the Milestone Schedule, Tenant will have the right to complete such Work on behalf of Landlord and to offset the actual and reasonable cost thereof, against Basic Rent, with interest at the Interest Rate until such costs are recouped provided that Tenant shall first have provided Landlord with (i) written notice of Tenant's intention to complete the work and Landlord shall not have commenced completion within ten (10) business days following receipt of such notice or (ii) following receipt of a second notice Landlord shall not have commenced completion within ten (10) business days of receipt of such notice. Such right of offset will not apply to any costs which Tenant is required under the Lease to pay directly for such Work or for which Tenant is required under the Lease to reimburse Landlord. Tenant shall provide evidence of insurance covering Tenant's construction and related activities in connection with Tenant's completion work.

4. **TERM:** The "Term" of this Lease shall be for the Initial Term set forth in Section 1.6 (captioned "Initial Term"), commencing on the Commencement Date as set forth in Section 1.7 (captioned "Commencement Date") and ending on the Expiration Date as set forth in Section 1.9 (captioned "Expiration Date") above, unless sooner or later commenced or terminated in accordance with the terms hereof, including without limitation the Options to Renew set forth in Section 21.

5. **RENT:**

5.1 **Basic Annual Rental:** Tenant shall pay to Landlord the Basic Annual Rental set forth in Section 1.10 (Basic Annual Rental), payable in advance commencing on the Rental Commencement Date and thereafter on the first day of each calendar month throughout the Term, subject to the terms of Exhibit C. If the Term begins other than on the first day of a month or ends other than on the last day of the month, the Basic Annual Rental for a partial month shall be prorated on a thirty (30) day month, based on the number of days in such month as this Lease is in effect. As set forth in the table in Section 1.10 above, Basic Annual Rental shall be abated for the entire Premises for the first one hundred eighty (180) days of the Term. All rental and other monetary obligations of Tenant set forth in this Lease (whether or not characterized as rent), except for Basic Annual Rent, shall be referred to as "Additional Rent". All Basic Annual Rental and Additional Rent are sometimes collectively referred to as "Rent" or "rent".

5.2 **Past Due Obligations:** In the event Tenant fails to pay Landlord any rental payment or other charge due hereunder on the date on which any such payment was due, Tenant shall pay a late charge equal to the lesser of four percent (4%) of the rental payment or other such charge or the maximum amount permitted under Laws, which late charge shall be collectible as Additional Rent, payable with the next due installment of Basic Annual Rental; provided, however, that no such late charge shall be assessed for the first time in any twelve-month period the Basic Annual Rental is not paid when due, if such Basic Annual Rental is received by Landlord within five (5) business days after notice thereof is sent to Tenant. In addition, any such rental payment or other charge which is delinquent for ten (10) days or more, shall bear interest from the date on which same was due at the Interest Rate (hereinafter defined). The term "Interest Rate" shall mean the greater of the following rates on a per annum basis: (i) eight percent (8%), or (ii) the Prime Rate in effect from time to time (as published from time to time by *The Wall Street Journal*, which rate is currently calculated based upon the corporate loan rates of the nation's largest banks), plus two percentage points (2%). (Whenever interest accrues under this Lease, interest will accrue at the Interest Rate unless otherwise specifically provided.) This late payment charge is intended to compensate Landlord for the additional administrative costs that will be incurred by Landlord as a result of Tenant's delinquent payment, and has been agreed on by Landlord and Tenant, after negotiation, as a reasonable estimate of the additional administrative costs that will be incurred by Landlord as a result of Tenant's delinquent payment. The actual cost in each instance is extremely difficult, if not impossible, to determine.

5.3 **Payment of Building Expenses:** Commencing on the first day of the seventh (7<sup>th</sup>) month following the Commencement Date (subject to the terms of Exhibit C), Tenant shall pay to

Landlord the Building Expenses (except for utilities as set forth below in Section 8.2 and janitorial expenses for the Building, which are paid directly by Tenant) in equal monthly installments (prorated for any partial month or year), as estimated by Landlord in its reasonable discretion and (except for the first Lease Year) consistent with the Building Expenses of the immediately preceding year. Landlord may adjust such amount from time to time, but no more than once bi-annually, if the estimated Building Expenses increase or decrease, subject to Section 2.10. Building Expenses shall be computed under the accrual method basis of accounting. After the end of each Expense Adjustment Year, Landlord shall provide Tenant with a statement ("Expense Statement") showing in reasonable detail the breakdown of Building Expenses for the preceding calendar year. Landlord shall make good faith efforts to provide the Expense Statement within one hundred twenty (120) days after the end of each Expense Adjustment Year. In the event that the total of the estimated payments made by Tenant are less than the actual Building Expenses incurred, Tenant shall remit the difference to Landlord within thirty (30) days after the date of the Expense Statement. In the event that the total of the estimated payments made by Tenant are greater than the actual Building Expenses incurred, Landlord shall apply such excess toward future payments due from Tenant hereunder, or reimburse Tenant within thirty (30) days after the date of the Expense Statement at Tenant's option. Notwithstanding the foregoing, Tenant shall not be obligated to reimburse Landlord for any deficiency with respect to Tenant's Building Expenses if the Expense Statement is not delivered to Tenant on or before twelve (12) months after the Expense Adjustment Year to which such Expense Statement relates.

5.4 Payments: Tenant shall pay the Basic Annual Rental and any additional rent and other charges, in lawful money of the United States of America, due hereunder to Landlord, without any prior demand or notice therefor and without any deduction, offset, counterclaim, or defense and, except as otherwise expressly provided herein, without abatement, suspension, deferment, diminution, or reduction whatsoever. Tenant shall make all payments of rent and other charges to Landlord at Landlord's Address set forth in Section 1.1 (Landlord's Address) or at such other address as Landlord may from time to time request in writing.

5.5 Waiver of Landlord's Lien for Rent: Tenant shall have the absolute right from time to time during the Term hereof and without Landlord's further approval, written or otherwise, to grant and assign a mortgage or other security interest in any or all of Tenant's personal property located on or used in connection with the Premises to Tenant's lenders in connection with Tenant's financing arrangements. Landlord agrees to subordinate any liens to which it may be entitled under Laws to any lien or security interest granted by Tenant in or to any of such personal property, subject to any requirements or restrictions imposed by Landlord's lender(s), and will execute such confirmation certificates and other documents as Tenant's lenders may reasonably request in connection with any such financing all at no cost to Landlord or its lender(s).

5.6 Personal Property Taxes: Tenant shall be liable for and pay when due all taxes attributable to Tenant's personal property and all trade fixtures and improvements placed or affixed by Tenant or on its behalf in, on, or about the Premises. If any such taxes are levied against Landlord or Landlord's property and if Landlord pays the same (Landlord hereby being granted the right, but not undertaking the obligation, to do so regardless of the validity or correctness of such levy), or if the

assessed value of the Building is increased by the inclusion therein of a value placed on such property of Tenant and if Landlord pays the taxes based on such increased assessment (Landlord hereby being granted the right, but not undertaking the obligation, to do so regardless of the validity or correctness of such levy), Tenant shall pay to Landlord the amount of all such taxes paid by Landlord within thirty (30) days after receipt of Landlord's written demand thereof.

5.7 Excise Tax on Rent: Tenant shall be liable for and shall pay when due any excise taxes payable on the Basic Annual Rental and any additional rent payable under this Lease. If the excise taxes are payable by Landlord, Tenant shall pay to Landlord the amount of all such excise taxes paid by Landlord within thirty (30) days after receipt of Landlord's written demand thereof.

5.8 Right to Audit: After receipt of the annual Expense Statement Tenant shall have the right to conduct a reasonable review of Landlord's records (such records at Landlord's discretion, to be located at the Building or at Landlord's primary corporate office) relating to the Taxes and Building Expenses for both the calendar year just ended and to which the Expense Statement relates and for the immediately preceding calendar year (the "Records"), provided that Tenant strictly complies with the terms and conditions of this Section. No review shall be permitted at any time in which an Event of Default exists under this Lease (including an Event of Default arising by virtue of Tenant's failure to pay any such deemed Additional Rent, regardless of dispute as to the propriety of Landlord's claim for payment, except as expressly set forth in this Section 5.8). No subtenant or assignee shall have the right to conduct any such review. Tenant shall exercise its review right by providing not less than thirty (30) days' prior written notice, given at any time within one hundred fifty (150) days after Tenant's receipt of an Expense Statement (time being of the essence). Any such review shall be conducted by Tenant or by an independent certified public accountant of Tenant's choosing that is not being compensated by Tenant on a contingency fee basis; provided, however, Landlord shall have the right to approve such accountant (such approval not to be unreasonably withheld, conditioned or delayed), unless the accountant is one of the "big four" accounting firms or another regional accounting firm in the greater Washington, D.C. metropolitan area. If Tenant employs such an accountant then as a condition precedent to such review, Tenant shall deliver to Landlord a true and complete copy of Tenant's agreement with such accountant that shall include the following statements: (a) Landlord is an intended third party beneficiary of the agreement, and (b) the accountant will maintain in strict confidence all information obtained in connection with the review and will not disclose the facts of the review or any results of it to any person or entity other than to Tenant. Any such review shall be conducted at such location as Landlord may reasonably designate, provided such location is at Landlord's corporate offices or at a location within Prince George's County, Maryland. Landlord shall provide Tenant with reasonable accommodation for the review and reasonable use of office equipment, but may make a reasonable charge for Tenant's telephone calls and photocopies. Tenant shall deliver to Landlord a copy of the results of any such review within thirty (30) days after its completion or receipt by Tenant and will maintain in strict confidence all information obtained in connection with the review and will not disclose the fact of the review or any results of it to any person or entity. A dispute over the Expense Statement or any error by Landlord in interpreting or applying the provisions of this Lease respecting Building Expenses, Taxes, or in calculating the amounts in the Expense Statement shall not be a breach of this Lease by Landlord, and even if any legal proceeding over the Expense Statement is resolved against Landlord, this Lease shall

remain in full force and effect and Landlord shall not be liable for any consequential damages. Pending the determination of any such dispute Tenant shall pay amounts billed with respect to such Expense Statement as Additional Rent, without prejudice to Tenant's position, and subject to rebate of any amounts subsequently found to have been charged to Tenant in error; provided, however, that during the pendency of any period in which Landlord fails or refuses to make available the Records to Tenant in accordance with the terms and provisions of this Section 5.8 (including, without limitation, doing so within sixty (60) days following Tenant's timely request), then Tenant's obligation to pay to Landlord the Building Expenses shall be tolled. In the event it is determined that Landlord has overstated the costs to be paid by Tenant pursuant to the Expense Statement by more than four percent (4%), Landlord shall pay or reimburse Tenant's reasonable out-of-pocket expenses, incurred in performing such audit, plus interest thereon calculated at the Interest Rate, accruing from the date(s) of such overpayment. Any underpayment shall be paid by Tenant to Landlord within thirty (30) days after completion of the audit, together with interest thereon, calculated at the Interest Rate, accruing from the date of the applicable Expense Statement. Any overpayment shall be reimbursed (together with interest at the Interest Rate and reimbursement for Tenant's expenses as expressly provided herein) to Tenant in the form of a credit against Basic Annual Rental next due and owing, or, if the Term has then expired, as a good check payable to Tenant.

5.8.1 Dispute Resolution for Audit: If, Landlord and Tenant cannot agree on any disputed items in connection with Tenant's audit, then the matter shall be determined by Dispute Resolution (as hereafter defined). If Landlord and Tenant agree, or if the Dispute Resolution determines, that the amount paid by Tenant to Landlord exceeded the amounts to which Landlord was entitled hereunder, Landlord shall credit the amount of such excess (plus interest thereon calculated at the Interest Rate from the date of that Landlord delivered the Expense Statement to Tenant) against the next installment of Building Expenses due and payable hereunder by Tenant after the date of such agreement or determination unless this Lease shall have expired in which event Landlord shall refund such excess to Tenant within thirty (30) days after such agreement or determination. If the Landlord and Tenant agree, or if the Dispute Resolution determines, that the amount paid by Tenant to Landlord was less than the amount to which Landlord was entitled hereunder, Tenant shall pay to Landlord the amount of such shortfall, together with interest thereon, calculated at the Interest Rate, accruing from the date of the applicable Expense Statement within thirty (30) days of the date of such agreement or determination.

6. USE:

6.1 Use: From and after the date of occupancy by Tenant to conduct its business therefrom in the entire Premises, Tenant shall use and occupy the Premises for the Permitted Use as described in Section 1.11 (Use of Premises) and for no other purposes whatsoever.

6.2 Rules and Regulations: Tenant and its Affiliates, assignees and subtenants, and the employees, contractors and invitees of any of them shall observe the Rules and Regulations attached hereto as a part hereof as Exhibit B. If the provisions in the Rules and Regulations conflict with a provision in the Lease or limit the rights of Tenant under the Lease, the Lease provision will prevail.

Landlord may not promulgate new rules or regulations without Tenant's consent, which shall not be unreasonably withheld, conditioned or delayed.

6.3 Conduct on Premises:

6.3.1 Compliance with Laws: Tenant shall comply promptly with all statutes, laws, ordinances, rules, orders, regulations, decrees, notices, and requirements of the federal, state, and local governments and any of their departments and bureaus, and any rules and regulations issued by the Association of Fire Underwriters, or similar governing insurance body, which now or hereafter may be applicable to Tenant's use of the Premises (collectively, the "Laws"). Tenant shall pay all costs, expenses, claims, fines, penalties, and damages that may in any manner arise out of or be imposed because of the failure of Tenant to comply with this Section and in any event, Tenant agrees to indemnify, defend, and hold harmless Landlord and its employees, and officers from and against any liabilities, claims, fines, damages, costs, expenses, and fees, including reasonable attorney's fees, relating to the same. Tenant shall promptly give notice to Landlord of any notice of violation received by Tenant. Notwithstanding the foregoing, Landlord shall, at Landlord's expense and not as a Building Expense, insure that the Real Property and all core areas (i.e., common bathrooms, hallways, vertical transportation, water fountains, etc.) of the Building are in compliance with the provisions of the federal Americans with Disabilities Act (the "ADA") and all Laws in effect as of the Effective Date, and in any event, Landlord agrees to indemnify, defend, and hold harmless Tenant and its employees, and officers from and against any liabilities, claims, fines, damages, costs, expenses, and fees, including reasonable attorney's fees, relating to the same. Subject to Landlord satisfying its obligations within the immediately preceding sentence, Tenant shall, at Tenant's expense, insure that all interior portions of the Premises completed as a portion of Tenant Improvements and any subsequent Alterations (hereinafter defined) made by or on behalf of Tenant are in compliance with the provisions of the ADA and all other Laws, and in any event, Tenant agrees to indemnify, defend, and hold harmless Landlord and its employees, and officers from and against any liabilities, claims, fines, damages, costs, expenses, and fees, including reasonable attorney's fees, relating to the same. Landlord and Tenant each further shall comply with all Laws with respect to the work to be performed by them pursuant to this Lease. Each party shall pay all costs, expenses, claims, fines, penalties, and damages that may arise out of or be imposed because of failure of such party to comply its obligations under this Section, including without limitation the costs to cause the Landlord Work and any Tenant Improvements, as applicable, to comply with the ADA.

6.3.2 Right to Contest: Subject to any contrary provisions of any Mortgage, Tenant may, after notice to Landlord, by appropriate proceedings conducted promptly at Tenant's own expense in Tenant's name, contest in good faith, the validity or enforcement of any Law and may similarly contest any assertion of violation of any certificate of occupancy, permit, or any consent issued for the Building which is the responsibility of Tenant pursuant to Section 6.3.1 above. Pending such contest, Tenant may defer compliance therewith if (a) in the opinion of counsel for Landlord, such deferral will not subject either Landlord or the Premises or the Real Property (or any part thereof) to any penalty, fine, encumbrance, or forfeiture, and (b) Tenant shall post a bond with corporate surety approved by Landlord sufficient, in Landlord's opinion, fully to indemnify Landlord from loss. Tenant shall

reimburse Landlord for Landlord's reasonable out of pocket attorneys' fees and any other reasonable out-of-pocket expenses incurred in obtaining the opinion set forth in the foregoing Section 6.3.2 (a).

6.4 Compliance with Project Documents: Tenant shall comply with all provisions of all Project Documents now or hereafter applicable to the Real Property or the Land, and/or Tenant's use of the Access Roads, provided that all rules for use of the Access Roads are applied in all material respects equally to all tenants in the Shopping Center and any new or amended Project Documents will not materially interfere with, or increase Tenant's costs in connection with, the Permitted Use or Tenant's conduct of its business in the Premises.

7. POSSESSION:

7.1 Acceptance of Possession: Tenant's occupancy of the Premises after all Landlord Work and Tenant Improvements have been completed shall constitute acceptance of the Premises and Landlord's compliance with all obligations of Landlord's with regard to the condition, order, and repair thereof, except as to "Punch List Items" or incomplete work that are described in a written notice (a "Punch List Notice") given by Tenant's Architect to Landlord not later than sixty (60) days after the Commencement Date, and subject to defects that are described in a written notice given by Tenant to Landlord within twelve (12) months after the Commencement Date and to Landlord's obligation to repair Latent Defects within thirty-six (36) months after the Commencement Date. Notwithstanding the foregoing, in the event that Tenant desires to occupy the Premises early to commence the Tenant Improvements before Substantial Completion of the Landlord Work, then before Tenant occupies the Premises, the parties shall conduct a walk-through of the Premises. As a result of such walk-through, the parties shall execute a list of Punch List Items of those items of the Landlord Work which remain incomplete, which for the purposes herein shall be deemed the Punch List Notice. Any Punch List Items of the Landlord Work (i.e., not latent or structural defects or part of Tenant Improvements) which are not included in a Punch List Notice shall be deemed to be accepted by Tenant. In addition, Landlord shall promptly correct any errors or defects in the construction or condition of the Premises including all items of the Landlord Work and Tenant Improvements completed by the Contractor (provided that Tenant delivers to Landlord written notice of such error or defect as required herein). Landlord shall be solely responsible for the costs to correct and complete the work described in this Section 7.1 as a Landlord Assumed Cost, and such cost shall not be included as a Building Expense. Disputes arising under this Section 7.1 shall be resolved in accordance with the provisions of Section 20.20.

7.2 Quiet Enjoyment: Landlord represents and warrants that so long as there is not an Event of Default by Tenant hereunder, Tenant shall lawfully and quietly hold, occupy, enjoy, manage, and operate the Premises subject to the terms of this Lease, without hindrance or molestation by Landlord during the Term or by any person or persons claiming under Landlord, subject to the provisions of any Mortgage and of the Project Documents.

7.3 Surrender: This Lease and the tenancy hereby created shall, unless extended by mutual agreement or sooner terminated in accordance with this Lease, cease and terminate at the end of

the Initial Term, without the necessity of any notice of termination from either Landlord or Tenant, provided, however, that this Lease and the tenancy hereby created shall not so cease and terminate at the end of the Initial Term if Tenant shall have been granted an option or options to renew and shall have exercised said option or options in accordance with the terms thereof and shall be entitled to remain in possession under said option and/or options. In said event, this Lease and the tenancy hereby created shall, unless extended by mutual agreement or sooner terminated in accordance with this Lease, cease and terminate at the end of the last option period exercised under the terms of this Lease without the necessity of any notice of termination or to surrender from either Landlord or Tenant, and Tenant hereby waives notice of termination and to surrender. It will be conclusively presumed that the value to Tenant of remaining in possession of the Premises after the expiration or termination of the Term, and the loss or damage that Landlord will suffer as a result thereof, far exceed the Basic Annual Rental and Additional Rent that would have been payable had the Term continued during the holdover period and accordingly the Holdover Rent (hereinafter defined) shall be Landlord's sole and exclusive remedy against it. Accordingly, if Tenant shall occupy the Premises after such expiration or termination, Tenant shall hold the Premises as a tenant at sufferance, subject to all the other terms and conditions of this Lease, with the exception of Section 13 (Assignment and Subletting), at an amount of liquidated damages equal to: (i) for the first three (3) months of such holdover, one hundred ten percent (110%) of the Basic Annual Rental in effect during the last month of the Term as it may have been extended, and (ii) thereafter (125%) of the Basic Annual Rental in effect during the last month of the Term as it may have been extended (the "Holdover Rent"). Holdover Rent and all Additional Rent shall be paid in accordance with the payment provisions of this Lease. No act or conduct of Landlord, its employees or representatives, including, but not limited to, the acceptance of the keys to the Premises, shall constitute an acceptance of the surrender of the Premises before the Expiration Date. Only a written notice of acceptance and surrender and termination from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of this Lease by Tenant.

7.4 Condition of Premises/Ownership of Alterations: Any Alterations (defined in Section 9.3.1 below) made by or on behalf of Tenant, including the Landlord Work and the Tenant Improvements, shall become the property of Landlord as soon as they are affixed to the Premises, all right, title and interest therein of Tenant shall immediately cease, and shall remain on the Premises after the expiration or earlier termination of this Lease, unless Landlord shall elect otherwise with respect to Alterations (other than the Landlord Work and the Tenant Improvements), which election shall be made by Landlord at the time Tenant requests Landlord's consent to such Alterations. In the event that Landlord elects that any Alteration, excluding any element of the Landlord Work and the Tenant Improvements, made by or on behalf of Tenant be removed at the end of the Term, Landlord shall so notify Tenant at the time Tenant requests Landlord's consent to such Alteration. In such event, Tenant shall, at its sole cost and expense, restore the Premises to its condition before the installation of such Alteration, ordinary wear and tear, casualty and condemnation damage excepted. Unless Landlord instructs to the contrary, all telephone and data fiber and cable and all security system equipment and wiring shall be removed in accordance with this Section. All such removal and restoration activities shall be performed in a good and workmanlike manner in accordance with all Laws. Tenant shall promptly pay any franchise, minor privilege or other tax or assessment against any personal property or fixtures or equipment of Tenant or of a supplier or contractor of Tenant, including any franchise, minor privilege or

other tax or assessment resulting directly or indirectly from any Alterations or improvements made by Tenant to the Premises, including, but not limited to, the Tenant Improvements. Tenant shall repair promptly, at its own expense, any damage to the Premises caused by bringing into the Premises any property for Tenant's use, or by the installation or removal of such property, regardless of fault or by whom such damage shall be caused. Tenant shall not place a load on any floor of the Premises exceeding the floor load per square foot area that such floor was designed to carry (and disclosed to Tenant in writing) and that may be allowed by the Laws. Notwithstanding the foregoing, any of Tenant's stationary medical equipment, including without limitation magnetic resonance imaging and x-ray equipment, shall not be deemed a "fixture", Alteration or Tenant Improvement and Landlord shall have no claim of ownership with respect thereto; provided, however, that such items shall be removed at the end of the Term if either desired by Tenant or required by Landlord, and Tenant shall, at its sole cost and expense, restore the Premises to its condition before the installation of such items, ordinary wear and tear, casualty and condemnation damage excepted.

7.4.2 No Abatement: There shall be no allowance to Tenant for a diminution of rental value, no abatement of rent, and no liability on the part of Landlord by reason of inconvenience, annoyance or injury to business arising from Landlord's, Tenant's or others making any repairs, alterations, additions, or improvements in or to any portion of the Real Property or the Premises, or in or to fixtures, appurtenances, or equipment thereof, except as specifically set forth herein.

7.4.3 No Waste: Tenant shall pay, as additional rent, for all damage to the Real Property, its fixtures and appurtenances, due to any waste, misuse, or neglect of the Premises, its fixtures and appurtenances or any other of Tenant's property by Tenant or its employees. If Tenant's fixtures are removed, Tenant shall at its sole cost and expense, repair any damage to the Premises caused by the removal of the fixtures. Where the removal of a fixture leaves holes, open spaces, or voids in the Premises (other than caused by ordinary wear and tear, casualty or condemnation), Tenant shall seal the area and finish it in a manner and with material that matches the remainder of the area.

## 8. SERVICES AND UTILITIES:

8.1 Building Systems: The Landlord Work includes the Base Building Systems described on and subject to the payment provisions of Exhibit C-1. Landlord represents and warrants that such Base Building Systems shall be in good working order and condition as of the Commencement Date. Tenant shall establish the hours of operation for the Premises and the HVAC system and is responsible for all costs associated with such operation. After completion of the Landlord Work, Landlord's only responsibility with regard to the Base Building Systems (other than the HVAC system which will be maintained, repaired and replaced by Tenant) shall be maintenance, repair and replacement, the cost of which, if permitted, shall be included in the Building Expenses subject to any limitations set forth in Section 2 hereof.

8.2 Utilities: Tenant shall contract directly with utility providers for the provision of all utility services necessary to operate the Premises, including, telephone, electricity, internet, cable, television, gas, water and sanitary sewer. Commencing on the Substantial Completion of the Work,

Tenant shall cause all utility services to be in Tenant's name and to pay all costs and expenses incurred with regard to the utilities that serve the Premises. Except for Landlord's gross negligence or intentional misconduct causing an interruption of any utility services, and the purchase and installation of the required components pursuant to Exhibits C and C-1, Landlord shall not have any obligation with regard to utility services.

8.3 Electrical System: If, after the Commencement Date, Tenant requires electrical current or installs electrical equipment (including, but not limited to, any electrical heating or refrigeration equipment, computers, fiber and cabling of Tenant's data and telephone connectivity, electronic data processing machine, punch-card machine, or machinery or equipment using current in excess of 110 volts) that in any way increases the amount of needed electricity beyond that provided by the Base Building Systems set forth on Exhibit C-1, then in such case Tenant shall not do so without first obtaining Landlord's written approval thereof (which consent shall not be unreasonably withheld or delayed). Tenant shall not overload the wiring or the electrical system.

8.4 Janitorial Services and Security Services: As of the Commencement Date, Tenant shall provide and pay all costs associated with janitorial services and any security systems or other services Tenant elects to maintain in the Building, provided that any security systems affixed to the exterior of the Building and/or security services provider which will be providing security personnel stationed exclusively outside or visible from the exterior of the Building shall be subject to Landlord's approval, not to be unreasonably withheld, conditioned or delayed.

8.5 Additional Equipment: If Tenant requires air-conditioning equipment in excess of the equipment provided in the Base Building Systems set forth on Exhibit C-1, such additional air-conditioning units, chillers, condensers, compressors, ducts, piping, and other equipment shall be installed and maintained by Landlord at Tenant's sole cost and expense; provided, however, that in Landlord's reasonable judgment, such equipment will not cause damage or injury to the Building, or create a dangerous or hazardous condition. Installation costs shall be Landlord's actual cost pursuant to a contract with a qualified independent contractor to acquire and install such equipment.

8.6 Interruption of Service: Except for an accident or in an emergency, Landlord shall not stop service of the heating, air-conditioning, elevator, plumbing, or electric systems for repairs, alterations, replacements, or improvements; provided, however, that with respect to all planned interruptions, Landlord shall coordinate such interruptions with Tenant upon not less than ten (10) days' prior written notice and Landlord shall use commercially reasonable efforts to minimize such interruptions. The parties agree that an event which results in the need for a significant repair to the Building structure or the roofing system or an event of service interruption associated within the HVAC, electrical, vertical transport, plumbing or life-safety services to the Building (collectively, "**Failure of Building Structure or Services**") shall be considered an event requiring "**Critical Repair**." Landlord shall provide to Tenant's contact person(s) prompt notice by telephone, email or facsimile of such need for "**Critical Repair**." In the event such need for "**Critical Repair**" is discovered by Tenant, Tenant shall provide such notice in the same manner to Landlord's contact person(s). In the event that Landlord or its designated contractors, as the case may be, shall fail to: (a) respond within six (6) hours of Tenant's

notice to Landlord's designated contact person, (b) advise Tenant of the actions Landlord intends to initiate as necessary to restore such services (including estimation of time), and (c) thereafter diligently proceed to restore such services, then Tenant may perform only such work as is reasonably necessary to restore such services and bill Landlord for the reasonable cost thereof and have the right to offset such amounts, with interest thereon at the Interest Rate against subsequent Basic Annual Rental payments, provided that any such offset shall not exceed twenty-five percent (25%) of each monthly installment of Basic Annual Rental, until full reimbursement is made. Notwithstanding any provision of this Lease to the contrary, in the event that a Failure of Building Structure or Services caused directly and to the extent of Landlord's negligence (or that of its employees, but not resulting from any act or omission of Tenant or its Affiliates, assignees or subtenants, or the employees, agents or contractors of any of them, or due to Force Majeure) shall occur for at least three (3) consecutive days, provided that Tenant delivers to Landlord written notice thereof promptly upon the occurrence thereof, Tenant shall be entitled to an abatement of Basic Annual Rental for the period of such Failure of Building Structure or Services commencing with the fourth (4<sup>th</sup>) consecutive day of such Failure of Building Structure or Services.

8.7 Fire-Life Safety Systems: The Landlord shall, at Landlord's expense and not as a Building Expense, conduct an annual fire drill for the Building, consistent with the requirements of all Laws, including without limitation locally accepted National Fire Protection Association Guidelines and Standards then in effect with respect to the Tenant's Permitted Use and the design, age and installation of the fire-life safety system and its individual components. Landlord shall pay all costs, expenses, claims, fines, penalties, and damages that may arise out of or be imposed because of failure of Landlord to comply with this Section 8.7.

8.8 Security System: The Landlord Work shall include a building standard key card access/security system at each entrance of the Building. Landlord shall initially pay for the cost of fifty (50) keys utilized for such system. Tenant shall purchase any additional key cards at Landlord's actual cost. Said card access/security system shall be consistent with other Class A buildings in the area and provide Tenant with twenty-four (24) hours per day, seven days per week access to the Building. Tenant is solely responsible for access control within the Premises, provided that Landlord shall, subject, except in an emergency situation, to controls which Tenant reasonably believes are required to protect persons, property and/or to comply with applicable Laws, at all times have access to all areas within the Premises.

8.9 Water Quality and Indoor Air Quality: The Landlord shall cause independent Water Quality ("WQ") and Indoor Air Quality ("IAQ") consultants to conduct one (1) WQ and IAQ test after the systems are installed to insure that the systems work properly. All other tests will be arranged by Tenant at Tenant's expense. After the initial inspection and subject to Landlord's obligation pursuant to Section 7.1 hereof, Tenant will make any repairs (required or otherwise) in such systems at Tenant's expense.

## 9. MAINTENANCE, REPAIRS, AND ALTERATIONS:

9.1 Maintenance by Landlord: Landlord shall maintain and keep the following in good repair at Landlord's expense and in compliance with all Laws and in a condition which is equal to or

better than the condition maintained in Comparable Buildings: (i) the foundations, footings, roof, columns, structural steel, columns, joists, exterior walls, exterior windows and exterior doors, risers, conduits, floor slabs, load bearing elements, fire coating and fire stop systems and all other structural portions of the Building (the "Base Building Structures"), (ii) the base Building core, including, but not limited to, stairs and stairwells, elevator shafts, bathrooms, lobby, corridors, water fountains, mechanical and janitorial closets (the "Base Building Core"), (iii) all base Building systems and equipment, including, without limitation, the electrical, plumbing, vertical transportation/elevator, heating, air conditioning, ventilating, security and fire-life safety systems and equipment (collectively, the "Base Building Systems"), and (iv) the landscaping, parking facilities, stormwater management facility, flagpoles, curbs, paved surfaces, gutters, fences, and exterior lighting (collectively, the "Exterior Facilities"). Landlord also promptly shall repair any damage to the Premises and the Building to the extent provided for in Section 10 (captioned "Damage or Destruction"). Without limiting the foregoing, it is expressly understood that components of the Base Building Systems installed by Landlord as a part of Landlord's Work and located within the Premises consisting of VAV boxes, air ducts, and air handlers connected to the heating, air conditioning, ventilating system for the Building and HVAC system will be maintained and repaired (including replacement thereof) by Tenant at Tenant's expense. Landlord agrees to seek Tenant's input with regard to the contractors who will perform Landlord's maintenance and repair obligations, to the extent such contractors will require access to the interior portions of the Premises serving Tenant's clients. The ultimate selection of contractors who carry out Landlord's maintenance responsibilities shall be made by Landlord in its reasonable discretion among contractors who have the capacity and experience to perform the work in a first class manner. If Landlord refuses or neglects to fulfill its obligations under this Section 9.1 within thirty (30) days after receipt of written notice from Tenant, Tenant may perform such obligations. Tenant may not commence to make any repairs in the event that Landlord has commenced and is diligently pursuing such repair. Upon completion of such repairs or maintenance by Tenant, Landlord shall reimburse Tenant for the reasonable cost of such repairs or maintenance within thirty (30) days after receipt of a documented bill therefor. Tenant also shall have the right to offset such amounts with interest thereon at the Interest Rate against subsequent Basic Annual Rental payments, provided that any such offset shall not exceed twenty-five percent (25%) of each monthly installment of Basic Annual Rental, until full reimbursement is made.

9.2 Maintenance by Tenant: Subject to the provisions of Section 9.1, Tenant shall maintain and keep in good repair at Tenant's expense and in compliance with all Laws, the Project Documents (as applicable) and the Rules and Regulations, and otherwise in a first class condition the Real Property and fixtures and appurtenances therein and thereon (excluding the Base Building Structure, the Base Building Systems), and all other items not the express responsibility of Landlord under this Lease and maintain them in good order, condition, and repair in a quality and class equal to the original work, ordinary and reasonable wear and tear, casualty and condemnation damage excepted. Tenant shall at its sole cost and expense perform all janitorial services within the Premises and is responsible for all trash removal. On the expiration or earlier termination of this Lease, Tenant shall surrender the Premises to Landlord, broom clean, in good order, condition, and repair, ordinary and reasonable wear and tear, casualty and condemnation damage excepted and otherwise in accordance with the surrender provisions of this Lease.

### 9.3 Alterations:

9.3.1 General: After the Tenant Improvements, Tenant shall make no alterations, installations, removals, additions, or improvements (collectively, the "Alterations") in or to the Premises without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Landlord shall respond to a request within fifteen (15) business days after receipt thereof. If Landlord fails to respond, and subsequently fails to respond to a second written request for consent within five (5) business days, then Landlord shall be deemed to have approved the request. All Alterations shall be at least equal in quality and class to the original work. If Tenant shall make any interior Alterations, then Landlord may elect, at the time it grants its consent thereto, to require Tenant, at the expiration or earlier termination of this Lease, to restore, at no cost to Landlord, the Premises to the condition that existed before the Alterations. Notwithstanding the foregoing, if Tenant desires to add a fourth floor to the Building, Tenant may not construct the fourth floor Alterations unless an amendment to this Lease with respect thereto is executed by Landlord and Tenant reflecting terms and conditions reasonably approved by both parties. Tenant will not be required to remove such fourth floor Alterations at the end of the Lease term. Tenant shall not be required to pay to Landlord a fee for supervising or approving any Alterations. Notwithstanding anything to the contrary contained herein, Landlord's consent as to the Tenant Improvements Contractor and proposed Alteration shall not be required for any proposed Alteration that: (1) is of a cosmetic nature such as painting, wallpapering, hanging pictures and installing carpeting or will not adversely affect the common Building operating systems or structure of the Building; or (2) if the aggregate cost of which is less than Fifty Thousand Dollars (\$50,000.00) per contract.

9.3.2 Personal Property: All articles of personal property and all business and trade fixtures, machinery, and equipment, movable cabinetwork, furniture and movable partitions, owned or installed by Tenant at its expense, in the Premises ("FF&E"), shall remain the property of Tenant and may be removed by Tenant at any time provided (a) Tenant is not then in an Event of Default of any provision of this Lease, and (b) Tenant, at its expense, shall repair any damage to the Premises or the Building caused by such removal or by the original installation. Subject to the provisions of Section 7.4, Tenant shall remove all or any part of such property at the expiration or earlier termination of this Lease, in which event the removal shall be done at Tenant's expense as additional rent. Tenant shall, at its expense, repair any damage to the Premises or the Building caused by the removal of such property. Alternatively, Landlord may elect by notice to Tenant to have the FF&E remain in the Premises and become Landlord's property. Any property not so removed shall, if Landlord so elects, be deemed to become Landlord's property. Landlord hereby waives any lien that it might have on the FF&E, in law or equity or under contract and agrees to confirm this waiver to the Lender that Tenant permits to encumber the FF&E to secure a loan to Tenant or its Affiliates, subject however to the provisions of Section 5.5.

### 9.4 Signage:

9.4.1 Tenant shall have the right, at its sole cost and expense, to install and maintain two (2) signs on the Building, at the higher of the top level of the Building façade or the parapet level of the Building facing Interstate 495/95 (the "Interstate") or the Shopping Center, which will be

visible from the Interstate and/or the Shopping Center (the "**Exterior Signage**"). Landlord will construct a fourth floor parapet facing the Interstate pursuant to the Tenant's plans and specifications for purposes of accommodating such signage. The plans and specifications for such signage, and any modifications thereto, shall be subject to Landlord's approval, which approval shall not be unreasonably withheld, conditioned or delayed and approval by the applicable governmental authorities which shall be obtained by Tenant at Tenant's sole cost. The Deemed Approval Procedure will apply to Landlord's right to approve the signage. The Exterior Signage shall comply with all Laws, rules, regulations, ordinances and restrictive covenant agreements. Subject to receipt of all necessary approvals, the Exterior Signage may be halo illuminated (that is, back lit). Tenant shall maintain the Exterior Signage in a neat, orderly and well maintained condition, and Tenant shall pay the cost of any permits required to install and maintain the Exterior Signage. The Exterior Signage shall be of the appearance and dimensions agreed to by Landlord and Tenant. On the expiration or earlier termination of the Term, Tenant shall remove the Exterior Signage in a good and workmanlike manner and in accordance with all the Laws and restrictive covenant agreements. Any cost of repairs, resulting from the removal of the Exterior Signage shall be borne by the Tenant. Tenant may elect to apply a portion of the Allowance toward the cost of the design and installation of the Exterior Signage.

9.4.2 Tenant shall have the right, at its sole cost and expense, to install identifying signage ("**Monument Signage**") in a mutually agreed location, on any existing or future monument sign for the Building installed on the Land ("**Monument**"). The cost of installing the Monument Sign will be included in the Landlord Work. Tenant may elect to apply a portion of the Allowance toward the cost of the design and installation of the Exterior Signage. Tenant shall maintain the Monument Signage in a neat, orderly and well maintained condition, and Tenant shall obtain and pay the cost of any permits required to install and maintain the Monument Signage. The Monument Signage shall be of the appearance and dimensions agreed to by Landlord and Tenant. On the expiration or earlier termination of the Term, at Landlord's request Tenant shall remove the Monument Signage in a good and workmanlike manner and in accordance with all the Laws and restrictive covenant agreements in the Project Documents. Any cost of repairs, resulting from the removal of the Monument Signage shall be borne by the Tenant.

9.4.3 Landlord shall cooperate with Tenant, at Tenant's sole cost and expense, to obtain the necessary approvals to permit Tenant to install signage on the Interstate and Maryland Route 202, and to install directional signage adjacent to the shopping center which is part of the Project (collectively, the "**Additional Signage**"). The Additional Signage shall comply with all Laws, Project Documents and other restrictive covenant agreements. If the Additional Signage requires waivers, variances or governmental approvals, Landlord will cooperate with Tenant in obtaining such waivers, variances and approvals. Tenant shall maintain the Additional Signage in a neat, orderly and well maintained condition, and Tenant shall pay the cost of any permits required to install and maintain the Additional Signage. Landlord shall have the right to perform all such maintenance obligations if Tenant fails to do so, all at Tenant's expense, and including a ten percent (10%) overhead fee. The Additional Signage shall be of the appearance and dimensions agreed to by Landlord and Tenant. On the expiration or earlier termination of the Term, at Landlord's request Tenant shall remove the Additional Signage in a good and workmanlike manner and in accordance with all the Laws and restrictive covenant agreements

in the Project Documents. Any cost of repairs, resulting from the removal of the sign shall be borne by the Tenant.

9.5 Roof: At Tenant's sole cost and expense, but at no additional charge during the Term and any Renewal Term, Tenant shall have the right to use the roof of the Building to install and maintain supplemental HVAC equipment, Tenant's Emergency Generator, other equipment in connection with Tenant's Permitted Use, and communication equipment, such as satellite dishes and antennae. Any such use of the roof shall comply with any roof warranties and all Laws and restrictive covenant agreements. Such use of the roof also shall be subject to Landlord's review and approval of plans and specifications with regard to any roof improvements. Landlord shall not unreasonably withhold, condition or delay its consent. The Deemed Approval Procedure will apply to such consent. Tenant shall maintain any such roof improvements in a neat, orderly and well maintained condition, and Tenant shall pay the cost of any permits required to install and maintain such improvements. On the expiration or earlier termination of the Term, at Landlord's request Tenant shall remove any such roof improvements in a good and workmanlike manner and in accordance with all Laws and restrictive covenant agreements. Any cost of repairs, resulting from the removal of such improvements shall be borne by the Tenant. Tenant shall at all times have access to the roof of the Building after Substantial Completion by Landlord thereof, for the purposes of installing, maintaining and repairing its equipment set forth in this Section 9.5.

9.6 Medical Waste: At Tenant's sole cost and expense, Tenant shall remove all medical waste and other biological materials from the Premises on a regular basis in strict compliance with all Laws and the Rules and Regulations.

9.7 Generator: Tenant shall be permitted, at Tenant's sole cost and expense, and subject to and in accordance with this Section 9.7, to install one or more back-up power generators and/or other UPS systems and all necessary fuel tanks (if any), batteries (if any), and feeders and conduits extending from such generator/system to the Premises (collectively, the "Tenant's Emergency Generator"). Tenant's Emergency Generator shall be placed either on the roof of the Building or on a portion of the Land adjacent to the Building, which location or locations shall be designated by Tenant and approved by Landlord, such approval not to be unreasonably withheld, conditioned or delayed. Tenant's Emergency Generator shall constitute an Alteration and, accordingly, installation thereof shall be performed subject to and in accordance with the provisions of the Lease applicable to Alterations. In addition, Tenant shall comply with all reasonable requirements of Landlord relating to the method and scheduling of such installation and the screening for Tenant's Emergency Generator. Tenant shall have sole use of Tenant's Emergency Generator. Tenant shall be entitled to use Tenant's Emergency Generator only in the event of a power outage or material downgrade of electricity affecting the Building, and shall not be entitled to use Tenant's Emergency Generator to provide supplemental electricity to the Premises in the absence of such an outage. Tenant shall maintain Tenant's Emergency Generator in good and safe operating condition and repair at all times during the Term of this Lease and in strict compliance with all Laws and, as applicable, the Project Documents and Rules and Regulations. Tenant shall have the right to replace, modify and/or remove the Tenant's Emergency Generator from time to time during the Term. Tenant shall have access to the Tenant's Emergency Generator at all times for purposes of inspection, operation, repair, maintenance, replacement or removal. Tenant shall pay for all costs and expenses

associated with the operation, maintenance, repair and replacement of Tenant's Emergency Generator. At the expiration or sooner termination of this Lease, Tenant's Emergency Generator shall be removed, and Tenant shall restore all portions of the Building and remainder of the Real Property and Land affected by the installation or removal of Tenant's Emergency Generator to the condition such portions were in prior to the installation of Tenant's Emergency Generator.

10. DAMAGE OR DESTRUCTION:

10.1 Repair of Damage: From and after the Commencement Date, Tenant shall provide prompt written notice to Landlord of any damage by fire or other casualty to the Premises or other portions of the Real Property. If the damage is insured against by the Landlord's fire and extended coverage insurance policy covering the Base Building Improvements from and after the Commencement Date and for the Base Building Improvements and the Tenant Improvements prior to the Commencement Date (a "Casualty") which is required under Section 11.2 ("**Required Landlord Insurance**"), and the portion of the Building so insured can be fully repaired, in Landlord's reasonable opinion, within fifteen (15) months after receipt of insurance proceeds, Landlord, at Landlord's expense, shall promptly repair such damage; provided however, that Landlord shall have no obligation to replace or to repair any damage to Tenant's leasehold improvements in excess of the portion of the Allowance which is allocable to the damaged area and Tenant shall, upon receipt of insurance proceeds and completion of any Work required by Landlord, promptly commence to and complete the repair and restoration of all leasehold improvements which are not Landlord's responsibility to perform and shall promptly restore or replace the FF&E as is necessary to reoccupy the Premises for the Permitted Use. In order to determine the maximum amount required to be expended by Landlord, the per square foot value of the Allowance shall be multiplied by the floor area of the damaged portion of the Premises. Tenant shall vacate such portion of the Premises as Landlord reasonably requires to enable Landlord to repair the Premises or the Building. Landlord will have no obligation to repair any damage to the extent Landlord is not insured against such damage and is not required to be insured against such damage pursuant to the Required Landlord Insurance. Prior to the Commencement Date, Landlord will have the absolute obligation to repair any damage as required under this Lease.

10.2 Abatement: If the entire Premises shall be rendered untenantable, then Basic Annual Rental shall abate for the period from the date of such damage to the date which is ten (10) days after the date when such damage shall have been repaired. If only a part of the Premises shall be so rendered untenantable, then Basic Annual Rental shall abate for such period in the proportion that the area of the part of the Premises so rendered untenantable bears to the total area of the Premises; provided, however, if, before the date when all of such damage shall have been repaired, any part of the Premises so damaged shall be rendered tenantable and shall be used or occupied by Tenant or any person claiming through or under Tenant other than for purposes of repair, then the amount by which the Basic Annual Rental shall abate shall be equitably apportioned for the period from the date of any such use or occupancy to the date when all such damage shall have been repaired. Tenant shall exercise commercial diligence in restoring and repairing the Tenant Improvements and any other Alterations, all FF&E and other personal property, and in re-opening the Premises for the Permitted Use. Except as specifically provided in this Lease, this Lease shall not terminate. Tenant shall not be released from any of its

liabilities or obligations under this Lease, the Rent and other expenses payable by Tenant under this Lease shall not abate, and Landlord shall have no liability to Tenant for any damage or destruction to the Premises or the Building or any inconvenience or injury to Tenant by reason of any maintenance, repairs, alterations, decoration, additions, or improvements to the Premises or the Building.

### 10.3 Termination:

10.3.1 By Landlord: If, before or during the Term, (a) the Premises shall be so damaged that, in Landlord's reasonable opinion, the Premises cannot be fully repaired within fifteen (15) months from the date Landlord receives its insurance proceeds, or (b) if Landlord is not obligated to repair the Premises or the Building, or both, under Section 10.1 (Repair of Damage), then, in any of such events, Landlord, at its option and in the exercise of its good faith judgment, may give to Tenant, within sixty (60) days after the Casualty, a thirty (30) days' notice of termination of this Lease. If Landlord provides such termination notice, this Lease shall terminate (regardless of whether the Term shall have commenced) on the expiration of such thirty (30) days with the same effect as if the date of expiration of such thirty (30) days were the date definitely fixed for expiration of the Term and the then applicable rent shall be apportioned as of such date.

10.3.2 By Tenant: Notwithstanding anything herein to the contrary, should the Premises and/or the Building be damaged by a Casualty and provided that an Event of Default by Tenant does not then exist, Landlord shall with reasonable promptness not to exceed ninety (90) days of such damage notify Tenant in writing of Landlord's good faith estimate of the time necessary to repair and restore the damage and will also advise Tenant if the conditions for restoring the Premises and the Building pursuant to Section 10.1 have been satisfied. If such estimate sets forth a period of greater than fifteen (15) months after receipt of insurance proceeds or if the conditions set forth in Section 10.1 have otherwise not been satisfied, and provided that an Event of Default by Tenant does not then exist, Tenant shall have the option, to be exercised with thirty (30) days after receipt of Landlord's notice (or within one hundred twenty (120) days of the date of such damage in the event that Landlord fails to provide such notice within ninety (90) days following the date of such damage), to terminate this Lease, whereupon this Lease shall terminate with the same effect as if the date of termination were the date definitely fixed for expiration of the Term, and the then applicable rent shall be apportioned as of such date.

10.3.3 Deemed Waiver. In the event that either party fails to exercise its termination right within the time period set forth above, such party shall be deemed to have waived such termination right, this Lease shall remain in effect and a Landlord will restore the Building and the Premises to the condition required by Section 10.2, Tenant will complete restoration of the Tenant Improvements and FF&E to the condition required by Section 10.1.

10.4 End of Term: Landlord shall not have any obligation to repair, reconstruct, or restore the Premises during the last twenty-four (24) months of the Initial Term or during the last twenty-four (24) months of any Renewal Term as a result of any damage to the Premises if (a) in the case of any such damage that occurs during the last twenty-four (24) months of the Initial Term Tenant has not and does not elect to exercise its option for the first Renewal Term and if the cost of such repair,

reconstruction, or restoration of the Premises as reasonably estimated by Landlord exceeds the then Basic Annual Rental remaining for the balance of the Term or, (b) in the case of such damage that occurs during the last twenty-four (24) months of the first Renewal Term, Tenant has not and does not elect to exercise its option for the second Renewal Term and if the cost of such repair, reconstruction, or restoration of the Premises as reasonably estimated by Landlord exceeds the then Basic Annual Rental remaining for the balance of the Term. If Landlord elects not to restore the Premises pursuant to this Section 10.4, Landlord will notify Tenant in writing and the Lease will terminate as of the date of the casualty unless the parties agree otherwise in writing.

11. INSURANCE:

11.1 Requirements, Prohibitions and Indemnifications: Tenant shall not knowingly do or permit anything to be done in or on the Real Property or bring or keep anything therein that will, in any way, increase the rate of fire insurance on the Building, or invalidate or conflict with the fire insurance policies on the Building, fixtures, or on property kept therein, or obstruct or interfere with the rights of Landlord or in any other way injure Landlord, or subject Landlord to any liability for injury to persons or damage to property, or conflict with any Laws or the rules or regulations of the Maryland Fire Underwriters Rating Bureau or similar governing insurance body. Tenant shall indemnify, defend, and hold Landlord and its Affiliates and the employees of any of them harmless from liability, loss, damage, and expense (including, but not limited to, reasonable attorneys' fees and court costs) arising from injury or death to person or damage to property in, on, or about the Premises whether occasioned by an act or omission of Tenant, any Affiliate, assignee or subtenant of Tenant or any other person or entity granted occupancy rights by Tenant, or any of the employees or invitees of any of them. Any increase of fire insurance premiums on the Building or contents caused solely by the occupancy of Tenant or its Affiliates, assignees or subtenants, shall be paid by Tenant within thirty (30) days after written demand therefor, as Additional Rent. Landlord shall have all the rights and remedies for the collection of same as are conferred on Landlord for the collection of Rent provided to be paid under this Lease. Landlord represents and warrants that use of the Premises for the Permitted Use will not be in violation of or in conflict with Landlord's insurance policies or cause an increase in the rate of such policies. Notwithstanding anything to the contrary contained in the preceding sentence, Landlord shall provide notice to Tenant of any activities that Landlord's insurance carrier has indicated as of the Effective Date may increase the rate of Landlord's insurance premiums. Upon reasonable request from Tenant, Landlord shall update this information.

11.2 Insurance by Landlord: Landlord shall obtain and keep in full force and effect during the Term special form property coverage (all risk, except as excluded) or a minimum of fire and extended coverage insurance with a vandalism and malicious mischief endorsement for the Base Building Improvements from and after the Commencement Date and for the Base Building Improvements and the Tenant Improvements prior to the Commencement Date and commercial general liability insurance with minimum combined per occurrence coverage of at least Two Million Dollars (\$2,000,000) with such deductibles not exceed Ten Thousand Dollars (\$10,000), as would be carried by a prudent owner of a similar building in Prince George's County, Maryland, or which the holder of the first Mortgage deems necessary for the operation of the Building, but in any event, in an amount not less than eighty percent

(80%) of the full replacement cost for the Base Building Improvements from and after the Commencement Date and for the Base Building Improvements and the Tenant Improvements prior to the Commencement Date. Tenant may require the Landlord to carry additional coverage so long as the coverage is consistent with coverage that would be carried by a prudent owner of a similar building in Prince George's County, Maryland subject to a triple net lease and Tenant pays for such additional coverage as Additional Rent. Landlord may obtain insurance for the Base Building Improvements and the rents from the Building against such other perils as Landlord reasonably considers appropriate. Tenant acknowledges that it will not be named as an additional insured in any such policy and that it has no right to receive any proceeds from any such insurance policies carried by Landlord, except that the Tenant Improvements in Tenant's Premises shall be covered under Landlord's policy only to the extent they are included in the Base Building Improvements. Landlord shall obtain and keep in force during the Term statutory workers' compensation coverage and employer's liability, for all of Landlord's employees with a waiver of subrogation endorsement naming Tenant. Landlord will provide Tenant annually or more frequently upon request with a certificate of insurance confirming that Landlord carries the insurance coverage required by this Lease.

11.3 Insurance by Tenant: From and after the Commencement Date, Tenant shall, at its sole cost and expense, obtain and keep in full force and effect during the Term the following insurance: (a) Special form (all risk except as excluded) or a minimum of fire and extended coverage insurance with a water damage endorsement and with a vandalism and malicious mischief endorsement, for property of Tenant located in the Building and for Tenant Improvements in an amount not less than eighty percent (80%) of its cash value for any property such as standard office furniture, furnishings, equipment, files, and supplies, (b) general liability insurance, including standard contractual liability, personal injury, and property damage insuring against claims and liability arising out of the use or occupancy of the Premises, with combined each lost event coverage of Two Million Dollars (\$2,000,000) which may be satisfied by primary and excess coverage, or in such other amounts as the holder of the first Mortgage shall from time to time require. Except in the event Tenant is self-insured, all insurance policies of Tenant required by this Lease shall be taken out with insurers licensed to do business in Maryland (which insurers shall be reasonably acceptable to Landlord) and shall be in form reasonably satisfactory to Landlord. All liability policies shall name Landlord as an additional insured and any other person holding an interest in the Building designated by Landlord as additional insureds (with respect to liability insurance policies) and as their interests appear (with respect to property insurance policies). Tenant shall deliver copies of certificates evidencing the effectiveness of such policies to Landlord annually upon renewal and more frequently if reasonably requested by Landlord. As an alternative to copies of Tenant's insurance policies, Landlord agrees to accept annual certificates of such insurance upon renewal that in a form satisfactory to Landlord. Notwithstanding the foregoing and in lieu of any or all of the foregoing described insurance requirements, Tenant may elect to self-insure, in which case Tenant will provide to Landlord and to Landlord's mortgagee such information as Landlord shall reasonably request relating to such self-insurance. The right to self-insure shall apply solely to Children's Hospital, a District of Columbia non-profit corporation, and not to any assignee or subtenant thereof. In the event that the original named Tenant or an Authorized Assignee elects to self-insure, Tenant shall deliver written notice to Landlord at least thirty (30) days before the date each year upon which self-insurance shall be effective. Tenant will provide Landlord annually or more frequently upon five (5) business days'

request with a certificate of insurance confirming that Tenant carries the insurance coverage required by this Lease.

**11.4 Waiver of Subrogation:** Notwithstanding anything to the contrary contained herein, Landlord and Tenant hereby mutually waive and release their respective rights of recovery against each other (and any Affiliate or employee of such party and anyone claiming by or through such party) for any loss, damage or injury of any nature to property capable of being insured against by fire and extended coverage insurance or any insurance policy providing property damage coverage, whether carried or not and without regard to the amount of any insurance deductible or self insured amount. The foregoing waiver shall apply regardless of the cause or origin of the claim, including but not limited to the negligence of a party or that party's Affiliates, officers or the employees or invitees of any of them. Landlord and Tenant mutually covenant and agree that each party, in connection with insurance policies required to be furnished in accordance with the terms and conditions of this Lease, or in connection with insurance policies which they obtain insuring such insurable interest as Landlord or Tenant may have in its own properties, whether personal or real, shall expressly waive any right of subrogation on the part of the insurer against Landlord or Tenant as the same may be applicable. Landlord and Tenant hereby make such waiver on behalf of their respective insurer(s), which insurer, by insuring Landlord or Tenant (as the case may be) as contemplated under this Lease, shall be deemed to have acknowledged the provisions hereof. In the event of a conflict between the provisions of this Section 11.4 and any other provisions set forth in this Lease, the provisions of this Section 11.4 shall prevail.

**11.5 Indemnification:**

**11.5.1 By Tenant:** Except to the extent caused by Landlord's gross negligence or willful misconduct, Tenant shall reimburse Landlord for, and shall indemnify, defend upon request and hold Landlord and Landlord Parties harmless from and against, all costs, damages, claims, liabilities, expenses (including attorneys' fees, disbursements and actual costs), losses and court costs suffered by or claimed against Landlord or the Landlord Parties, directly or indirectly, based on or arising out of, in whole or in part, injury to persons or property from (i) the use and occupancy of the Premises and Building, (ii) any breach of Tenant's obligations under this Lease or of any Law applicable to Tenant's operations and use of the Real Property by Tenant and its Affiliates or any assignee or subtenant, (iii) any grossly negligent act or omission of Tenant or its Affiliates, or any of their employees or invitees in the Premises, the Building or the Real Property, (iv) any liability arising out of Tenant's activities under Section 8.4, Section 9.4 or Section 9.5 hereof, or (v) any work performed by Tenant's contractors in the Premises or the Building or which materially and adversely impact the remainder of the Real Property.

**11.5.2 By Landlord:** Except to the extent caused by Tenant's gross negligence or willful misconduct, Landlord shall reimburse Tenant for, and shall indemnify, defend upon request and hold Tenant and Tenant's Parties harmless from and against, all costs, damages, claims, liabilities, expenses (including attorneys' fees, disbursements and actual costs), losses and court costs suffered by or claimed against Tenant or the Tenant's Parties, directly or indirectly, based on or arising out of, in whole or in part, injury to persons or property from (i) any breach of Landlord's obligations under this Lease, (ii) any grossly negligent act or omission of Landlord, its Affiliates, or their employees in the Premises,

the Building or the Real Property, (iii) any work performed by Landlord's contractors in the Premises, the Building, or the Real Property, or (iv) any defects in the Premises, the Building or the Real Property. As used in this Section 11.5.2 only, the term "Tenant Parties" shall include Tenant's parent, Affiliates and subsidiaries and their directors, employees and officers.

11.6 Limitation of Liability: Except as expressly provided for in this Lease, Tenant assumes responsibility for the condition of the Real Property as of the Commencement Date (subject to Punch List Items, Latent Defects and work performed by or behalf of Landlord) and agrees to give Landlord written notice in the event of any damage, defect or disrepair therein. Tenant (a) agrees to use and to occupy the Premises and to place its FF&E and other property therein at its own risk and (b) hereby releases Landlord and each of the Landlord Parties from all claims for any damage or injury to the full extent permitted by law except and to the extent resulting from the gross negligence or willful misconduct of the Landlord or the Landlord Parties. Landlord shall not, be liable for any damage either to person, property or business resulting from the loss of the use thereof sustained by Tenant or by other persons due to the Real Property or any part thereof or any appurtenances thereto becoming out of repair, or due to the happening of any accident or event in or about the Real Property, unless caused by the gross negligence or willful misconduct of Landlord or the Landlord Parties. This provision shall apply particularly, but not exclusively, to damage caused by gas, electricity, snow, ice, frost, steam, sewage, sewer gas or odors, fire, water or by the bursting or leaking of pipes, faucets, sprinklers, plumbing fixtures and windows, and except as provided above, shall apply without distinction as to the person whose act or neglect was responsible for the damage and shall apply whether the damage was due to any of the causes specifically enumerated above or to some other cause of an entirely different kind. Tenant further agrees that all FF&E personal property upon the Real Property, or upon loading docks, recovering and holding areas, or freight elevators of the Building, shall be at the risk of Tenant only, and that Landlord shall not be liable for any loss or damage thereto or theft thereof unless caused by the gross negligence or willful misconduct of Landlord or the Landlord Parties. Notwithstanding the foregoing, Landlord maintains responsibility to deliver the Building, including Landlord Work and Tenant Improvements constructed by the Base Building contractor, in a good and workmanlike manner, in accordance with the Approved Plans and Specifications (defined in Exhibit C), all applicable Laws and the terms and conditions of this Lease. No person holding Landlord's interest hereunder (regardless of whether such person is named as "Landlord" herein) shall have any liability hereunder after such person ceases to hold such interest, except for any such liability accruing while such person holds such interest. Neither Landlord or Tenant, nor any principal of Landlord or Tenant, whether disclosed or undisclosed, shall have any personal liability under any provision of this Lease. If Landlord or Tenant defaults in the performance of any of its obligations hereunder or otherwise, Tenant shall look solely to Landlord's equity, interest, and rights in the Real Property (including rents, sales and insurance proceeds, and any condemnation awards therefrom subject to any applicable restrictions set forth in any Mortgage or Project Document) for satisfaction of Tenant's remedies on account thereof unless a provision of this Lease expressly provides for additional remedies.

## 12. CONDEMNATION:

12.1 Right to Award: If any or all of the Premises are taken by the exercise of any power of eminent domain or are conveyed to or at the direction of any governmental entity under a threat

of such taking (each a "Condemnation"), Landlord shall be entitled to collect from the condemning authority thereunder the entire amount of any award made in such proceeding or as consideration for such deed (including any amount awarded by order of a court), without deduction therefrom for any leasehold or other estate held by Tenant by virtue of this Lease. Tenant hereby (a) assigns to Landlord all of Tenant's right, title, and interest, if any, in and to any such award; (b) waives any right that it may otherwise have in connection with such Condemnation, against Landlord or such condemning authority, to any payment for the value of the then unexpired portion of the Term, leasehold damages, and any damage to or diminution of the value of Tenant's leasehold interest, hereunder or any portion of the Premises not covered by such condemnation; and (c) agrees to execute any further documents that may be required to facilitate Landlord's collection of any such awards.

12.2 Separate Proceeding by Tenant: Subject to the operation and effect of Section 12.1 (Right to Award), Tenant may seek, in a separate proceeding, a separate award on account of any damages or costs incurred by Tenant as a result of such Condemnation, so long as such separate award in no way diminishes any award or payment that Landlord would otherwise receive as a result of such Condemnation.

12.3 Termination: If (a) all of the Premises are covered by a Condemnation, (b) any part of the Premises is covered by a Condemnation and the remainder thereof is insufficient for the operation therein of Tenant's business in the exercise of Tenant's or Landlord's reasonable judgment, or (c) any of the Building is covered by a Condemnation and, in Tenant's or Landlord's reasonable opinion, it would be impractical to restore the remainder thereof, then, in any such event, the Term shall terminate on the date on which possession of so much of the Premises or the Building, as the case may be, as is covered by such Condemnation is taken by the condemning authority thereunder, and all rental additional rental and any other payments and charges payable hereunder shall be prorated and paid to such date.

12.4 Proration: If there is a Condemnation and the Term does not terminate under Section 12.3 (Termination), the operation and effect of this Lease shall be unaffected by such Condemnation, except that the Basic Annual Rental, Taxes and Building Expenses payable under Section 5 (Rent) shall be reduced in proportion to the remaining floor area, if any, of the Premises and/or the Real Property covered by such Condemnation.

12.5 Non-liability of Landlord: If there is a Condemnation, Landlord shall have no liability to Tenant on account of any interruption of Tenant's business on the Premises, diminution in Tenant's ability to use the Premises, or other loss, injury, or damage sustained by Tenant as a result of such Condemnation. Except for any separate proceeding brought by Tenant under Section 12.2 (Separate Proceeding by Tenant), Landlord shall be entitled to conduct any such condemnation proceeding and any settlement thereof free of interference from Tenant, and Tenant hereby waives any right that it might otherwise have to participate therein.

### 13. ASSIGNMENT AND SUBLETTING:

13.1 Tenant shall not mortgage, pledge, or encumber this Lease or Tenant's leasehold estate under this Lease. Tenant shall not, by operation of law or otherwise, assign this Lease, or sublet or underlet any or all of the Premises, or permit any other person or entity to occupy any or all of the Premises, without on each occasion first obtaining Landlord's written consent, which consent Landlord shall not unreasonably withhold, condition or delay. No such action taken with or without Landlord's consent shall in any way relieve or release Tenant from liability for the timely performance of all of Tenant's obligations hereunder. Any assignee of this Lease shall be and become jointly and severally, primarily and personally liable with Tenant for the performance of all of Tenant's covenants and other obligations contained in this Lease. Tenant shall remain primarily responsible for all Lease obligations following any sublet or assignment. In the event of an Event of Default by Tenant which shall have occurred and be continuing, all rental including additional rental from any of its subtenants shall be assigned to Landlord and shall on demand of Landlord, be paid directly to Landlord. Landlord and Tenant shall share equally in all net rental that may inure to Tenant's benefit as a result of any sublease, assignment or subletting to an entity other than to an Affiliate or a member of the Tenant Network in excess of that due and payable to Landlord under this Lease after payment of all reasonable and out-of-pocket costs incurred in connection with such sublease or assignment including market standard brokerage fees, free rent (not to exceed three (3) months), tenant improvement allowance, reasonable legal fees and other reasonable costs.

13.2 Notwithstanding Section 13.1, Tenant may without Landlord's prior consent but with prior or contemporaneous notice to Landlord, sublease or assign all or any portion of the Premises to an Affiliate or member of the Tenant Network, so long as (a) at the time of the proposed sublease there is no Event of Default, (b) the proposed assignee or sublessee (as applicable) agrees to be bound by all of the terms and conditions of this Lease, (c) the Premises continues to be used for its Permitted Use, and (d) an assignment of the Lease or a sublease (whether in a single or multiple transactions) of more than fifty percent (50%) of the Premises may only be made to an Authorized Assignee. Tenant shall remain primarily responsible for all Lease obligations following any sublet or assignment. Tenant may also, without Landlord's prior consent but with prior or contemporaneous notice to Landlord, assign the Lease to an entity that has a net worth and credit rating at least equal to that of Tenant as of the Effective Date ("**Authorized Assignee**"). Notwithstanding anything to the contrary herein, an Authorized Assignee will have all of Tenant's rights and obligations under this Lease. Tenant may sublease all or any part of the Premises or assign the Lease to an entity other than an Affiliate or Authorized Assignee with Landlord's consent, which will not be unreasonably withheld or delayed. In no event shall more than fifty percent (50%) of the Premises be subleased to or otherwise occupied at any one time by any entity other than Tenant or a single Authorized Assignee.

13.3 Tenant may with written notice to but without Landlord's prior consent, permit Affiliates or members of the Tenant Network who have not subleased space, clients, customers, consultants, and business associates working with Tenant (or with any Affiliate of Tenant) to use portions of the Premises on a temporary basis, without any such use or occupancy arrangement constituting a sublease of the Premises (and any such use or occupancy shall be deemed to be "leased" and "occupied" by Tenant). The temporary use and occupancy by any such parties shall not relieve Tenant of any of its

obligations under this Lease. Tenant shall remain primarily responsible for all Lease obligations during any such use or occupancy of the Premises.

13.4 From and after an assignment of this Lease, Landlord shall provide a copy of any notices of default thereafter given to a successor tenant to the original named Tenant, and Landlord shall permit the original named Tenant to cure such default within the applicable cure period (it being understood that as to the original named Tenant, such cure period shall commence upon the delivery of a copy of the default notice to such original name Tenant).

13.5 Upon Tenant's written request, Landlord shall execute and deliver to a sublessee under a Qualified Sublease (as hereinafter defined), a non-disturbance and attornment consent and recognition agreement in form and substance acceptable to Landlord and reflecting the terms and provisions set forth in this Section 13.5 (a "Sublessee Recognition Agreement"). "Qualified Sublease" means a sublease that: (a) obligates the sublessee to pay all rent, taxes, utilities and all other charges paid by Tenant (with respect to sublessee's proportionate share of the Premises), and (b) has been approved in writing by Landlord which approval will not be unreasonably withheld, conditioned or delayed. The Sublessee Recognition Agreement shall provide that, in the event this Lease is terminated for any reason, if no default exists under the sublease (beyond applicable notice and cure periods), then such sublease and the rights of the sublessee thereunder shall not be disturbed by Landlord but shall continue in full force and effect so long as such sublessee shall continue to observe and perform all of its obligations under such sublease. Such sublessee shall attorn to Landlord, including the payment to Landlord of the monthly Basic Annual Rental and Additional Rent equal (on a per rentable square foot basis) to that provided for in the Lease. Such sublease shall become a direct lease between Landlord and such sublessee and those parties will execute and deliver any further reasonable documents at such time to more fully effectuate the foregoing. Notwithstanding the foregoing, in the event of any such attornment, Landlord shall not be: (i) liable for any previous act or omission by Tenant under any such sublease not then continuing; (ii) subject to any offset of rent that shall thereunto have accrued to any such sublessee against Tenant; (iii) bound by any previous prepayment of rent made by any such sublessee to Tenant for more than the current month; or (iv) liable to any such sublessee for any security deposit made by any such sublessee to Tenant unless Tenant pays such security deposit over to Landlord.

#### 14. DEFAULT AND REMEDIES:

14.1 Default: The following shall constitute events of default (each an "Event of Default") by Tenant under this Lease and, in any such event, Landlord shall be entitled to exercise any remedies provided herein or that may be available at law or in equity. An Event of Default shall occur if:

14.1.1 The Premises shall become vacant or deserted during the Term except for (a) periods of restoration following a Casualty or failure of utility service or following a Force Majeure Event, (b) periods required for construction to increase the size of the Premises, and (c) periods not to exceed six (6) months in any forty-eight (48) month period during renovation while redecorations are being performed provided that Tenant shall continue to pay all Basic Annual Rental, Additional Rent

and any other assessed charges therefor during any such dark period unless this Lease shall otherwise expressly provide.

14.1.2 Default be made in the payment of Rent including, but not limited to, Basic Annual Rental and Additional Rent or any part thereof and such failure continues for ten (10) days after Landlord's written notice;

14.1.3 Tenant shall assign this Lease or sublet the Premises or any part thereof except as provided in this Lease, or encumber the leasehold;

14.1.4 Tenant shall fail, within fifteen (15) business days after receiving any written notice of violations thereof, to (i) comply with any Laws now in force or that may hereinafter be in force, pertaining to all or any part of the Premises or (ii) timely provide any documentation to be provided pursuant to Article 17, or shorter period if required by the SNDA or if a shorter period is required to prevent a violation of Law by Landlord. If such violation or failure is not capable of being cured within such fifteen (15) business day period, Tenant shall not be deemed to be in default hereunder if Tenant commences curative action within such fifteen (15) business day period and proceeds diligently and in good faith thereafter to cure such violation or failure within an aggregate of forty-five (45) business days provided that Tenant shall have more time to cure violations of Law with Landlord's consent which will not be unreasonably withheld or delayed so long as Tenant indemnifies and holds harmless Landlord from any cost, loss or liability resulting from such violation of Law.

14.1.5 Tenant fails to maintain the insurance coverage that it is required to maintain under this Lease or any permits, licenses or other regulatory approvals required for Tenant to operate the Permitted Use;

14.1.6 Default be made in the performance of any of the other terms, covenants, and conditions in this Lease (including, but not limited to, the Rules and Regulations on part of Tenant to be kept or performed), and such default remains uncured for a period of thirty (30) days after written notice from Landlord that such default has occurred. If such default is not capable of being cured within such thirty (30) day period, Tenant shall not be deemed to be in default hereunder if Tenant commences curative action within such thirty (30) day period and proceeds diligently and in good faith thereafter to cure such violation or failure within ninety (90) days thereafter.

14.1.7 At any time during the Term, proceedings shall be commenced by or against Tenant in bankruptcy or for reorganization or for the readjustment of debts under the Bankruptcy Code or under any other Law, now or hereafter existing for the relief of debtors, or a receiver or trustee is appointed for Tenant or for any substantial part of its assets, or any proceeding is commenced for dissolution, or the full or partial liquidation, of Tenant, or Tenant makes an assignment for the benefit of its creditors and such proceeding (if involuntary) is not dismissed within sixty (60) days.

14.1.8 Landlord incurs actual material loss as a result of a material breach or untruthfulness of any representation or warranty by Tenant herein and if Tenant fails to compensate

Landlord for such loss within fifteen (15) business days, in a manner acceptable to Landlord acting reasonably after receipt of written notice thereof.

14.2 **Remedies:** Upon any Event of Default which has occurred, Landlord shall have the right without further notice or demand to pursue any of its rights and remedies at Law or in equity, including but not limited to any one or more of the following remedies, concurrently or successively: (i) terminate this Lease; (ii) enter the Premises, change locks, alter security devices and lock out Tenant or terminate Tenant's right of possession of the Premises either in connection with a termination of this Lease or without terminating this Lease provided the same is consistent with and does not violate any applicable Law, (iii) remove and store, at Tenant's sole cost and expense, all the FF&E and other personal property of Tenant property in the Premises or elsewhere on the Real Property using such lawful force as may be necessary provided the same is consistent with and does not violate any applicable Law or any of Tenant's permits, licenses or other regulatory approvals; (iv) cure such Event of Default for Tenant at Tenant's sole cost and expense (plus a 10% administrative fee); (v) withhold or suspend payment of sums Landlord would otherwise be obligated to pay to Tenant under this Lease or any other agreement; and/or (vi) recover such amounts as may be permitted from time to time by applicable Law, including without limitation, reasonable attorneys' fees, broker or leasing fees, tenant improvements costs, and any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom. Notwithstanding the foregoing, Tenant shall remain liable as provided elsewhere in this Lease. Tenant shall pay as additional rental at the same time as the rental becomes payable under these terms hereof a sum equivalent to the rental and additional rental reserved herein, and Landlord shall attempt in good faith to relet the Premises or any part or parts thereof in the name of Landlord or otherwise, for a term or terms that may at Landlord's option be less than or exceed the period that would otherwise have constituted the balance of the Term, provided that Landlord's reletting obligations shall be limited to listing the Premises for reletting and/or the Building for sale and engaging a broker (which may be a broker employed by Landlord or by an Affiliate of Landlord) and following up on all reasonable inquiries as determined in Landlord's sole discretion. If the Premises or any part or parts thereof are relet by Landlord, Tenant shall nevertheless remain liable for any deficiency between the rental and additional rental reserved herein or covenanted to be paid and any proceeds of such reletting, after deducting from such proceeds all and reasonable actual expenses incurred by Landlord in connection with repossession and reletting, including, but not limited to, legal expenses, reasonable attorneys' fees, brokerage commissions, and expenses of keeping the Premises in good order and preparing and altering the same for reletting. Tenant shall not be entitled to any excess rental above that covenanted to be paid by Tenant under this Lease. The failure of Landlord to relet the Premises or any part thereof shall not release or affect Tenant's liability hereunder. Any sums due to Landlord shall be paid in monthly installments by Tenant on the rent day specified in this Lease and any suit brought to collect on the amount due for any month shall not prejudice in any way the rights of Landlord to collect any due for any subsequent month. Landlord may, at its option, make alterations, repairs, and replacements to the Premises and paint the Premises as Landlord may consider reasonably advisable to relet the Premises or any part thereof and the making of such alterations, repairs, and replacements and the painting shall not be construed as releasing Tenant from liability hereunder. The cost of making such alterations, repairs, and replacements and painting shall be at the expense of Tenant, and shall constitute additional rental under this Lease.

Notwithstanding anything to the contrary contained in this Lease, (a) Landlord shall exercise commercially reasonable efforts to mitigate any damages it may incur as a result of Tenant's default hereunder, which obligation shall be satisfied by listing the Premises for reletting and/or the Building for sale as aforesaid, (b) any expenses incurred by Landlord related to any re-leasing of the Premises shall be amortized on a straight-line basis over the greater of the remaining term of the Lease or the new lease for the Premises, and (c) Tenant shall be liable for only that portion of the foregoing expenses within the Initial Term. In no event shall Landlord be permitted to recover indirect, punitive or consequential damages from Tenant based on any Event of Default of Tenant.

14.2.1 Right to Terminate Lease: On an Event of Default, Landlord shall have the option, after notice to Tenant, to terminate this Lease and the Term shall immediately expire and come to an end and Tenant shall then quit and surrender the entire Premises to Landlord and Landlord or its agents and employees may, pursuant to applicable legal proceedings and without further notice, re-enter the Premises and remove all persons and contents. Tenant shall nevertheless remain liable on all of the terms of this Lease and shall reimburse Landlord as additional rent for all reasonable expenses incurred by Landlord for repossessing and reletting all or any portion of the Premises, including, but not limited to, legal expenses, reasonable attorneys' fees, brokerage commissions, and expenses of keeping the Premises in good order and preparing and altering the same for reletting.

14.2.2 Non-Exclusive Remedies: Any mention in this Lease of any particular remedy shall not preclude Landlord from exercising or pursuing any remedy in law or in equity. Election by Landlord of its right to terminate possession of the Premises and Building by Tenant shall not preclude Landlord from subsequently exercising its right to terminate this Lease. Tenant hereby waives any rights of redemption granted by or under any present or future Laws.

14.2.3 Cure by Landlord: If an Event of Default occurs, Landlord shall have the immediate right, in addition to all rights and remedies outlined in this Section 14.2 (Remedies), to cure the Event of Default for the account of and at the cost and expense of Tenant together with a ten percent (10%) administrative fee, and the full amount so expended by Landlord, plus interest thereon at the annual rate equal to the Interest Rate shall immediately be due and owing by Tenant to Landlord as additional rental hereunder. Landlord's cure of the Event of Default shall cure Tenant's Event of Default.

14.2.4 Repeated Events of Default. Notwithstanding any such cure without termination, Landlord may at any time following the second occurrence of the same Event of Default within any rolling twelve (12) month period immediately terminate this Lease for a subsequent occurrence of the same Event of Default following the second occurrence of the same Event of Default.

14.2.5 Damages Upon Termination. If Landlord terminates this Lease upon any Event of Default, in addition to any other remedies it may have under this Section 14.2, at law and in equity, it may recover from Tenant (i) all sums which were due prior to the date of termination, including all costs and reasonable attorneys' fees, together with interest at the Default Rate until paid in full, and (ii) all direct and actual damages incurred by reason of such breach or default, including (a) all reasonable attorney's fees, costs and expenses, including through the trial and appellate level, (b) out of pocket costs

of retaking the Premises, (c) with respect to all future Basic Annual Rent, a sum (the "Liquidated Damages Amount") equal to the difference between (y) the present value of Basic Annual Rental, discounted to the date of termination to present worth at the Discount Rate (hereinafter defined), which would be payable from the date of termination through what would have been the then unexpired Term, less (z) the present value of the fair market rental rate of new leases in like or similar space in Comparable Building(s) for the same use, discounted to the date of termination to present worth at the Discount Rate, which would be payable from the date of termination through what would have been the then unexpired Term as determined pursuant to the Three Broker Method, and after deducting Landlord's reasonable costs incurred in connection with Landlord's mitigation efforts, including those incurred in connection with placing the Real Property in a condition suitable for re-letting and in connection with the re-leasing of the Real Property (including reasonable brokerage and attorneys' fees), and (d) with respect to Additional Rent, a sum equal to all future Additional Rent, which shall be calculated based on the annualized Additional Rent payable during the Lease Year in which termination occurs, increased by 3.25%. "Discount Rate" shall mean four (4) percentage points above the discount rate then in effect at the Applicable Reserve Bank. It is hereby acknowledged and agreed by Landlord and Tenant that the Liquidated Damages Amount to be paid by Tenant is not a penalty, but a reasonable and equitable pre-estimate of the damages which would be incurred by Landlord (which damages are impossible to calculate more precisely) and in that regard, constitutes liquidated damages and not a penalty, with respect to damages incurred by Landlord as a result of the applicable Event of Default and termination of this Lease. Notwithstanding anything to the contrary contained herein, Tenant shall only be responsible for such Liquidated Damages Amount relating to the reletting of the Premises that are allocable to the then remaining current Term under the Lease, unless as of the date of termination, Tenant had exercised a right of renewal, in which event the renewal period shall be included in the calculation. Alternatively, in lieu of the Liquidated Damages Amount, Landlord may elect to recover from time to time, all future Basic Annual Rental and all future Additional Rent owed under this Lease as they accrue, less any rental amounts actually received from Landlord in connection with the re-letting of the Premises, plus Landlord's reasonable costs incurred in connection with Landlord's mitigation efforts, including but not limited to those incurred in connection with placing the Real Property in a condition suitable for re-letting and in connection with the re-leasing of the Real Property, which shall include all broker fees and attorneys' fees in connection with the same.

14.2.6 Set-off. Tenant hereby agrees that for so long as a Tenant Event of Default hereunder shall have occurred and be continuing, Landlord may hold back, offset and fail to pay to Tenant any amount due from Landlord to Tenant hereunder in exchange for any amount due from Tenant to Landlord hereunder which was not paid by Tenant.

14.2.7 Waiver of Rights of Redemption. To the extent permitted by Law, Tenant waives any and all rights of redemption granted by or under any present or future Law if Tenant is evicted or dispossessed for any cause, or if Landlord obtains possession of the Premises due to Tenant's default hereunder or otherwise.

14.2.8 Bankruptcy. If this Lease is not terminated as aforesaid because such termination is not permitted under the United States Code (the "Bankruptcy Code"), then upon the filing of

a petition by or against Tenant under the Bankruptcy Code, Tenant, as debtor and debtor-in-possession, or any trustee who may be appointed, agrees: (i) to perform each and every obligation of Tenant under this Lease until such time as this Lease is either rejected or assumed by order of the United States Bankruptcy Court; (ii) to reject or assume this Lease within ninety (90) days of the filing of such petition under the Bankruptcy Code or such shorter period of time as allowed by the bankruptcy rules; (iii) neither Tenant nor any trustee shall seek any extension of any period for the rejection or assumption of this Lease; (iv) that all amounts payable by Tenant to or on behalf of Landlord hereunder, whether or not expressly denominated as Rent, shall constitute "rent" for the purposes of Section 502(b)(7) of the Bankruptcy Code, including, without limitation, reasonable attorney's fees incurred by Landlord by reason of Tenant's bankruptcy; (v) the Premises shall be deemed a lease of real property in a shopping center for purposes of Section 365(b)(3) of the Bankruptcy Code, and Landlord shall be entitled to all adequate assurance of future performance required with respect to the assumption and assignment of shopping center leases under the Bankruptcy Code, in addition to any additional and further adequate assurances and requirements imposed by a Bankruptcy Court; (vi) in no event after the assumption of this Lease shall an existing default remain uncured for a period more than the earlier of twenty (20) days or the time period specified in this Lease; (vii) Landlord shall have no obligation to provide Tenant or any trustee with services or utilities unless all payments of Rent are paid current; and (viii) neither Tenant's interest in this Lease, nor any estate created hereby in Tenant nor any interest herein or therein, shall pass to any trustee or receiver or assignee for the benefit of creditors or otherwise by operation of law except as may specifically be provided by the Bankruptcy Code. Nothing contained in this Section 14.2.8 shall be deemed in any manner to limit Landlord's rights and remedies under the Bankruptcy Code, as presently existing or as may hereafter be amended. Landlord reserves any and all rights and remedies provided herein or at Law.

14.3 Landlord's Default: Landlord shall be in an Event of Default of this Lease if any of the following events occur:

14.3.1 The failure of Landlord to make payment of any sums required to be paid by Landlord under this Lease when and as the same shall become due and payable, and such failure continues for ten (10) days after Tenant's written notice.

14.3.2 Default be made in the performance of any of the other terms, covenants, and conditions in this Lease on part of Landlord to be kept or performed and such default remains uncured for a period of fifteen (15) business days after written notice from Tenant that such default has occurred (provided that if such other provision hereof contains a notice and cure period, such other notice and cure period shall apply). If such default is not capable of being cured within such fifteen (15) business day period, Landlord shall not be deemed to be in default hereunder if Landlord commences curative action within such fifteen (15) business day period and proceeds diligently and in good faith thereafter to cure such violation or failure and in fact cures such violation or failure within an aggregate of ninety (90) days thereafter or within such shorter cure periods as may apply to specific Landlord defaults under other provisions of this Lease.

14.3.3 Tenant incurs actual material loss as a result of a material breach or untruthfulness of any representation or warranty by Landlord herein and if Landlord fails to compensate

Tenant for such loss within thirty (30) days, in a manner acceptable to Tenant acting reasonably after receipt of written notice thereof.

14.4 Tenant's Remedies: If there is a Landlord Event of Default as provided above, Tenant shall have no right to terminate this Lease nor withhold/offset any rent payment based upon an uncured default by Landlord in the performance of Landlord's obligations under this Lease except as expressly provided for in this Lease. Tenant shall have all rights and remedies expressly stated under this Lease and in addition, Tenant may seek to recover from Landlord an amount representing appropriate actual, compensatory damages for breach of contract or tort based on any such uncured default by Landlord including reasonable out-of-pocket costs incurred to cure and reasonable attorneys' fees and costs at the trial and appellate level, but not otherwise and in no event shall Tenant be permitted to recover indirect or consequential from Landlord based on any such uncured default of Landlord. In addition to the foregoing, in the event Landlord fails to perform any of its obligations hereunder and the Lease does not otherwise provide Tenant with a specific cure period and/or remedy for such failure, and Landlord fails to cure in accordance with Section 14.3.2, Tenant may elect, but is not obligated, to perform such obligations on behalf of Landlord, whereupon Landlord shall promptly reimburse Tenant for all reasonable out-of-pocket costs associated with such cure including reasonable attorneys' fees at the trial and appellate level by Tenant plus a ten percent (10%) administration fee and interest on such amount at the Interest Rate until paid in full in accordance with the provisions of this Lease. Tenant may offset such amount against Basic Rent provided that any such offset shall not exceed twenty-five percent (25%) of each monthly installment of Basic Annual Rental, until full reimbursement is made.

14.5 Non-Exclusive Remedies: Any mention in this Lease of any particular remedy shall not preclude a party from exercising or pursuing any remedy in law or in equity.

15. LANDLORD'S RIGHT OF ENTRY: Landlord shall have the right, without abatement of rent, to enter the Premises at all reasonable times to examine the same, or to make such repairs and alterations as Landlord shall deem necessary (including, but not limited to, the installation of pipes, ducts, conduits, wires, appurtenant fixtures, and mechanical systems to serve the Building) and also to exhibit the Premises to be let during the last nine (9) months of the Term. Landlord shall give Tenant twenty four (24) hours' notice before entering the premises, except in the case of an emergency and will attempt in good faith to minimize unreasonable interference with Tenant's business in the Premises. Nothing herein contained, however, shall be deemed or construed to impose on Landlord any obligation, responsibility, or liability whatsoever, for the care, supervision, or repair of all or any part of the Building, other than as herein elsewhere expressly provided. In addition, during any apparent emergency, Landlord or Landlord's agents and their employees may enter the Premises forcibly without liability therefor and without in any manner affecting Tenant's obligations under this Lease. Nothing herein contained, however, shall be deemed to impose upon Landlord any obligation, responsibility or liability whatsoever, for any care, maintenance or repair except as otherwise herein expressly provided. Tenant shall ensure that Landlord at all times from and after the Effective Date and during the Term has the correct keys necessary to gain access to the Premises in the furtherance of its rights under this Lease. Landlord's activities in accordance with and pursuant to this Section 15 shall not be construed as an eviction of Tenant, nor render Landlord liable in damages, nor entitle Tenant to an abatement of rent, nor release

Tenant from the obligation to fulfill any of the covenants under this Lease. After twenty four (24) hours' prior notice to Tenant or whenever an Event of Default by Tenant then exists, Landlord may exhibit the Premises to potential and current lenders and their representatives. Landlord's right of entry described in this Section 15 shall be subject only to those restrictions and controls required to be maintained by Tenant under applicable Law or any of Tenant's permits, licenses or other regulatory approvals.

16. MECHANICS' LIENS: Tenant shall not permit, and shall indemnify, defend, and hold harmless Landlord for any mechanics' or materialmen's liens against the Premises or any part thereof, arising through Tenant, or any person furnishing work, labor, services, or materials to the Premises or to fixtures located thereon, and claiming directly or indirectly through or under Tenant, or through or under any act or omission of Tenant; provided, however, that if such a mechanics' or materialmen's lien is established against the Premises arising out of a bona fide dispute with the subcontractor or supplier making claim for same, the establishing of such a lien shall not be deemed a breach hereunder, so long as Tenant posts an adequate bond for the amount of such lien or otherwise posts monies, which amounts are sufficient to release the Premises from the lien. Similarly, Landlord shall not permit, and shall indemnify, defend, and hold harmless Tenant for any mechanics' or materialmen's liens against the Premises or any part thereof, arising through Landlord, or any person furnishing work, labor, services, or materials to the Premises or to fixtures located thereon, and claiming directly or indirectly through or under Landlord, or through or under any act or omission of Landlord; provided, however, that if such a mechanics' or materialmen's lien is established against the Premises arising out of a bona fide dispute with the subcontractor or supplier making claim for same, the establishing of such a lien shall not be deemed a breach hereunder, so long as Landlord posts an adequate bond for the amount of such lien or otherwise posts monies, which amounts are sufficient to release the Premises from the lien.

17. SUBORDINATION, ATTORNMENT:

17.1 Subordination: Tenant accepts this Lease, and the tenancy created hereunder, subject and subordinate to the lien, operation, and effect of any Mortgage on or affecting the Building or any part thereof Tenant shall at any time hereafter, within ten (10) business days after request, execute any instruments, leases, or other documents that may be required by any holder of a Mortgage, of or by Landlord to subject or subordinate this Lease and the tenancy created hereunder to the lien, operation, and effect of any such Mortgage, provided that the holder of such Mortgage enters into an SNDA with Tenant pursuant to Section 17.3, below. Tenant's failure to so execute any such instruments, releases, or documents shall constitute an Event of Default hereunder. Tenant acknowledges the right of the holder of any Mortgage on all or any part of the Building, whether presently existing or hereafter created, to subordinate the lien, operation, and effect of all or any portion of the Mortgage to this Lease. On not less than ten (10) business days' notice, Tenant shall execute, acknowledge, and deliver to such holder Tenant's agreement to such a subordination in the form attached hereto as **Exhibit D** or on such other commercially reasonable form as such holder and Tenant may mutually agree.

17.2 Attornment: On any termination of Landlord's interest in the Premises, (whether through foreclosure of a Mortgage or otherwise), Tenant shall, on request, attorn to the person or organization then holding title to the reversion of the Premises, provided (a) such person or organization

assumes Landlord's obligations hereunder (the "Successor"), and (b) the Successor agrees not to disturb Tenant's leasehold hereunder so long as there is not a Tenant Event of Default hereunder. In such event Tenant shall will pay to the Successor all of the rents and other monies required to be paid by Tenant hereunder and perform all of the other terms, covenants, conditions, and obligations on its part in this Lease contained.

17.3 SNDA: Notwithstanding anything contained in this Section 17 to the contrary, if, as of the date of Landlord's execution of this Lease or as of the Commencement Date, this Lease is subordinate to any existing fee or Mortgages covering the Real Property on which the Building is to be built or will be subject to such liens as of the Commencement Date ("Acquisition Loan"), Landlord shall obtain within thirty (30) days thereafter a SNDA by and between the Tenant and such prior party as provided for in and subject to the provision of Section 2.17.2. Tenant shall not have any obligation to subordinate this Lease to the lien of any future mortgage, deed of trust, or ground lease unless the holder of such mortgage or deed of trust, or the ground lessor, as applicable, enters into a subsequent SNDA ("Subsequent SNDA") with Tenant in a form that is mutually acceptable to Tenant, acting reasonably and such party. If required by the provisions of the SNDA and subject to Landlord's approval of the same, such approval not to be unreasonably withheld, conditioned or delayed, Landlord shall also execute the Subsequent SNDA.

18. ESTOPPEL CERTIFICATE: On request of Landlord or any other person, firm, corporation, or other entity having an interest in the Premises, Tenant shall from time to time deliver or cause to be delivered to Landlord or such other person, within ten (10) days from the date of demand, without charge, a written statement, duly executed and acknowledged in recordable form, certifying (a) that this Lease is valid and subsisting, unmodified, and in full force and effect as of the date of such certification (or, if there has been any modification thereof, that it is in full force and effect as so modified, stating therein the nature of such modification), (b) that to Tenant's actual knowledge, Landlord is not in default under any of the terms of this Lease, or if Landlord is in default, the exact nature of such default, (c) that Tenant has accepted possession of the Premises, the Commencement Date and the Rental Commencement Date, (d) that Tenant is not in default under any of the terms of this Lease (except as may be expressly set forth by Tenant as a qualification of such certification), (e) the date through which all rents hereunder have been paid, (f) the amount of any prepaid rents under this Lease, and (g) as to any other fact or condition, with respect to the Lease or tenancy reasonably requested by Landlord, any Mortgagee of the Building or prospective Mortgagee or purchaser of all or any of the Premises or the Building or any assignee or prospective assignee of any interest of Landlord under this Lease. Landlord will provide not more than annually an equivalent reciprocal estoppel certificate at Tenant's request.

19. NOTICES: Any notices required or permitted to be given under this Lease shall be in writing and may be delivered personally, by certified mail return receipt requested or by a nationally recognized overnight delivery service to Landlord at its office at the address set forth in Section 1.1 (1919 West Street, Suite 100, Annapolis, Maryland 21093) and to Tenant at 111 Michigan Avenue, N.W., Washington, DC 20010, Attn: Executive Director, Ambulatory Services, with a copy to Tenant, at 111 Michigan Avenue, N.W., Washington, DC 20010, Attn.: Executive Vice President, Chief Legal Officer, and another copy to Tenant, at 111 Michigan Avenue, N.W., Washington, DC 20010, Attn.: Charles

Weinstein, Esq., Executive Vice President, Chief Real Estate and Facility Officer. Any notice given by overnight delivery service shall be deemed received one (1) business day after the date such notice and the required copies are mailed as provided in this Section.

20. MISCELLANEOUS:

20.1 Waivers: The acceptance of rent or other payments by Landlord, or the endorsement or statement on any check or any letter accompanying any check for rent or other payment shall not be deemed an accord or satisfaction or waiver of any obligation of Tenant regardless of whether Landlord had knowledge of any breach of such obligation. Neither failure to insist on compliance with any of the terms, covenants, or conditions, nor any waiver or relinquishment of any right or power hereunder, at any one time or more times, shall be deemed a waiver or relinquishment of such rights and power at any other time or times or under any other circumstances.

20.2 Entire Agreement: This Lease and the exhibits and addenda set forth below, contain all of the terms and conditions agreed on by Landlord and Tenant for the Premises and the Building.

EXHIBIT A -	PLANS SHOWING THE PREMISES
EXHIBIT A-1 -	LEGAL DESCRIPTION OF THE LAND
EXHIBIT A-2 -	PLANS SHOWING THE SHOPPING CENTER
EXHIBIT B -	RULES AND REGULATIONS
EXHIBIT C -	WORK AGREEMENT
EXHIBIT C-1 -	BASE BUILDING PRELIMINARY SITE PLAN REQUIREMENTS AND BASIC BUILDING REQUIREMENTS
EXHIBIT C-2 -	MILESTONE SCHEDULE
EXHIBIT C-3 -	MATRIX OF BASE BUILDING/TENANT IMPROVEMENT WORK
EXHIBIT C-4 -	INTENTIONALLY DELETED
EXHIBIT C-5 -	FORM OF LANDLORD/TENANT BUDGET
EXHIBIT D -	FORM OF SUBORDINATION NON-DISTURBANCE AND ATTORNMENT AGREEMENT
EXHIBIT E -	FORM OF DEVELOPMENT AND COMPLETION GUARANTY

All prior negotiations, correspondence, and agreements are superseded by this Lease and any other contemporaneous documents. As of the date hereof, all prior leases and agreements between Landlord and Tenant are terminated. No officer or employee of any party has any authority to make any representation or promise not set forth in this Lease and other contemporaneous documents, and each of the parties hereto agrees that it has not executed this Lease in reliance on any representations or promise not set forth in this Lease or such contemporaneous documents. This Lease may not be modified or changed except by written instrument signed by Landlord and Tenant. Notwithstanding the foregoing, if in connection with obtaining construction, interim, or permanent financing for the Building, the lender

shall request reasonable modifications in this Lease as a condition to such financing, Tenant shall promptly consent to the same, provided that such modifications do not increase the obligations of Tenant hereunder or materially decrease Tenant's rights, or adversely affect the leasehold interest hereby created or Tenant's rights hereunder.

20.3 Covenant to Survive: If any covenants or obligations are yet to be performed by Tenant as of the date of expiration or other termination of this Lease, regardless of whether they are then known or determined, including, but not limited to, the payment or overpayment of Building Expenses and of other rents accruing under this Lease as of such date, such covenants and obligations shall survive the expiration or other termination of this Lease.

20.4 Maryland Law: This Lease shall be given effect and construed by application of Maryland law, without regard to principles of conflict of laws. Any action or proceeding arising hereunder shall be brought in the courts of Maryland; provided, however, that if any such action or proceeding arises under the Constitution, laws or treaties of the United States of America, or if there is a diversity of citizenship between the parties thereto, so that it is to be brought in a United States District Court, it shall be brought in the United States District Court for the Northern District of Maryland.

20.5 Time of Essence: Time is of the essence in every particular, and particularly where the obligation to pay money is involved.

20.6 Captions: All headings anywhere contained in this Lease are intended for convenience of reference only and are not to be deemed or taken as a summary of the provisions to which they pertain or as a construction thereof.

20.7 Severability: If any term or provision of this Lease or the application thereof to any person or circumstances shall to any extent be invalid or unenforceable, the remainder of this Lease or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by Law.

20.8 Recordation: If at any time Landlord or any Mortgagee of Landlord's interest in the Premises shall require the recordation of this Lease or memorandum thereof, such recordation shall be at Landlord's expense. If at any time Tenant shall desire the recordation of this Lease or memorandum thereof, such recordation shall be permitted at Tenant's expense and after fifteen (15) days written notice of intended recordation to Landlord. If the recordation of this Lease shall be required by any valid governmental order, or if any governmental authority having jurisdiction in the matter shall assess and be entitled to collect recordation and transfer taxes on this Lease, Tenant shall execute such acknowledgments as may be necessary to effect such recordation. All recordation and transfer taxes and all other assessments associated with the recordation of this Lease or Memorandum thereof shall be paid by the party seeking to record.

20.9 Construction: As used herein the term “person” shall mean a natural person, a trustee, a corporation, a partnership, a limited liability company, and any other form of legal entity; and all reference made (a) in the neuter, masculine, or feminine gender shall be deemed to have been made in all such genders, (b) in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well, and (c) to any section, paragraph, or subparagraph shall unless therein expressly indicated to the contrary, be deemed to have been to such section, paragraph, or subparagraph of this Lease.

20.10 Tenant as Entity: If Tenant executes this Lease as a corporation, partnership, limited liability company, trust or other entity, then Tenant represents and warrants that the individuals executing this Lease on Tenant's behalf are duly authorized to execute and deliver this Lease on its behalf in accordance with a duly adopted authorizing resolution of Tenant, a copy of which is to be delivered to Landlord on execution hereof, and in accordance with the organizational documents of Tenant and that this Lease is binding on Tenant in accordance with its terms.

20.11 Indemnification: In each instance in this Lease that a party agrees to indemnify, defend, and hold the other harmless, (a) a party's indemnification of the other shall be against any and all liabilities, claims, fines, damages, costs, expenses, and fees, including reasonable attorneys' fees, causes of action and judgments and executions thereon, of any kind and nature, and (b) such defense counsel shall be reasonably acceptable to the indemnified party in all respects.

20.12 Merger: There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in the Premises or any part thereof because the same person, firm, corporation, or other legal entity may acquire or hold, directly or indirectly, this Lease or the leasehold estate and the fee estate in the Premises or any interest in such fee estate without the prior written consent of the Mortgagee.

20.13 Transfer by Landlord: Subject to the terms of this Lease, Landlord Transfers will be permitted only pursuant to the following conditions. Landlord will reimburse Tenant for any cost that Tenant incurs as a result of the Transfer, or in connection with confirming that the Transfer is permitted or that Tenant consents to the Transfer under the term of the Lease, including reasonable attorney's fees, additional management costs in connection with construction and any delays in development and construction of the Project resulting from such Transfer, provided that reimbursement of such costs will be limited to actual and reasonable third party costs, without mark-up and, in any event, not to exceed Ten Thousand Dollars (\$10,000.00). Tenant will not recognize Landlord's Transfer, the Transfer will be of no force and effect, and Landlord will not be released from liability under the Lease unless the following conditions are satisfied.

(i) Until the Commencement Date of the Lease and completion of any Punch List Work pursuant to Section 7 hereof, no Landlord Transfer may be made without Tenant consent, which will not be unreasonably withheld, conditioned or delayed provide that:

(a) All of the conditions set forth in Section 20.13(ii) have been satisfied;

(b) Walt Petrie and Terry L. Richardson, jointly and severally, will execute a Completion Guaranty in the form of Exhibit E; and

(c) Walt Petrie and Terry L. Richardson, or an entity that they own and control, will manage the Landlord entity with sole and irrevocable authority to make all decisions regarding construction, including the sole right to resolve disputes with Tenant.

(ii) After the Commencement Date of the Lease and completion of the Punch List Work, a Landlord Transfer may occur without Tenant's consent, but with written notice to Tenant which notice will provide Tenant with such information as Tenant may reasonably require to confirm that the following conditions have been met:

(a) The Landlord Transferee will have a credit rating at least equal to the credit rating of Landlord as of the Commencement Date and financial capacity reasonably required to fulfill Landlord's obligations under the Lease; and

(b) The Landlord Transferee cannot be Johns Hopkins Medicine, INOVA Fairfax Hospital, MedStar, University of Maryland Hospital or their respective affiliates or holding companies.

(c) The Landlord will have complied with the Tenant's right of first offer pursuant to Section 22 of this Lease.

**20.14 Inability to Perform:** If either Landlord or Tenant is in any way delayed or prevented from performing any obligation (except, with respect to either party's obligations to pay rent or any other sums due under this Lease), due to fire, act of God, governmental act or failure to act, strike, industry wide labor dispute, inability to procure materials, or any cause beyond Landlord's or Tenant's (as applicable) reasonable control (whether similar or dissimilar to the foregoing events), then the time for performance of such obligation shall be excused for the period of such delay or prevention and extended for a period equal to the period of such delay or prevention. Financial disability or hardship shall never constitute a force majeure event. Nothing contained in this Section shall be deemed to impose any obligation on either party not expressly imposed by other paragraphs of this Lease.

**20.15 Landlord's Financial Capacity:** Landlord will provide evidence, satisfactory to Tenant in its reasonable discretion, of Landlord's financial ability to complete Landlord's Work and Tenant's Improvements within sixty (60) days following the Effective Date, which requirement shall be satisfied upon delivery to Tenant of a term sheet from Landlord's Mortgagee for the acquisition of the Building and performance of the Landlord Work described in Exhibit C. Such term sheet may be redacted to delete privileged information and other information not dispositive of confirmation of the Mortgagee's agreement to provide funding. The Acquisition Loan, together with the equity that

Landlord's equity investors have committed to Landlord's Lender to contribute to the Project must be sufficient, in Tenant's reasonable opinion, for the construction of the improvements to be constructed on the Land pursuant to the terms and conditions of this Lease.

20.16 Waiver of Jury Trial: Landlord and Tenant hereby waive trial by jury in any action or proceeding to which they or any of them may be a party arising out of or in any way related to this lease. It is understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings. This waiver is knowingly, willingly, and voluntarily made by Landlord and Tenant, and each party represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Landlord and Tenant acknowledge and agree that this provision is a specific and material aspect of this Lease. Landlord and Tenant each represent that it has been represented (or has had the opportunity to be represented) in the signing of this lease and in the making of this waiver by independent legal counsel, and that it has had an opportunity to discuss this waiver with counsel.

20.17 Prohibited Persons and Transactions: Tenant represents to Landlord that (i) neither Tenant nor any person or entity that directly owns a 10% or greater equity interest in it nor any of its officers, directors or managing members is a person or entity (each, a "Prohibited Person") with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury (including those named on OFAC's Specially Designated and Blocked persons List) or under Executive Order 13224 (the "Executive Order") signed on September 24, 2001, and entitled "Blocking Property and Prohibiting transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action, (ii) that Tenant's activities do not violate the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders promulgated thereunder (as amended from time to time, the "Money Laundering Act"), and (iii) that throughout the term of this Lease, Tenant shall comply with the Executive Order and with the Money Laundering Act.

20.18 Covenants and Restrictions Affecting the Real Property: Landlord and Tenant agree and acknowledge that the Real Property is located within a mixed use development known as Woodmore Towne Centre (the "Project"). Tenant agrees and acknowledges that this Lease is currently subject and subordinate to all easements, covenants, restrictions, and other matters which affect title to the Real Property, set forth as permitted exceptions in First American Title Insurance Company Commitment No NCS-342305-MD61 dated May 25, 2017 and updated to the date the Land is acquired, Schedule B, Section 2, Exceptions 1, 2, 3, 5 - 21 (collectively, the "Project Documents") and Landlord represents and warrants that, as of the Commencement Date, the Lease will be subordinate only to (i) the Project Documents (as amended by the recorded Covenant Amendment, (ii) the documents securing the Acquisition Loan, (iii) easements required in the normal course of business to develop the Project, and (iv) any other documents reasonably requested by Landlord and approved by Tenant, which approval will not be unreasonably withheld, conditioned or delayed provided that in all instances such additional documents or easements do not materially and adversely affect Tenant or Tenant's rights under this Lease.

Tenant agrees that this Lease shall at all times be subject and subordinate to the Project Documents including any documents entered into between Landlord and Tenant after the Effective Date, as these may be modified, amended or supplemented from time to time (provided, however, that unless requested or directed by Tenant such modifications, amendments or supplements shall not materially interfere with, or increase Tenant's costs in connection with, the Permitted Use or Tenant's conduct of its business in the Premises) and that Tenant shall use and occupy the Premises in accordance with the Project Documents. Tenant's failure to comply with any of the Project Documents within the cure periods set forth therein after Tenant's receipt of written notice from Landlord or any third party permitted to send such notices under the Project Documents shall constitute an Event of Default hereunder. Upon the occurrence of such Event of Default, Landlord shall have available all rights and remedies set forth in this Lease. In addition, Tenant agrees to indemnify and hold harmless Landlord from and against any and all losses, costs, and expenses incurred by Landlord as a result of Tenant's failure to comply with the Project Documents. Landlord shall not agree to any amendment, modification, alteration or cancellation of the Project Documents if, in Landlord's reasonable opinion, it would materially and adversely affect Tenant's tenancy under this Lease or otherwise materially and adversely affect the operation of Tenant's business.

20.19 Brokerage Commissions: Landlord shall pay all brokers representing Landlord and Tenant under separate written agreement and each party shall hold harmless the other party from all damages resulting from any claims that may be asserted against the other party by any broker, finder, or other person, with whom the other party has or purportedly has dealt. In such regard, Landlord and Tenant represent and warrant to each other that the only brokers involved in the procuring and execution of this Lease are Jones Lang LaSalle Brokerage, Inc. on behalf of Tenant.

20.20 Dispute Resolution:

20.20.1 In the event that any claim, dispute or controversy arising out of or relating to this Lease (including the breach, termination or invalidity thereof, and whether arising out of tort or contract) ("**Dispute**") cannot be resolved informally within five (5) business days after the Dispute arises, either party may give written notice to the other party requesting that a representative of each parties' respective senior management meet in an attempt to resolve the Dispute. Each senior management representative shall have full authority to resolve the Dispute and shall meet at a mutually agreeable time and place within ten (10) business days (or such longer time, if agreed in writing by the parties) after receipt by the non-notifying party of such notice. If the senior management representatives cannot resolve the Dispute, either party may initiate legal or equitable proceedings, in accordance with this Section 20.20. Pending resolution of any Dispute, except as expressly provided herein each party shall each continue to perform all of its obligations under this Lease.

20.20.2 The parties agree that any Dispute relating to payment of Building Expenses or Tenant Allowances and calculations of fair market value, which are not resolved pursuant to Section 20.20.1 may be decided by Dispute Resolution (hereinafter defined). As used herein, the term "**Dispute Resolution**" shall mean binding, expedited arbitration in Prince George's County, Maryland (unless the parties mutually agree to an alternative location in the District of Columbia). Dispute Resolution for such procedural matters will be conducted by an arbitrator selected by agreement of the

parties within fifteen (15) business days following the conclusion of the resolution process pursuant to Section 20.20.1 or, if either party determines that the parties cannot agree on an arbitrator, the arbitrator will be selected by the American Arbitration Association from its general commercial arbiter list. If the Dispute relates directly to Change Orders and arises, prior to the Rent Commencement Date, the arbitrator may be an architect or other professional with substantial experience with construction management and arbitration selected by agreement of the parties pursuant to Section 20.20.1 or, if either party determines that the parties cannot agree on an arbitrator, selected by the American Arbitration Association from a list of qualified architects or other professional with substantial construction and arbitration experience. Arbitration will be conducted in accordance with the then-current rules for expedited commercial arbitration (“**Arbitration**”) promulgated by the American Arbitration Association (“**Arbitration Rules**”). The decision of any such Arbitration may be entered by any party to such Arbitration as a final judgment in any court of competent jurisdiction. The arbitrator shall render his or her final decision with respect to the dispute within thirty (30) days after the arbitrator is appointed. Each party shall pay one-half (½) of the fees of the arbiter. All calculations of fair market value will be determined by the Three Broker Method unless otherwise agreed between the parties

20.20.3 Any other Dispute will be resolved by a court of competent jurisdiction unless the parties agree to submit the Dispute to arbitration. Initiation of the dispute resolution provisions of this Section 20.20 shall not preclude a party from otherwise seeking injunctive, or other equitable relief but shall toll any statute of limitations relative to the filing of a legal action. The parties acknowledge and agree that except as expressly provided for in this Lease, Arbitration is neither a condition precedent to, nor the exclusive forum for, resolution of disputes between the parties, and any dispute by or between the parties hereto may be resolved in a court of competent jurisdiction. Notwithstanding anything to the contrary, if any litigation, arbitration or other proceeding is instituted to remedy, prevent, or obtain relief from a default in the performance by any party of such party’s obligations under this Agreement, the prevailing party shall recover all such prevailing party’s costs and reasonable attorneys’ fees incurred in each and every such proceeding, including any and all appeals or petitions therefrom.

## 21. OPTIONS TO RENEW

21.1. Renewal Option. Provided an Event of Default by Tenant does not exist as of the date of exercise or as if the start of the applicable Renewal Term, then Tenant shall have the right to elect one (but not more than one) of options to renew the Term of this Lease (each a “**Renewal Option**”) as set forth below:

The Renewal Options are as follows:

(a) Tenant may renew the Term of this Lease for up to three (3) consecutive periods of five (5) years each (each a “**Renewal Term**”), upon the same terms and conditions set forth in this Lease, except that (i) the Basic Annual Rental shall be one hundred percent (100%) of the then-current fair market rental rate for new leases on like or similar space in Comparable Buildings, taking into account all relevant factors including but not limited to base rent, additional rent, cash allowances, rent abatements, commissions and any additional rent concessions or inducements present in the market at that

time ("**Fair Market Rental Rate**"), provided that in no event shall Basic Annual Rental during the initial five (5) years in any Renewal Term be less than the Basic Annual Rental payable during the Lease Year immediately preceding the first day of such Renewal Term. The Fair Market Rental Rate will be determined by the Three Broker Method.

(b) Tenant may renew the Term of this Lease for one (1) period of ten (10) years, upon the same terms and conditions set forth in this Lease, except that Basic Annual Rental shall be as set forth above in 1(a);

(c) Tenant may renew the Term of this Lease for one (1) period of fifteen (15) years, upon the same terms and conditions set forth in this Lease, except that Basic Annual Rental shall be as set forth above in 1(a); or

(d) Tenant may renew the Term of this Lease for a combination of the Renewal Options set forth in clauses (a) and (b) above (i.e. one period of ten (10) years and one periods of five (5) years) provided that that the total number of years in the aggregate for all Renewal Terms shall be no more than fifteen (15) years.

21.2. Exercise of Renewal Option. In order to exercise the Renewal Option, Tenant shall give written notice of its intent to renew ("**Tenant's Renewal Notice**") to Landlord on a date that is no earlier than twenty-four (24) months prior, and no later than twelve (12) months prior, to the expiration of the Initial Term (or prior to the then existing Term, as applicable). Within thirty (30) days after Landlord's receipt of Tenant's Renewal Notice under Section 21.1 above, Landlord shall provide to Tenant a statement of Landlord's determination of the Fair Market Rental Rate for the Premises for the applicable Renewal Term, including detailed terms and conditions supporting such determination (the "**Landlord's Determination**"). For a period of up to sixty (60) days after Landlord delivers the Landlord's Determination to Tenant, the parties shall negotiate in good faith for sixty (60) days to determine the Fair Market Rental Rate (such sixty (60) day period being hereinafter referred to as the "**Renewal Option Negotiation Period**"). If Landlord and Tenant are unable to mutually agree upon the Fair Market Rental Rate during the Renewal Option Negotiation Period, then during the ten (10) day period following the expiration of the Renewal Option Negotiation Period (such ten (10) day period being hereinafter referred to as the "**Re-Election Period**"), Tenant shall have the right to deliver written notice to Landlord (a "**Re-Election Notice**") either electing to rescind the exercise of the Renewal Option or to change Tenant's renewal selection among the options set forth in Section 21.1(a), (b), (c), or (d). Notwithstanding any of the foregoing, the parties agree that Tenant shall have the right to have preliminary discussions with Landlord about the possibility of exercising a Renewal Option without formally exercising a Renewal Option, so long as Tenant complies with the time periods set forth above for formally exercising a Renewal Option and any such preliminary discussions shall not constitute a waiver of such formal requirements by either party.

21.3. Right Personal to Tenant. The rights of Tenant set forth in this Section 21 are personal to Tenant, its Affiliates and Authorized Assignee(s) (and for the purposes of this Section 21, all references to Tenant will include such Affiliates and Authorized Assignee(s)) and may not be assigned to

any other person or entity except an Affiliate or Authorized Assignee of Tenant. Tenant shall remain liable for all tenant obligations under this Lease during any Renewal Term exercised by an Affiliate but not by an Authorized Assignee.

21.4. Amendment of Lease. Upon the final determination of Fair Market Rental Rate for the Renewal Term, if applicable as provided above, the parties shall execute an amendment to this Lease to reflect such extension and the terms thereof, provided that the failure to execute such amendment shall not affect the rights and obligations of the parties.

## 22. RIGHT OF FIRST OFFER

22.1. Right of First Offer. If at any time during the Term, as may be extended hereunder, Landlord or any successor in interest to Landlord shall desire to sell all or any portion of the Real Property or otherwise Transfer its interest hereunder, Landlord or such successor shall send to Tenant a written notice of such desire (the "Sale Notice"). If Tenant is interested in purchasing the Real Property, Tenant shall send Landlord a notice of interest (the "Notice of Interest") no later than fifteen (15) business days after Tenant's receipt of the Sale Notice. Landlord and Tenant agree that the sale of the Real Property shall include the conveyance of all assignable building and construction plans, specifications, approvals, applications for approvals and other documents and instruments prepared by or on behalf of Landlord in connection with Landlord's development of the Real Property, and that any purchase price offered by Tenant and accepted by Landlord in connection with such sale shall reflect the costs incurred by Landlord in obtaining, and the value of, all such assigned and transferred construction plans and approvals. If Tenant delivers a Notice of Interest to Landlord, then for a period of thirty (30) days from Landlord's receipt of the Notice of Interest (the "Negotiation Period"), Landlord and Tenant shall negotiate in good faith in an effort to reach agreement on a definitive purchase and sale agreement. If Landlord and Tenant fail to execute a purchase and sale agreement within the Negotiation Period, then Tenant's rights hereunder with respect to the Real Property shall terminate and Landlord shall thereafter be free to sell all, but not less than all, of the Real Property to any party upon any terms and conditions acceptable to Landlord; provided, however, (i) in no event shall Landlord accept an offer to purchase the Real Property (an "Outside Offer") for an amount less than ten percent (10%) under the lowest purchase price amount offered by Tenant during the Negotiation Period unless Landlord shall first give to Tenant the right to purchase the Real Property on the same terms and conditions as those contained in the Outside Offer, and (ii) if Landlord does not convey the Real Property to a third party within one (1) year after the end of the Negotiation Period, then if and when Landlord thereafter desires to sell the Real Property, Landlord shall again offer the Real Property to Tenant in accordance with this Section 22.1. Landlord shall not market the Real Property or negotiate with any third party for the sale of the Real Property at any time prior to the expiration of the Negotiation Period.

22.1.1 Intentionally Deleted.

22.1.2 Intentionally Deleted.

22.1.3 Intentionally Deleted.

22.2. Right of Tenant/Landlord. The rights of Tenant set forth in this Section 22 are personal to Tenant, its Affiliates and Authorized Assignee(s) (and all references to Tenant in this Section 22 will include such Affiliates and Authorized Assignee(s)) and may not be assigned to any other person or entity except an Affiliate or Authorized Assignee of Tenant. The obligations of Landlord hereunder will apply to any successor in interest to Landlord.

22.3. Rights of Lenders. As to any future holders of a mortgage or deed of trust which encumbers the Building after the date hereof, this Section 22 shall bind the purchaser of the Building pursuant to a foreclosure (or deed in lieu thereof) of such mortgage or deed of trust, and Landlord shall require that such holder of such mortgage or deed of trust so agree in any Subordination, Non-disturbance and Attornment Agreement executed by Tenant and such holder.

22.4. Confidentiality Obligations. Tenant understands and acknowledges that Landlord may suffer substantial damages in the event that information regarding the negotiation and purchase rights granted to Tenant pursuant to this Section 22 is disseminated and disclosed to any person or party other than the parties hereto. In that regard, Tenant expressly agrees that it shall not disclose any information regarding these transactions or disseminate copies of or excerpts from this Section 22 to any third-party without Landlord's prior written consent unless Landlord attempts to sell or otherwise Transfer its interest without extending to Tenant the right of first offer under this Section or Tenant otherwise determines that it must do so to protect its right of first offer under this Section. In such event, Tenant shall provide immediate written and reasonably detailed notice to Landlord of such disclosure. If Tenant delivers a Notice of Interest to Landlord pursuant to this Section 22, Landlord and Tenant shall immediately thereafter negotiate and execute a standard and customary confidentiality agreement that will permit the disclosure of relevant materials and information related to these transactions to certain permitted lenders, consultants and employees of the parties, but until such confidentiality agreement is executed and except as provided herein, Tenant expressly agrees to hold and treat the agreements and provisions contained in this Section 22 in strict and exclusive confidence.

22.5. Successor and Assigns. Except where a provision explicitly provides otherwise, the rights and obligations of Tenant and Landlord will inure to their respective permitted successors and assigns.

[remainder of page intentionally blank]

IN WITNESS WHEREOF, the parties hereto have executed this Lease duly witnessed or attested on the date first above written with the specific intention of creating a document under Seal.

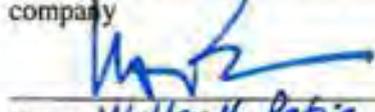
WITNESS/ATTEST:

  
\_\_\_\_\_

By:

LANDLORD:

WTC LOT 17, LLC, a Maryland limited liability company

  
\_\_\_\_\_

Name: Walter H. Petrie

Title: Managing Member

WITNESS/ATTEST:

\_\_\_\_\_

By:

TENANT:

CHILDREN'S HOSPITAL, a District of Columbia, non-profit corporation

Name: \_\_\_\_\_

Title: \_\_\_\_\_

IN WITNESS WHEREOF, the parties hereto have executed this Lease duly witnessed or attested on the date first above written with the specific intention of creating a document under Seal.

WITNESS/ATTEST:

LANDLORD:

WTC LOT 17, LLC, a Maryland limited liability company

\_\_\_\_\_ By:

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

WITNESS/ATTEST:

TENANT:

CHILDREN'S HOSPITAL, a District of Columbia, non-profit corporation

Alvin And By:

Charles Weinsten

Name: CHARLES WEINSTEIN

Title: VP - Chief Real Estate Officer

**LIST OF EXHIBITS**

EXHIBIT A -	PLANS SHOWING THE PREMISES
EXHIBIT A-1 -	LEGAL DESCRIPTION OF THE LAND
EXHIBIT A-2 -	PLANS SHOWING THE SHOPPING CENTER AND ACCESS ROADS
EXHIBIT B -	RULES AND REGULATIONS
EXHIBIT C -	WORK AGREEMENT
EXHIBIT C-1 -	BASE BUILDING PRELIMINARY SITE PLAN REQUIREMENTS AND BASIC BUILDING REQUIREMENTS
EXHIBIT C-2 -	MILESTONE SCHEDULE
EXHIBIT C-3 -	MATRIX OF BASE BUILDING/TENANT IMPROVEMENT WORK
EXHIBIT C-4 -	INTENTIONALLY DELETED
EXHIBIT C-5 -	FORM OF LANDLORD/TENANT BUDGET
EXHIBIT D -	FORM OF SUBORDINATION NON-DISTURBANCE AND ATTORNMENT AGREEMENT
EXHIBIT E -	FORM OF DEVELOPMENT AND COMPLETION GUARANTY

**EXHIBIT A**

**PLANS SHOWING THE PREMISES**

[Attached]



**EXHIBIT A-1**

**LEGAL DESCRIPTION OF THE LAND**

[Attached]

DESCRIPTION OF PROPERTY

PR2 WOODMORE HOLDING COMPANY, L.L.C.

1919 WEST STREET, SUITE 100  
ANNAPOLIS, MARYLAND 21401

Being a portion of land acquired by PR2 Woodmore Holding Company, L.L.C. from Woodmore Towne Centre, LLC (f/k/a Petrie/ELG Inglewood, LLC) by Special Warranty Deed dated September 30, 2014 and recorded among the Land Records of Prince George's County, Maryland in **Liber 36393 at Folio 001**, said property also being shown as Lot 17 on a plat of subdivision entitled, "**Plat Six, Lots 5 Thru 11; and Lots 13 Thru 17, Woodmore Towne Centre At Glenarden**", recorded among the said Land Records in Plat Book PM 231 at Plat No. 35: being more particularly described in Maryland State Plane Datum (NAD83/91) as follows:

Beginning at a point on the easterly right of way line of Interstate 495 (Capital Beltway), along the On-Ramp from Landover Road (MD Route 202), said point being a common corner of said Lot 17 as shown on the aforementioned plat recorded in Plat Book PM 231 at Plat No. 35 and another property owned by the same PR2 Woodmore Holding Company, L.L.C., recorded among said Land Records in Liber 36643 at Folio 238 and shown as Outlot A on a plat entitled "Plat One, Outlots A & B, Woodmore Towne Centre At Glenarden", recorded among said Land Records in Plat Book PM 231 at Plat No. 30; thence running with said easterly right of way line of Interstate 495 (Capital Beltway) for the next three (3) calls

1. North 46°39'31" West, 32.81 feet to a point; thence
2. South 43°20'29" West, 30.00 feet to a point; thence
3. North 46°39'31" West, 845.09 feet to a point, said point being a common corner of said Lot 17 and a portion of land owned by Lanham Lodging LLC, recorded among said Land Records in Liber 37447 at Folio 22 and shown as Lot 18 on a plat entitled "Plat Five, Lots 18 Thru 21 and 25 Thru 27, Woodmore Towne Centre At Glenarden", recorded among said Land Records in Plat Book PM 231 at Plat No. 34; thence leaving said easterly right of way line of Interstate 495 and running with the common division line of Lot 17 and Lot 18
4. North 41°52'57" East, 340.09 feet to a point, said point being the common corner Lot 17, Lot 18 and a portion of land owned by Woodmore Towne Centre, LLC (f/k/a Petrie/ELG Inglewood, LLC), recorded among said Land Records in Uber 26354 at Folio 635 and shown as Lot 16 as shown on the aforementioned plat recorded in Plat Book PM 231 at Plat No. 35; thence leaving Lot 18 and running with the common division line of Lot 17 and Lot 16 for the next three (3) calls
5. South 48°07'03" East, 155.43 feet to a point; thence
6. North 41°52'57" East, 30.86 feet to a point; thence

7. South 48°07'03" East, 582.16 feet to a point, said point being the common corner of Lot 17 and the aforementioned Outlot A; thence leaving Lot 16 and running with the common division line of Lot 17 and Outlot A for the next four (4) calls
8. South 27°05'15 West, 118.29 feet to a point; thence
9. South 04°00'51" East, 60.92 feet to a point; thence
10. South 33°41'24" West, 115.32 feet to a point; thence
11. South 13°16'35" West, 105.26 feet to the point of beginning

Said property contains 302,715 square feet or 6.9494 acres of land.

And Also:

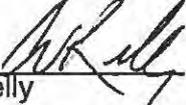
Said property is subject to an Existing Floodplain Easement as shown on the aforementioned plat recorded in Plat Book PM 231 at Plat No. 35.

Said property is subject to two (2) Existing Conservation Easements as shown on the aforementioned plat recorded in Plat Book PM 231 at Plat No. 35.

Said property is subject to an Existing 50' Easement for Water Mains and Appurtenances, recorded among the Land Records of Prince George's County in Liber 5099 at Folio 93.

As said property is subject to an Existing Slope and Drainage Easement, as shown Maryland State Roads Commission Plat No. 16167.

I hereby certify that the information shown hereon is true to the best of my knowledge and was obtained from available records.

  
C. V. Kelly  
Professional Land Surveyor  
MD Reg. No. 10977 (Ex. 07/25/2018)

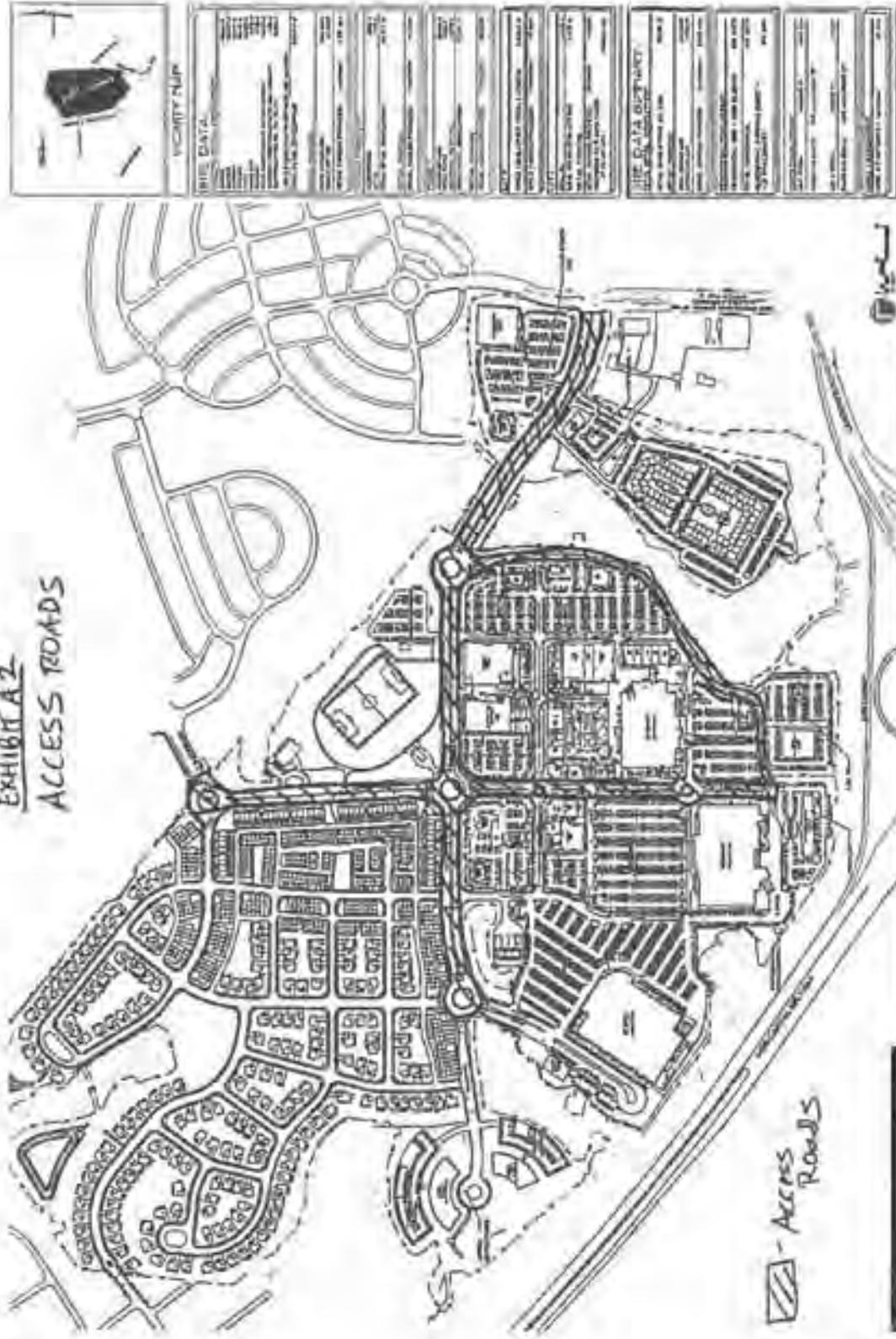


**EXHIBIT A-2**

**PLANS SHOWING THE SHOPPING CENTER AND ACCESS ROADS**

[Attached]

EXHIBIT A2  
ACCESS ROADS



**Petric Richardson Ventures**  
 100-1100 SHEPPARD AVENUE EAST  
 SUITE 1000 SCARBOROUGH, ONTARIO M1S 1T5  
 TEL: (416) 291-1111 FAX: (416) 291-1112

**WOODMORE TOWNE CENTRE AT GLENARDEN**

**RARE DESIGN STUDIO**  
 100-1100 SHEPPARD AVENUE EAST  
 SUITE 1000 SCARBOROUGH, ONTARIO M1S 1T5  
 TEL: (416) 291-1111 FAX: (416) 291-1112

**SITE LEASE PLAN**  
 SCALE: 1" = 100' 0"  
 DATE: 01/20/09  
 SHEET: 01-01



<b>PROJECT DATA</b>	
Project Name:	Woodmore Towne Centre at Glenarden
Client:	Petric Richardson Ventures
Site Address:	100-1100 Sheppard Ave. East, Scarborough, Ontario
Site Area:	100,000 sq. ft.
Project Status:	Site Lease Plan
Prepared By:	Rare Design Studio
Checked By:	[Signature]
Date:	01/20/09
<b>PROPERTY DATA</b>	
Lot No.:	100-1100
Area:	100,000 sq. ft.
Use:	Commercial
Zone:	Commercial
Owner:	Petric Richardson Ventures
Address:	100-1100 Sheppard Ave. East, Scarborough, Ontario
City:	Scarborough
Province:	Ontario
Country:	Canada
Postal Code:	M1S 1T5
Phone:	(416) 291-1111
Fax:	(416) 291-1112
Website:	www.pricv.com
Project No.:	01-01
Sheet No.:	01-01
<b>REVISIONS</b>	
No.	Description
1	Initial Issue
2	Revised
3	Final

Execution Copy

EXHIBIT A2  
SHOPPING CENTER



Shopping Center

Kerr-Richardson Ventures  
ARCHITECTS & PLANNERS

WOODMORE TOWNE CENTRE AT GLENARDEN

RARE DESIGN STUDIO  
ARCHITECTS & PLANNERS

<p><b>PROJECT NAME</b></p> <p>WOODMORE TOWNE CENTRE AT GLENARDEN</p>	<p><b>DATE</b></p> <p>10/15/2014</p>
<p><b>CLIENT</b></p> <p>Kerr-Richardson Ventures</p>	<p><b>SCALE</b></p> <p>AS SHOWN</p>
<p><b>DESIGNER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT NO.</b></p> <p>14-001</p>
<p><b>ARCHITECT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT ADDRESS</b></p> <p>10000 GLENARDEN ROAD, GLENARDEN, VA 23060</p>
<p><b>PLANNING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT PHASE</b></p> <p>PRELIMINARY</p>
<p><b>ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT STATUS</b></p> <p>PRELIMINARY</p>
<p><b>LANDSCAPE ARCHITECT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT TYPE</b></p> <p>COMMERCIAL</p>
<p><b>INTERIOR ARCHITECT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT DESCRIPTION</b></p> <p>WOODMORE TOWNE CENTRE AT GLENARDEN</p>
<p><b>MECHANICAL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT LOCATION</b></p> <p>GLENARDEN, VA</p>
<p><b>ELECTRICAL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT</b></p> <p>10000 GLENARDEN ROAD, GLENARDEN, VA 23060</p>
<p><b>CIVIL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT PHONE</b></p> <p>(804) 747-1100</p>
<p><b>STRUCTURAL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT FAX</b></p> <p>(804) 747-1100</p>
<p><b>ENVIRONMENTAL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT WEBSITE</b></p> <p>WWW.WOODMOREVA.COM</p>
<p><b>TRAFFIC ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT EMAIL</b></p> <p>INFO@WOODMOREVA.COM</p>
<p><b>UTILITY ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT URL</b></p> <p>WWW.WOODMOREVA.COM</p>
<p><b>GEOTECHNICAL ENGINEER</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT PERSON</b></p> <p>JOHN WOOD</p>
<p><b>ARCHITECTURAL RENDERING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT PHONE</b></p> <p>(804) 747-1100</p>
<p><b>PHOTOGRAPHY</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT FAX</b></p> <p>(804) 747-1100</p>
<p><b>VIDEOGRAPHY</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT EMAIL</b></p> <p>INFO@WOODMOREVA.COM</p>
<p><b>MODELING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT URL</b></p> <p>WWW.WOODMOREVA.COM</p>
<p><b>CONSTRUCTION ADMINISTRATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT ADDRESS</b></p> <p>10000 GLENARDEN ROAD, GLENARDEN, VA 23060</p>
<p><b>CONSTRUCTION MANAGEMENT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT CITY</b></p> <p>GLENARDEN, VA</p>
<p><b>CONSTRUCTION SUPERVISION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT STATE</b></p> <p>VA</p>
<p><b>CONSTRUCTION INSPECTION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT ZIP</b></p> <p>23060</p>
<p><b>CONSTRUCTION ESTIMATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT COUNTRY</b></p> <p>USA</p>
<p><b>CONSTRUCTION SCHEDULING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT CONTINENT</b></p> <p>NA</p>
<p><b>CONSTRUCTION COST ESTIMATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT REGION</b></p> <p>VA</p>
<p><b>CONSTRUCTION BIDDING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT COUNTY</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT ADMINISTRATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT DISTRICT</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT MANAGEMENT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT ZONE</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT SUPERVISION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT AREA</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT INSPECTION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT CITY</b></p> <p>GLENARDEN, VA</p>
<p><b>CONSTRUCTION CONTRACT ESTIMATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT STATE</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT SCHEDULING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT ZIP</b></p> <p>23060</p>
<p><b>CONSTRUCTION CONTRACT COST ESTIMATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT COUNTRY</b></p> <p>USA</p>
<p><b>CONSTRUCTION CONTRACT BIDDING</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT CONTINENT</b></p> <p>NA</p>
<p><b>CONSTRUCTION CONTRACT ADMINISTRATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT REGION</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT MANAGEMENT</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT COUNTY</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT SUPERVISION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT DISTRICT</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT INSPECTION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT ZONE</b></p> <p>VA</p>
<p><b>CONSTRUCTION CONTRACT ESTIMATION</b></p> <p>RARE DESIGN STUDIO</p>	<p><b>PROJECT CONTACT AREA</b></p> <p>VA</p>

SITE/LEASE PLAN  
DATE: 10/15/2014  
SCALE: AS SHOWN  
PROJECT NO.: 14-001

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**EXHIBIT B**

**RULES AND REGULATION**

1. The sidewalks, lobbies, passages, and stairways shall not be obstructed by the Tenant or used by the Tenant for any purpose other than ingress and egress from and to the Tenant's Premises. The Landlord shall in all cases, retain the right to control or prevent access thereto by any person whose presence, in the Landlord's judgment, would be prejudicial to the safety, peace, character or reputation of the building or of any tenant of the property.

2. The toilet rooms, water closets, sinks, faucets, plumbing and other service apparatus of any kind shall not be used by the Tenant for any purpose other than those for which they were installed, and no sweepings, rubbish, rags, ashes, chemicals or other refuse or injurious substances shall be placed therein or used in connection therewith by the Tenant, or left by the Tenant in the lobbies, passages, elevators or stairways of the building.

3. Intentionally omitted.

4. No sign, lettering, insignia, advertisement, notice or other thing shall be inscribed, painted, installed, erected or placed in any portion of the Premises which may be seen from outside the building, or on any window, window space or other part of the exterior or interior of the building, unless first approved in writing by the Landlord which approval will not be unreasonably withheld. Tenant may display its name and logo on the outside of the Building without Landlord's consent but subject to all legal requirements and approvals. The Tenant shall not erect any stand, booth or showcase or other article or matter in or upon the premises and/or the building without first obtaining the Landlord's written consent thereto which consent will not be unreasonably withheld.

5. The Tenant shall surrender all keys for all locks at the end of the term.

6. Intentionally omitted.

7. The Tenant shall not do or permit to be done anything which obstructs or interferes with the rights of any other tenant of the property. The Tenant shall not keep anywhere within the property any matter having an offensive odor, or and kerosene, gasoline, benzene, camphene, nitrogen, helium, fuel or other explosive or highly flammable material (other than material use in the normal course of the Tenant's business) without first obtaining, in each case, the Landlord's prior written consent thereto which consent will not be unreasonably withheld.

8. No cooking shall be done or permitted by any tenant on its premises, except that, the Tenant may install and operate for the convenience of its employees, a lounge or coffee room with stove, sink, microwave and refrigerator. No tenant shall cause or permit any unusual or objectionable odors to originate from its premises.

9. Actions of the agents or employees of any entity which provides services such as janitorial or maintenance shall not be considered the acts of the Landlord. The Tenant shall see each day that the windows are closed and the doors securely locked before leaving the premises.

10. Except as permitted under the Alterations provision in the Lease, if the Tenant desires to install signaling, telegraphic, telephonic, protective alarm or other wires, apparatus or devices within the Premises, the Landlord shall direct where and how they are to be installed and, except as so directed, no installation, boring or cutting shall be permitted. The Landlord shall have the right (a) but not the obligation to perform the installation itself or choose a contractor to do so, all at the Tenant's expense, (b) to prevent or interrupt the transmission of excessive, dangerous or annoying current of electricity or otherwise into or through the building or the premises, (c) to require the changing of wiring connections or layout at the Tenant's expense, to the extent that the Landlord may deem necessary, (d) to require compliance with such reasonable rules as the Landlord may establish relating thereto, and (e) in the event of noncompliance with such requirements or rules immediately to cut wiring or do whatever else it considers necessary to remove the danger, annoyance or electrical interference with apparatus in any part of the building. Each wire installed by or for the Tenant must be clearly tagged at each distributing board and junction box and elsewhere where required by the Landlord, with the number of the office to which such wire leads and the purpose for which it is used, together with the name of the tenant or other concern, if any operating or using it.

11. Intentionally omitted.

12. The Tenant shall not place any weight anywhere beyond the safe carrying capacity of the building. The cost of repairing any damage to the building or any other part of the property caused by taking any of the same in or out of the premises, or any damage caused while it is in the premises or the rest of the building, shall be borne by the Tenant.

13. Except as permitted in the Alterations provision of the Lease, without the Landlord's prior written consent, which consent will not be unreasonably withheld, (a) nothing shall be fastened to (and no hole shall be drilled, or nail or screw driven into) any wall or partition, except such as may be reasonably required for the hanging of pictures and similar wall decorations, (b) no connection shall be made to any electrical wire for running any fan, motor or other apparatus, device or equipment, and (c) no switchboard or telephone wiring or equipment shall be placed anywhere other than where designated by the Landlord.

14. The Landlord assumes no responsibility and shall not be liable for any injury or damage resulting from the admission of any authorized or unauthorized persons to the building.

15. Canvassing, soliciting and peddling in the building are prohibited, and Tenant shall cooperate to prevent the same.

16. Tenant shall not exceed the floor load capacities that have been established by Landlord.

17. No animals of any kind shall be brought into or kept in or about the Building, except for patients that require animals for safe and secure movement.

18. The use of any room within the building as sleeping quarters is strictly prohibited at all times except that Tenant may install a breakroom where personnel may rest.

19. The Tenant shall keep the windows and doors of the premises (including those opening on corridors and all doors between rooms entitled to receive heating or air conditioning service and rooms not entitled to receive such service), closed while the heating or air conditioning system is operating, in order to minimize the energy used by, and to conserve the effectiveness of, such systems. The Tenant

shall comply with all reasonable Rules and Regulations from time to time promulgated by the Landlord with respect to such systems or their use.

20. No carpet, rug, or other article shall be hung or shaken out of any window or placed in corridors as a door mat, and nothing shall be thrown or allowed to drop by the Tenant, out of the windows or doors, or down the passages or shafts of the building, and the Tenant shall not sweep or throw, or permit to be thrown from the premises, any dirt or other substance into any of the corridors, halls, shafts or stairways of the building.

21. Nothing in these Rules and Regulations shall give any tenant any right or claim against the Landlord or any other person if the Landlord does not enforce any of them against any other tenant or person (whether or not the Landlord has the right to enforce them against such tenant or person), and no such nonenforcement with respect to any tenant shall constitute a waiver of the right to enforce them as to the Tenant or any other tenant or person.

22. Intentionally Omitted

23. All Tenants shall use their reasonable efforts to require their customers, employees and invitees to comply with all traffic signage for their Premises, including but not limited to, posted speed limits, directional markings and parking stall markings.

24. All deliveries or shipments of any kind to and from the Premises, including loading and unloading of goods, shall be made only by way of the rear of the Premises or at any other location reasonably designated by Landlord, and only at such reasonable times designated for such purpose by Landlord.

25. Tenant and Tenant's employees shall park their cars only in those portions of the parking areas, if any, designated for that purpose by Landlord which shall include all parking within the Land.

26. Except as otherwise expressly provided in the Lease, Tenant shall attempt in good faith to prevent its personnel from doing of any of the following on any outside area within its Premises, or of any similar activities to the extent not consistent with pleasant, orderly, convenient, unimpeded and ready access to and circulation on its premises:

(a) Vend, peddle, or solicit orders outside of the premises for sale or distribution of any merchandise, device, service, periodical, book, pamphlet or other matter whatsoever.

(b) Display, paint or place or cause to be displayed, painted or placed any handbills, bumper stickers or other advertising or promotional materials or devices on any vehicles parked in the parking areas of the building.

(c) Solicit membership in any organization, group or association or contribution for any purpose.

(d) Parade, rally, patrol, picket, demonstrate or engage in any conduct that might tend to interfere with or impede the use of any outside areas customers or invitees, create a disturbance, attract attention or harass, annoy, disparage or be detrimental to the interest of any establishments within the surrounding areas.

(e) Use any sound making device of any kind or create or produce in any manner noise or sound that is annoying, unpleasant, or distasteful to any customers or invitees.

(f) Deface, damage or demolish any sign, light standard or fixture, landscaping material or other improvement on the premises.

**EXHIBIT C**  
**WORK AGREEMENT**

**A. DESIGN AND CONSTRUCTION OF IMPROVEMENTS**

**1. Generally.**

a. **The Landlord Work.** Landlord shall design, permit and construct: (i) the Base Building Structures, the Base Building Systems, the Base Building Core and the Exterior Facilities (each as defined in Section 9 of the Lease) (collectively, the "**Base Building Improvements**") based on the mutually agreed-to specifications attached to the Lease as **Exhibit C-1 and C-3** and subject to modifications approved pursuant to the Lease and Work Agreement (the "**Base Building Specifications**") and the Approved Plans and Specifications (as hereinafter defined) (ii) all improvements to the Land and all on-site and off-site improvements necessary or appropriate for the use of the Premises, including but not limited to exterior entrance features, landscaping, utilities, retention, culverts, sidewalks, parking lots, exterior lighting, exterior pavilion signage, wayfinding signage, exterior building signage and roadway improvements ("**Exterior Improvements**"); and (iii) environmental mitigation and enhancement necessary for construction of the Building in accordance with all Laws (hereinafter defined), to the extent Landlord's responsibility under the terms of the Lease (all of the following being collectively, the "**Landlord Work**"). The Landlord Work will be designed and constructed by Landlord at its sole cost and expense, subject to the remaining provisions of this **Exhibit C** and of this Lease, in accordance with the terms hereof, the Approved Plans and Specifications and the Laws in a first-class and good workmanlike manner. The Base Building Structures, Systems and Core will be completed by Landlord as a "**Warm Shell**" (as defined in **Exhibit C-1**) with demising walls ready to receive paint and floors level and ready to receive floor coverings. The Landlord Work shall be designed in accordance with all Laws and the Initial Plans (as hereinafter defined) and constructed in accordance with Approved Plans and Specifications (as hereinafter defined). Landlord agrees to furnish at Landlord's sole cost and expense all of the material, labor, and equipment for the construction of the Landlord Work, subject to the remaining provisions of this **Exhibit C** and of this Lease. The Landlord Work shall be constructed in a first-class and good and workmanlike manner in accordance with the Approved Plans and Specifications and with all applicable statutes, regulations, ordinances, codes, orders, and approvals, including without limitation, the Americans with Disabilities Act of 1990 and similar accessibility laws, fire and life safety codes (collectively referred to herein as the "**Laws**"). All materials, finishes and workmanship shall be consistent with the first-class nature of the Building and where not otherwise specified, will be at least consistent with the standards of Comparable Buildings.

b. **The Tenant Improvements.** Landlord shall permit and construct Tenant's interior improvements of the Premises ("**Tenant Improvements**") based on the Approved Tenant Improvement Plans, which shall include all approved Tenant design and other specifications for the interior improvements, the Test Fit Plans and the terms hereof. The Tenant Improvements will be designed, permitted, and constructed at Tenant's sole cost and expense, subject to the application of the Tenant Improvement Allowance (hereinafter defined). Landlord agrees to furnish at Tenant's sole cost and expense, subject to the application of the Tenant Improvement Allowance, all of the material, labor, and equipment for the construction of the Tenant Improvements. The Tenant Improvements shall be constructed in a first-class and good and workmanlike manner in accordance with the Approved Tenant Improvement Plans and with all Laws. Landlord agrees to negotiate and enter into a single contract with separate scope and pricing for the Landlord Work and for the Tenant Improvements with Perkins Eastman

for both Landlord's Work and the Tenant Improvements. Tenant shall pay the costs associated with the Work, other than those costs which are Landlord's responsibility pursuant to the provisions of this Exhibit C within ten (10) days following receipt of invoice therefor.

2. Costs

a. Landlord Work Budget. Landlord will provide an itemized budget for Landlord Work with AIA Divisional breakdowns for construction costs and budget in a different format for all other costs ("the **Landlord Work Budget**") before beginning Landlord Work. The Landlord Work Budget will be in the form attached hereto as **Exhibit C-5** and will include an itemization of all hard and soft costs required to complete the Landlord Work supported by detailed assumptions and price estimates or market benchmarks. The Landlord Work Budget will be prepared initially within ninety (90) days after the Execution Date and will be updated periodically starting within thirty (30) days after the Landlord Architect has developed a "Schematic Design" and thereafter as Landlord's Architect completes "Design Development Plans" (approx. 65% drawings); "Construction Drawings" (approx. 90% plans) and a "Bid Set" (approx. 100% plans) or as more information becomes available. The Landlord Work Budget which incorporates the Contractor's guaranteed maximum price bid on the Bid Set will constitute the **"Final Landlord Work Budget"**. The various iterations of Landlord Work Budget will be developed by Landlord in consultation with the Contractor, Landlord's Architect, engineers and specialty consultants and Tenant's Representative. Only those categories of costs set forth on **Exhibit C-5**, as may be modified pursuant to this Work Agreement or elsewhere in the Lease will be included in the Landlord Work Budget. Costs associated directly or indirectly with the following categories will not be included in the Landlord Work Budget, will be paid by Landlord and will not be charged to Tenant: (i) land acquisition, (ii) brokerage (for any purpose), (iii) legal, except in connection with the Construction Contract, (iv) the Lease, (v) financing, (vi) Landlord overhead, (vii) Soil Remediation (as hereinafter defined), (viii) all land use approvals, including zoning, subdivision and site plan approvals, (ix) site work including construction of the Parking Lot Area but not including sidewalks, footers and other work directly connected to the Base Building, (x) Landlord development fees in excess of two percent (2%) of hard costs, (xi) costs attributable to Landlord Delay, including escalation costs, (xii) off site work including, but not limited to transportation improvements and impact fees, (xiii) public relations, marketing and public communications costs, (xiv) environmental studies and consultants, geotechnical studies, and any other costs which are not included in the Final Landlord Work Budget (collectively, **"Excluded Costs"**). It is the intention of Landlord and Tenant that all costs other than the Excluded Costs necessary for the design and construction of the Building and Premises, to complete the improvements to the point where such improvements may be used for their intended purpose are to be included. Failure to include specific items and costs necessary for such design and construction, including failure to provide detailed information regarding such items and costs shall not preclude their addition, subsequent to the execution of this Lease so long as such costs are not Excluded Costs.

b. Landlord Work Allowance. Landlord will provide to Tenant an allowance of One Hundred Fifty-Five and 00/100 Dollars (\$155.00) for 55,200 rentable square feet of the Building (regardless of the actual rentable square feet in the Building), as such square footage is determined pursuant to the Lease in accordance with the BOMA Standard (1996) for Landlord's costs to complete the Landlord Work (**"Landlord Work Allowance"**). In addition, Landlord will pay and will not charge to Tenant any costs specifically assumed by Landlord pursuant to this Work Agreement or the Lease, including the cost attributable to Excluded Costs (collectively, **"Landlord Assumed Costs"**). After the Landlord Work Allowance and Landlord Assumed Costs have been expended in accordance with the Agreement, Tenant will pay costs included in the Final Landlord Work Budget, as modified by any additional cost of Change Orders requested by Tenant from time to time in excess of the Landlord Work

Allowance other than Landlord Assumed Costs. If the actual cost of completed Landlord Work (less Landlord Assumed Costs) is less than the Landlord Work Allowance, the balance will be applied to the Tenant Improvements and if any is left over, the balance will be applied to the Basic Annual Rent but such set off shall not exceed twenty-five percent (25%) of the payment against which the set off is applied from time to time. Any amounts due by Tenant to Landlord pursuant to this Section A.2.b. shall be supported by reasonable documentation therefor (as set forth in Section C.2 hereof) and, at Tenant's option shall either be amortized into the Basic Annual Rental over the Term at the interest rate on Landlord's Existing Loan (in which case Landlord will advance funds to pay such costs) or will be reimbursed by Tenant to the Landlord monthly as part of the monthly lease payments due over the term or paid directly to the Contractor after Landlord has expended the full Landlord Work Allowance.

c. **Tenant Improvement Budget.** Tenant will work with Landlord's Architect to develop the plans for the Tenant Improvements while Landlord is constructing the Landlord Work with the expectation that Landlord will engage the Contractor to complete both Landlord Work and Tenant Improvements in a coordinated manner. Landlord will provide a budget for completing the Tenant Improvements with AIA Divisional breakdowns for construction costs on a budget in a different format for all other costs ("**Tenant Improvements Budget**") which will be updated periodically as the plans for the Tenant Improvements are completed pursuant to Section A.4 and as new information becomes available. All of the terms of Section A.2.a which apply to the Landlord Work Budget, including the categories of Excluded Costs will also apply to the Tenant Improvements Budget. The Tenant Improvements Budget which incorporates the Contractor's guaranteed maximum price bid on the Bid Set for the Tenant Improvements will constitute the "**Final Tenant Improvements Budget**". As used herein, the term "**Project Budget**" shall mean either or both of the Final Landlord Work Budget and the Final Tenant Improvements Budget, as context requires. Failure to include specific items and costs necessary for such design and construction, including failure to provide detailed information regarding such items and costs shall not preclude their addition, subsequent to the execution of this Lease so long as such costs are not Excluded Costs.

d. **Tenant Improvement Allowance.** Landlord will provide Tenant with an allowance for design and construction of Tenant Improvements in the amount of Sixty and 00/100 Dollars (\$60.00) for 55,200 rentable square feet of the Building (regardless of the actual rentable square footage), as such square footage is determined in accordance with the BOMA Standard (the "**Tenant Improvement Allowance**"). The Tenant Improvement Allowance may be used for any costs desired by Tenant in connection with the Tenant Improvements, including limitation without architectural, consulting, engineering and legal fees directly related to obtaining the Tenant Improvement Construction Documents, labor and materials, furniture (including systems furniture, built-in furniture and movable furniture, including design thereof) and equipment acquired for use in the Premises, including telephone/computer systems and voice/data wiring and cabling, incurred in connection with the Tenant Improvements (collectively, "**TI Costs**"). During design and construction of the Tenant Improvements, the Landlord shall pay monthly from the Tenant Improvements Allowance the costs of such design and construction of the Tenant Improvements within thirty (30) days of receipt of the respective consultants contractors', suppliers' or their vendors' invoices and reasonable supporting documentation therefor (pursuant to Section C.2). If the actual cost of the completed Tenant Improvements is less than the Tenant Improvement Allowance (the "**Tenant Improvements Savings**"), Landlord shall (i) make the Tenant Improvements Savings (or the portion thereof directed by Tenant) available to Tenant for its use to purchase fixtures, furnishings, and equipment for Tenant's use in the Premises; and (ii) pay the remaining balance of the Tenant Improvements Savings to Tenant by setoff against Tenant's next Basic Annual Rental payment or payments due (but such setoff shall not exceed twenty-five percent (25%) of the payment against which the setoff is applied from time to time). The Tenant Improvements will be

constructed by the Contractor on an open book cost plus a guaranteed maximum price basis as part of the Construction Contract. After the Tenant Improvement Allowance has been expended, in accordance with this Agreement, Tenant will pay costs included in the Tenant Improvement Budget, as modified by Change Orders requested by Tenant from time to time in excess of the Tenant Improvement Allowance, other than Landlord Assumed Costs. Landlord Work Allowance and Tenant Improvement Allowance are collectively referred to as the "Allowance".

**3. Design and Construction Contracting Services.**

a. All design services required to be performed hereunder or caused to be performed hereunder by Landlord, including, without limitation, the preparation of the Construction Documents (hereinafter defined), shall be performed by the Landlord Architect and Landlord's Engineer or by other qualified, Maryland licensed architects, engineers and other professionals with design experience in similar projects selected by Landlord with Tenant's prior approval, which approval shall not be unreasonably withheld, conditioned or delayed. The Deemed Approval Procedure will apply to the selection or termination of Design Professionals in this section. Licensed architects, engineers and other professionals engaged by either Landlord or Tenant are collectively referred to as, "Design Professionals" and each, a "Design Professional". Notwithstanding anything to the contrary herein, Landlord may not change the Design Professionals engaged on the Project or the Contractor without Tenant's consent, which consent shall not be unreasonably withheld, conditioned or delayed. The professional obligations of each of Landlord's Design Professionals will be undertaken and performed in the interest of Landlord and Tenant, and the agreement for the services of each Landlord Design Professional must provide that Tenant shall be a third party beneficiary of their services. Landlord has employed Perkins Eastman ("Landlord's Architect") as the architect of record and Bohler Engineering ("Landlord's Engineer") to prepare the plans for the Landlord Work and the Tenant Improvements in accordance with this Exhibit C. Once engaged, no Landlord Design Professional will be terminated, and no agreement with a Landlord Design Professional will be modified or amended in any substantive manner, without the prior written approval of Tenant, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord will provide Tenant and Tenant's Design Professionals with access to electronic files containing Design Development Drawings (hereinafter defined), subject to Landlord's and Landlord's Design Professionals' release, in a form and substance acceptable to Tenant in its reasonable discretion for the purpose of allowing Tenant and Tenant's Design Professionals to commence the design of the Tenant Improvements. Tenant may engage a construction consultant and/or architect ("Tenant's Representative") with respect to this project, at Tenant's cost. Landlord will schedule weekly meetings for Landlord, Tenant and their respective Design Professionals and representatives to consult in developing the plans and specifications and in coordinating the construction of the Work at Tenant's cost. The Tenant Representative will also have the reasonable right to inspect the Work, which inspections shall be coordinated with Landlord. Regardless of whether Tenant or any of Tenant's consultants or representatives review drawings, specifications or other documents prepared by or caused to be prepared for Landlord, Landlord and not Tenant will be responsible for accuracy, completeness and compliance with Law of all such documents. Landlord will make no change in Construction Documents or the Approved Plans and Specifications (as such terms are hereinafter defined), unless Tenant shall approve, in Tenant's reasonable discretion, such change or omission pursuant to a written Change Order (hereinafter defined), numbered and dated, except for minor nonmaterial changes not involving a change in completion time, cost, or in the aesthetics or functionality of the Base Building Improvements or the Tenant Improvements. All proposed Change Orders shall be approved or rejected in accordance with Section C.4 hereof.

b. **Matrix of Base Building/Tenant Improvement Work.** The Base Building Work and the Tenant Improvement Work are each described on the "Matrix of Base Building/Tenant Improvement Work", attached hereto as **Exhibit C-3 ("Matrix")**. The Matrix is intended as a guide for the parties to reduce the "grey areas" as to whether particular Work is Landlord Work or Tenant Improvements. If there is any conflict between such Matrix and the Approved Plans and Specifications, the Approved Plans and Specifications will control.

4. **Preparation of Plans and Specifications.**

a. **Design Documentation.** Landlord shall prepare and deliver to Tenant the Construction Documents and will attempt in good faith to complete the Work in substantial accordance with the Milestone Schedule (the "**Milestone Schedule**") attached as **Exhibit C-2** to the Lease and which is provided for the purposes described in this Work Agreement. Each iteration of the Construction Documents will consist of one complete set of plans and one set of electronic plans in both AutoCAD and .pdf formats on a disk which plans will fix and describe the size and character of Landlord Work and Tenant Improvements as to architectural, structural, mechanical and electrical systems, materials and such other elements as Landlord may deem to be appropriate. The Construction Documents will incorporate the requirements of all certificates of need and licensure requirements to the extent included as a part of the Approved Plans and Specifications. Once the Construction Documents are approved, Landlord will prepare six (6) copies of Construction Documents with specifications setting forth in reasonable detail the requirements for the construction of Landlord's Work and Tenant's Improvements, respectively. The Landlord will inform Tenant, upon Landlord's review of any of Tenant's proposed revisions to any Construction Documents and after consultation with the Contractor, whether such proposed revision may potentially and adversely affect either the Landlord Work Budget, Tenant Improvement Budget, or the Milestone Schedule (a "**Possible Cost Increase**"). Tenant, once it is informed of such Possible Cost Increase to the Landlord Work Budget or the Milestone Schedule, will either by written notice given within five (5) business days (i) reject the increases and withdraw the submittal without increase to the Landlord Work Budget or the Milestone Schedule, (ii) approve of such change in writing and agree to be responsible for the amount of the stated increase in the Landlord Work Budget or the Milestone Schedule (as applicable) or (iii) will authorize the additional time and costs necessary to revise the Milestone Schedule and value engineer the Work in accordance with **Section A.4.e**. Compliance with the Milestone Schedule is subject to, and may be affected by a Force Majeure Event and/or by Tenant Delays. Similarly, Landlord will price any Change Orders requested by Tenant with Landlord's Contractor and will advise Tenant in writing of any cost increase or decrease and any change in the critical path schedule or delay in achieving Substantial Completion resulting from such Change Order before implementing the Change Order. Landlord will not charge Tenant for such Change Order an amount in excess of the additional cost charged by Landlord's contractor for such Change Order as reflected in such estimate including any general conditions and fees that the Contractor is charging Landlord. Tenant will receive credit for any decrease in cost attributable to the Change Order and will pay for any increase and Landlord's construction contract will so provide. Any delay resulting from the Final Change Order will constitute a Tenant Delay as further described in **Section C.4** hereof.

b. **Process of Review and Approvals.**

(1) **Landlord Submittals.** Landlord shall diligently pursue and submit to Tenant complete sets of design documentation of the Landlord Work by the date set forth in the Milestone Schedule, which will consist of the schematic design ("**Initial Plans**" or "**Schematic Plans**"), design development drawings and specifications ("**Design Development Drawings**") and construction drawings and specifications ("**Construction Drawings**" or "**Bid Set**") prepared by the Landlord's Architect and

consistent with the Base Building Specifications, the Milestone Schedule, applicable Law and the Landlord Work Budget. The Construction Drawings will be in form required by the permitting officials. The foregoing shall constitute "**Landlord Construction Documents**". All of the foregoing plans and specifications and Change Orders will be subject to Tenant's approval which will not be unreasonably withheld, conditioned or delayed. Tenant will have fifteen (15) business days to review and comment on the drawings and specifications upon each submission after which time Landlord shall work with Landlord's Architect to address Tenant's comments, if any, within ten (10) business days and resubmit the revised submittal to Tenant for approval, which approval shall be deemed granted if not disapproved in writing within the ten (10) business day period after resubmission, or such longer period as is required for the Contractor to obtain pricing with details regarding the reason for rejection. Senior executives of Landlord and Tenant will meet during the ten (10) business day period after resubmission to work out any differences. Landlord Construction Documents as approved are hereinafter collectively referred to as the "**Approved Landlord Work Plans and Specification**." Landlord shall designate one individual to approve Construction Documents and the Approved Plans and Specifications ("**Landlord's Designee**"). The Landlord's Designee shall be identified and such information shall be provided to Tenant within ten (10) business days of the Effective Date of the Lease.

(2) **Tenant Submittals.** Landlord's Architect shall prepare and deliver to Landlord and Tenant pursuant to Tenant's instructions the Test Fit Plans, design development drawings and specifications (the "**Tenant Improvements Development Drawings**"), and construction drawings and specifications ("**Tenant Improvements Construction Drawings**") (the Test Fit Plans, Tenant Improvements Development Drawings, and Tenant Improvements Construction Drawings, collectively referred to herein as the "**Tenant Improvement Construction Documents**") for the Tenant Improvements. Tenant shall attempt in good faith to submit to Landlord's Architect the information required for Landlord's Architect to prepare the Tenant Improvement Construction Documents in accordance with the Milestone Schedule for the bidding and construction of the Tenant Improvements. Landlord acknowledges and agrees that Tenant is relying on the timely and accurate submission of each of the Construction Documents in preparing the Tenant Improvement Construction Documents. Landlord will have fifteen (15) business days to review and comment on the drawings and specifications upon each submission after which time Tenant shall work with Tenant's Architect and Landlord's Architect to address Landlord's comments, if any, within twenty (20) business days or such longer period as is required by the Contractor to obtain pricing and resubmit the revised submittal to Landlord for approval. Landlord will only have the right to disapprove of Tenant Improvement Construction Documents if such plans and specifications unreasonably affect the design or implementation of the Base Building Improvements or are not consistent with Law. Section C.4.f of this Exhibit C will apply to all Change Orders and other material which requires consent unless other precedence is specified. Tenant shall designate one individual to approve Construction Documents and the Approved Plans and Specifications ("**Tenant's Designee**"). The Tenant's Designee shall be identified and such information shall be provided to Landlord within ten (10) business days of the Effective Date of the Lease.

(3) **Approved Tenant Improvement Plans.** Tenant Improvement Construction Documents as approved are hereinafter collectively referred to as the "**Approved Tenant Improvement Plans**." The Approved Landlord Work Plans and the Approved Tenant Improvement Plans are referred to herein as the "**Approved Plans and Specifications**." The Approved Landlord Work Plans and Specifications and the Approved Tenant Improvement Plans are referred to herein as the "**Construction Documents**."

c. **Confirmation of Construction Budget and Milestone Schedule.** At such time as each of the Landlord Construction Drawings and the Tenant Improvements Construction Drawings

respectively are one hundred percent (100%) complete, each shall be submitted for approval by Landlord and Tenant pursuant to the procedure set forth in Section B.2. Upon approval of the Construction Drawings and the Tenant Improvements Construction Drawings, Landlord shall require the Contractor and any Major Subcontractors to certify as to whether both the Revised Budget and the Critical Path Construction Schedule are still complete and accurate in all respects. If the Contractor or any Major Subcontractor indicates that either or both the Revised Budget or the Critical Path Construction Schedule prepared are no longer complete and accurate in all respects, then the Contractor shall update the Revised Budget and the Critical Path Construction Schedule based upon the one hundred percent (100%) complete Landlord Construction Drawings and the Tenant Improvements Construction Drawings pursuant to the bid process procedures set forth in Section B.2. Any updated Revised Budget is hereinafter referred to as the "**Final Budget**" and any updated Critical Path Construction Schedule is hereinafter referred to as the "**Updated Critical Path Construction Schedule**". The Landlord will include these obligations in any contract with the Design Professionals including the goal of reaching one hundred percent (100%) design completion to meet the Critical Path Construction Schedule.

d. **Tenant's Value Engineering and Schedule Revisions.** If within ten (10) business days of receipt by Tenant from a Contractor or a Major Subcontractor of any Possible Cost Increase, Revised Budget or Final Budget with respect to the Tenant Improvements and the Landlord Work (to the extent the increased cost or time with respect thereto arises from Tenant's proposed revisions to the Construction Documents or the Approved Plans and Specifications), or Critical Path Construction Schedule or Updated Critical Path Construction Schedule with respect to the Work, Tenant determines in its reasonable discretion that any such submittal is unacceptable due to a material increase in cost from the Estimated Tenant Improvement Budget or a material change in time from the Milestone Schedule with respect to the Work, Tenant shall notify Landlord, Landlord's Architect, Tenant's Representative and Contractor in writing, describing in detail Tenant's concerns and objections (the "**Tenant's Time/Cost Objections**") and such parties shall have a period of fifteen (15) business days from the date of the Tenant's Time/Cost Objections to resolve Tenant's concerns and objections (the "**Tenant's Time/Cost Objection Period**") provided that Tenant remains responsible for all costs of Landlord's Work other than Landlord Assumed Costs, in excess of Final Landlord's Work Budget.

e. **Landlord's Value Engineering and Schedule Revisions.** If within ten (10) business days of receipt by Landlord from the Contractor or a Major Subcontractor of any Revised Budget or Final Budget with respect to the Landlord Work or Tenant Improvements, and Critical Path Construction Schedule or Updated Critical Path Construction Schedule with respect to the Work, Landlord reasonably determines that any such submittal is unacceptable due to a material increase in the Landlord Work Budget or a material change in time from the Milestone Schedule with respect to the Work, Landlord shall notify Tenant, Landlord's Architect and the Contractor in writing, describing in detail Landlord's concerns and objections (the "**Landlord's Time/Cost Objections**") and, if requested by Tenant, such parties shall have a period of fifteen (15) business days from the date of the Landlord's Time/Cost Objections to resolve Landlord's concerns and objections (the "**Landlord's Time/Cost Objection Period**"). In no event shall the any value engineering waive or reduce any requirement set forth in the Base Building Specifications or alter Landlord's responsibility to pay Excluded Costs, unless agreed to by Landlord and Tenant in writing or where due to a Tenant Change Order.

f. **Construction Contracts.** Upon approval by Tenant and Landlord of the Final Budget and the Updated Critical Path Construction Schedule for the Landlord Work, and pursuant to Exhibit C, Section B hereof, Landlord shall enter into a guaranteed maximum price construction contract with the Contractor for the Landlord Work (the "**Landlord Work Construction Contract**"). Upon approval by Tenant and Landlord of the Final Budget and the Updated Critical Path Construction

Schedule for the Tenant Improvement Work, and pursuant to **Exhibit C, Section B** hereof, Landlord shall enter into an open book cost plus a guaranteed maximum price basis construction contract with the Contractor for the Tenant Improvements (the "**Tenant Improvements Construction Contract**") and (b) the Landlord Work Construction Contract. As used herein, the term "**Construction Contract**" shall refer to both the Tenant Improvements Construction Contract and the Landlord Work Construction Contract, as the context requires.

g. **Cooperation.** Commencing from and after the Effective Date, on a bi-weekly basis, Landlord will provide Tenant with a written status report regarding the progress of each component of Landlord Work, and, as applicable, Tenant's Improvements. Landlord will have regular construction meetings regarding such work (not less than once a week) and Tenant and its representatives shall be invited to attend such meetings and to inspect the Work on a regular basis and to talk with Landlord's Contractor about the progress of the Work including updates of budgets, schedules and all other Construction Documents.

5. **Land Use Approvals.** Landlord shall, at Landlord's sole cost and expense, be responsible to obtain all land use, zoning, platting, and all other approvals, variances or modifications necessary to permit the timely construction of Landlord Work and shall be solely responsible for all costs, fees and submissions necessary to obtain such without charge back to Tenant, subject to the remaining provisions of this Exhibit and of the Lease. Landlord shall advise Tenant once all such approvals are ready to be issued or have been obtained.

6. **Information Provided by Tenant.** Tenant will provide to Landlord all relevant information requested by Landlord regarding Tenant's requirements for Landlord Work, including but not limited to the requirements of the Base Building Specifications. Tenant is relying on Landlord to request all such necessary information and to advise Tenant as to the best appropriate design and construction materials, means and methods to construct the Landlord Work and the Tenants Improvements. The providing of any information by Tenant will not relieve Landlord of its obligations to design and construct the Work in accordance with the Construction Documents and in accordance with all Laws. Tenant reserves the right to make changes in such requirements; provided, however, that any such changes will require Change Orders signed by Tenant, Landlord, the applicable Design Professionals, and the Contractor, numbered and dated and shall be at Tenant's expense to the extent such expenses exceed the Tenant Improvement Allowance.

7. **Ownership of Plans.** The drawings, specifications and other documents prepared by or on behalf of Landlord pursuant to this Lease (including, without limitation, the Approved Plans and Specifications or Construction Documents, whether hard copies or in the form of data) will become the property of Landlord on the Commencement Date, and Landlord grants to Tenant a non-exclusive license to use the Approved Plans and Specifications and Construction Documents solely in connection with Tenant's use and occupancy of the Premises including construction of any improvements within the Building. Tenant will be granted by Landlord and the Landlord Design Professionals the absolute right and license to use the drawings, specifications and other documents for the Premises in order to complete Landlord Work and Tenant Improvements in the event of default by Landlord under the Lease and to complete any Alterations after the Commencement Date and for the Contractor to undertake the Tenant Improvements subject, however, to all rights therein and thereto claimed by Landlord's lender(s) pursuant to the SNDA between Tenant and such lender. Neither the Contractor, nor any Design Professional, nor any subcontractor, sub-subcontractor or supplier will own or claim, with respect to the Base Building Improvement or the Tenant Improvements, a copyright in such drawings, specifications and other similar or related documents, and Landlord will own, on the Commencement Date, all common law, statutory,

and other reserved rights with respect to the Base Building Improvements, which rights may be assigned by Landlord and Landlord's Design Professionals to Tenant, if so elected by Landlord. Tenant will own, on the Commencement Date, all common law, statutory, and other reserved rights with respect to the Tenant Improvements, which rights may be assigned by Tenant and Tenant's Design Professionals to Landlord, if so elected by Tenant.

## **B. CONSTRUCTION OF WORK.**

**1. Generally.** In strict compliance with this Work Agreement, construction services will be performed by qualified licensed construction contractors, and subcontractors, selected (subject to Tenant's approval to the extent such approval is required under this Exhibit C) and paid by Landlord, subject to reimbursement by Tenant for overages as provided for in this Exhibit C and otherwise as provided for in the Lease, and acting in the interest of Landlord and Tenant. The Construction Contract will provide that while the contractual obligations of the Contractor(s) and the subcontractors will be undertaken and performed in part in the interest of Tenant, nothing contained herein will create any professional obligation or contractual relationship between such persons and Tenant regardless of whether Tenant is a beneficiary or named as a beneficiary of their services. Notwithstanding anything to the contrary herein, Landlord and Contractor(s) shall be responsible for constructing the entirety of the Work in accordance with the Approved Plans and Specifications.

### **2. Contractors.**

#### **a. Identifying Contractors.**

(1) Landlord and Tenant have approved The Whiting-Turner Contracting Company; James G. Davis Construction Corporation; and Clark Construction Group as the Contractors (each a "Contractor"). The Tenant will approve the Contractor to be retained by Landlord. Such approval not to be unreasonably withheld, conditioned or delayed. The Contractor may be replaced by Landlord in its reasonable discretion with Tenant's approval which will not be unreasonably withheld, conditioned or delayed. Landlord will be solely responsible for any increases in the cost of, or delay in, the Work solely caused by Landlord's decision to replace the Contractor. Tenant shall also have the right to approve the form and content of the construction contract with such contractor, which approval will not be unreasonably withheld, conditioned or delayed. Landlord will seek preliminary bids from each of the prospective contractors.

(2) All contractors and subcontractors engaged by or on behalf of Landlord for the Premises, including the general contractor and the Major Subcontractors (the "**Landlord Contractors**") shall be licensed contractors, capable of performing quality workmanship in a first class manner, and approved by Landlord (which approval shall not be unreasonably withheld, conditioned or delayed).

**b. Pricing and Scheduling of the Work.** Generally at such time as ninety percent (90%) of the Construction Drawings are complete and the Tenant Improvements Construction Drawings are at least sixty-five percent (65%) complete and again when Bid Sets are available, Landlord shall: (1) require the Contractor (a) to price the construction of the Work pursuant to the terms of a proposed construction contract reviewed and approved by Tenant and Landlord, which shall include a schedule with proposed dates for the performance and completion of the Work, including all items there which the Contractor deems to be on the "critical path", which shall include a schedule with proposed dates for the performance and completion of the Tenant Improvements, including all items there which Contractor

deems to be on the "critical path" (taking into consideration the Landlord Work). The Contractor will also prepare a "**Critical Path Construction Schedule**" which will be updated periodically and once finalized, will be attached to the Construction Contract. The Critical Path Construction Schedule shall include the requirement that Landlord Work will be completed as of a date certain to allow the Tenant Improvements to be started in a manner which does not delay the Tenant Work because of the Work Environment, or inefficiencies in coordinating the Landlord work with the Tenant Improvements.

c. The Contractor shall develop and support pricing and scheduling based on bids that it request and receive from all major trades with a contract value of over \$10,000 per trade. The Contractor shall have fully and separately priced the construction of the Landlord Work and Tenant Improvements. The Contractor's initial pricing and scheduling shall (i) price the Landlord Work and the Tenant Improvements pursuant to the parties' timely submission of the design and construction drawings for the Tenant Improvements all in accordance with the Estimated Project Budget and the Milestone Schedule, (ii) take into consideration the degree to which Construction Drawings complete and the Tenant Improvements Construction Drawings are complete (if estimates are required before the Bid Set is available), and provide a contingency acceptable to Tenant and Landlord for potential changes to the Construction Drawings and the Tenant Improvements Construction Drawings that could arise upon approval of such submittals as the Approved Plans and Specifications, and (iii) assume that the construction of the Landlord Work shall not commence for thirty (30) days (or such other period as Tenant and Landlord may agree to after consultation with the Base Building Contractor and Landlord's Architect) following the completion of bidding (during all of such period the Contractors' pricing shall be required to not increase). The Landlord Work Construction Contract will specify the percentage of hard costs that the Contractor will charge for general conditions and Contractor's fees ("**Contractor TI Fees**") under the Tenant Improvements Construction Contract. The Tenant Improvements Construction Contract will include the Contractor TI Fees and binding maximum price bids from all subcontractors. The contract for the Landlord Work and the separate contract for the Tenant Improvements, respectively, will require the Contractor to provide separate tracking systems, submittals, change order logs, as-built costs and schedules and other relevant information. The bidding process shall be pre-approved by Tenant and Landlord, but in all events, the Contractor (a) shall request bids only from qualified and reputable subcontractors pre-approved by Tenant and Landlord (such approval not to be unreasonably withheld, conditioned or delayed) and (b) shall competitively bid among not less than three subcontractors any subcontract providing for, or contemplating payments in the aggregate of \$10,000 or more ("**Subcontractors**"). The bids from the Subcontractors for the Tenant Improvements for the Final Budget shall be binding on the Subcontractors and will be incorporated into the Tenant Improvement Construction Contract. Landlord shall deliver to Tenant (a) a proposed revised Estimated Project Budget incorporating the results of each of the Contractors' bid process as described above (the "**Revised Budget**"), and (b) a proposed revised Milestone Schedule incorporating the results of each of the Contractors' bid process as described above (the "**Critical Path Construction Schedule**"). (The term "**Landlord's Contractors**" shall mean all contractors engaged by Landlord pursuant to the Lease and this Work Agreement.) All Subcontractors providing for or contemplating payments in the aggregate exceeding \$25,000 ("**Major Subcontractors**") will be capable of being bonded and their contracts will be backed by the payment and performance bonds.

### 3. Contractor Duties.

a. **Construction.** The Contractor will be responsible for all required construction, management and supervision of the Work.

b. **Warranties.** On completion of the Work, Landlord shall provide Tenant with copies of all warranties of at least one-year duration on all Work from the Substantial Completion of the Work (not including personal property or trade fixtures). At Tenant's request, made prior to the expiration of the warranty period, Landlord shall enforce, at Landlord's expense, all guarantees and warranties made and/or furnished to Landlord with respect to the Work.

c. **Required Insurance.** Landlord shall cause Landlord's Contractors to secure, pay for, and maintain during the performance of the construction of the Work, insurance in the following minimum coverages and limits of liability.

(1) Workmen's Compensation and Employer's Liability Insurance as required by Laws.

(2) Commercial General Liability Insurance (including Owner's and Contractors' Protective Liability) in an amount not less than \$2,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof with a minimum aggregate limit of \$2,000,000, and with umbrella coverage with limits not less than \$10,000,000 (with respect to the General Contractor and \$2,000,000 for the other Landlord Contractors). Such insurance shall provide for explosion and collapse, completed operations coverage with a two-year extension after completion of the work, and broad form blanket contractual liability coverage and shall insure Landlord's Contractors against any and all claims for bodily injury, including death resulting therefrom and damage to the property of others and arising from its operations under the contracts whether such operations are performed by Landlord's Contractors, or by anyone directly or indirectly employed by any of them.

(3) Business Automobile Liability Insurance, including the ownership, maintenance, and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than \$500,000 for each person in one accident, and \$1,000,000 for injuries sustained by two or more persons in any one accident and property damage liability in an amount not less than \$1,000,000 for each accident. Such insurance shall insure Landlord's Contractors against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others arising from its operations under the contracts, whether such operations are performed by Landlord's Contractors, or by anyone directly or indirectly employed by any of them.

(4) "All-risk" builder's risk insurance upon the entire Work to the full insurance value thereof. Such insurance shall include the interest of Landlord and Landlord (and their respective contractors and subcontractors of any tier to the extent of any insurable interest therein) in the Work and shall insure against the perils of fire and extended coverage and shall include "all-risk" builder's risk insurance for physical loss or damage including, without duplication of coverage, theft, vandalism, and malicious mischief. If portions of the Work are stored off the site of the Building or in transit to such site are not covered under such "all-risk" builder's risk insurance, then Landlord shall effect and maintain similar property insurance on such portions of the Work. Any loss insured under such "all-risk" builder's risk insurance is to be adjusted with Landlord and Landlord and made payable to Landlord as trustee for the insureds, as their interest may appear, subject to the agreement reached by such parties in interest, or in the absence of any such agreement, then in accordance with a final, nonappealable order of a court of competent jurisdiction. If after such loss no other special agreement is made, the decision to replace or not replace any such damaged the Work shall be made in accordance with the terms and provisions of the Lease including, this Landlord's Work Agreement. The waiver of

subrogation provisions contained in the Lease shall apply to the "all-risk" builder's risk insurance policy to be obtained by Landlord pursuant to this paragraph (4).

(5) All policies (except the Workmen's Compensation policy) shall be endorsed to include as additional named insureds Landlord and their officers, Landlord's contractors, Landlord's architect, any Mortgagees and such additional persons with an interest in the Building as Landlord may designate. Such endorsements shall also provide (if such provision can be obtained at no additional cost) that all additional insured parties shall be given thirty (30) days' prior written notice of any reduction, cancellation, or nonrenewal of coverage by certified mail, return receipt requested (except that ten (10) days' notice shall be sufficient in the case of cancellation for nonpayment of premium) and shall provide that the insurance coverage afforded to the additional insured parties thereunder shall be primary to any insurance carried independently by such additional insured parties. At Tenant's request, Landlord shall furnish a list of names and addresses of parties to be named as additional insureds. The insurance policies required hereunder shall be considered as the primary insurance and shall not call into contribution any insurance then maintained by Landlord. Additionally, where applicable, such policy shall contain a cross liability and severability of interest clause.

(6) To the fullest extent permitted by law, and except to the extent caused by the negligence or willful misconduct of Landlord, Landlord and Landlord's Contractors shall indemnify and hold harmless Landlord from and against all losses necessitated by activities of the indemnifying party's contractors, bodily injury to persons or damage to property of the Indemnitees arising out of or resulting from the performance of work by the indemnifying party or its contractors. The foregoing indemnity shall be in addition to the insurance requirements set forth above and shall not be in discharge or substitution of the same, and shall not be limited in any way by any limitations on the amount or type of damages, compensation or benefits payable by or for Landlord's Contractors under Workers' or Workmen's Compensation Acts, Disability Benefit Acts or other Employee Benefit Acts.

d. **Quality of Work.** The Work shall be constructed in a good and workmanlike manner using only good grades of material and in compliance with the Final Plans, all insurance requirements, and applicable Laws. The quality of the Work that are visible to the exterior of the Premises shall be first class and at least equal to or of greater quality than those Building standard materials and finishes as more particularly described on Schedule 1 attached hereto (the "**Building Standards**").

e. **"As-Built" Plans.** Upon completion of the Work, Landlord shall furnish Tenant with "as built" plans and air balance reports for the Premises, final waivers of lien for the Work, and an occupancy permit for the Premises. The "as-built" plans shall be prepared on an AutoCAD Computer Assisted Drafting and Design System (or such other system or medium as Landlord may accept), using naming conventions issued by the American Institute of Architects in June, 1990 (or such other naming conventions as Landlord may accept) and magnetic computer media of such record drawings and specifications translated in DFX format or another format acceptable to Landlord.

f. **Mechanics' Liens.** Landlord shall not permit any of the Landlord's Contractors to place any lien upon the Building, and if any such lien is placed upon the Building, then, Landlord shall cause such lien to be discharged of record, by bonding or otherwise, in accordance with the applicable provisions of the Lease.

**C. GENERAL CONDITIONS**

**1. Landlord Obligations.**

a. **Permits and Approvals.** Landlord shall be responsible for obtaining all necessary permits and approvals from governmental authorities having jurisdiction over the Work. Landlord shall pay for all permits and fees in connection with the Work up to the maximum Landlord Work Budget and Tenant shall pay for all other permits and fees. Landlord shall perform the Work or cause the Work to be performed in a first class manner using Landlord's best skill and attention. Landlord shall be responsible for and shall coordinate all construction means, methods, techniques, sequences and procedures.

b. **Communications.** Landlord shall keep Tenant regularly informed of the progress and quality of the Work. Landlord and the Contractor(s) shall provide reasonable access to Tenant, Tenant's employees, consultants and representatives in order to inspect the Work. Tenant shall keep Landlord regularly informed of the progress and quality of Tenant's fit out and fixturing to the extent performed by Tenant under this Lease. Tenant and the Contractor(s) shall provide reasonable access to Landlord, Landlord's employees, consultants and representatives in order for Landlord to fulfill its obligations with respect to the Work. Landlord will schedule, notify Tenant of, and hold bi-weekly meetings with Tenant and its representatives to provide an update as to the progress of the Work.

c. **Quality Materials.** Landlord hereby warrants, and the Contractor in the Construction Contract shall warrant to Tenant, that all materials and equipment incorporated in the Work will be new unless otherwise specified and approved by Tenant not to be unreasonably withheld, conditioned or delayed, and that the Work will be of good quality, free from material faults and defects, and substantially in conformance with all design documents and the requirements of this Exhibit C. The Work not conforming to such requirements will be promptly corrected in accordance with this Exhibit C.

d. **Fees.** Landlord shall include in the Landlord Work Budget and the Tenant Improvement Budget and shall pay (subject to reimbursement pursuant to Section A.2 hereof) all sales, consumer, use and similar taxes arising in connection with the Work, and shall secure and pay for all required building and other permits, zoning, platting and other development fees and costs (and the fees and costs of attorneys, consultants and other necessary to obtain any such approvals, plats, site plans or other approvals or permits), licenses and inspections necessary for the proper execution and completion of the Work and included in the Landlord Work Budget, to the maximum of the Landlord Work Budget. Notwithstanding anything to the contrary contained herein, Tenant shall pay for any such costs attributable solely to the Tenant Improvements. Landlord shall also pay without reimbursement by Tenant the cost of all governmental fees, impact fees, zoning, platting and other fees, including the consulting fees attributable thereto for those matters that constitute Excluded Costs.

e. **Notices.** Landlord shall give notices as required by, and shall comply with, all Laws and orders of public authorities relating to the Work.

f. **Royalties and License Fees.** Landlord shall include in the Landlord Work Budget and the Tenant Improvement Budget and shall pay (subject to reimbursement pursuant to Section A.2 hereof) any applicable royalties and license fees arising in connection with the Work, to the maximum of the Landlord Work Budget. Landlord shall defend suits or claims for infringement of patent rights that are brought while Tenant is in occupancy of the Premises and provided that an Event of Default has not occurred and shall indemnify and save Tenant, Tenant's subsidiaries, parents and

Affiliates and their respective shareholders, directors, and employees, harmless from and against loss or liability on account thereof. This paragraph shall survive for one (1) year following the expiration or prior termination of the Lease. Notwithstanding anything to the contrary contained herein, Tenant shall pay for any such costs attributable solely to the Tenant Improvements.

g. Landlord shall be liable to Tenant for acts and omissions of its contractors, and employees and parties who have been retained to perform a portion of the Work, including the respective employees of such parties. Notwithstanding anything to the contrary contained herein, Tenant shall pay for any such costs attributable solely to the acts or omissions of Tenant, any Affiliates and their employees, and contractors.

h. Landlord shall keep the Real Property reasonably free from accumulation of waste materials and rubbish caused by the operations of Landlord, the Contractor(s), any subcontractor or any other party performing any portion of the Work on behalf of Landlord. At the completion of the Work, Landlord shall remove from and about the Real Property all tools, construction equipment, machinery, surplus materials, waste materials and rubbish.

i. Landlord shall enforce discipline and good order among the persons carrying out the Work. Landlord shall not knowingly permit unfit persons or persons not skilled in tasks assigned to them to be employed in connection with the Work.

j. Landlord shall maintain in good order at the site one record copy of the Approved Documents, drawings, specifications, product data, samples, shop drawings, Change Orders and other modifications relating to the Work, marked currently to record changes made during construction. Such record copy shall be updated digitally on a weekly basis and shall be made available to Tenant and its advisors at all times and delivered to Tenant upon Substantial Completion of the Work provided that Tenant is not then in default of any of its obligations under the Lease, including under this Exhibit. The provisions of this Subsection B.3.j shall survive the expiration or prior termination of this Lease.

## **2. Tenant Payment Requirements.**

a. If Tenant is required to pay for the cost of any Work pursuant to **Exhibit C.2, Section A.2** hereof, Tenant will make the progress payment for the Work performed during the previous month in accordance with the Construction Contract. Each of Tenant's progress payments shall be the amount requested by Landlord in a written request conforming to the requirements hereof. Provided that Landlord delivers requisitions to Tenant on or prior to the 10<sup>th</sup> day of any month, such progress payments shall be made within 30 days next following the delivery to Tenant of requisitions therefor, signed by the Landlord's representative, which requisitions shall set forth the names of each contractor and subcontractor to whom payment is due, and the amount thereof, and shall be accompanied by (i) with the exception of the first requisition, copies of conditional waivers and releases of lien upon progress payment in the form prescribed by Laws from all contractors, subcontractors for the major trades, and material suppliers covering all work and materials in minimum amounts equal to \$50,000 per materialman, which were the subject of previous progress payments by Landlord and Tenant, (ii) a written certification from Landlord's engineer and architect and Tenant's representative that the work for which the requisition is being made has been completed substantially in accordance with the Approved Plans and Specifications and (iii) such other documents and information as Tenant may reasonably request. Any requisition made following the 10<sup>th</sup> day of any month shall be paid in full by Tenant either to Landlord or, if requested by Tenant, directly to the contractors or suppliers no later than the last day of

the month following the month in which such requisitions are made. Upon Substantial Completion of the Work, Landlord shall provide to Tenant (A) proof of the satisfactory completion of all required inspections and issuance of any required approvals, permits and sign-offs for the Work by Governmental Authorities having jurisdiction thereover, (B) final "as-built" plans and specifications for the Improvements, (C) issuance of final, unconditional lien waivers and releases in the form prescribed by Law by all contractors, subcontractors for the major trades and material suppliers with materials in excess of \$50,000 each, covering all of the Work and (D) delivery of operations and maintenance manuals, warranties, attic stock (if required) and all keys.

3. **Substantial Completion.**

a. **Substantial Completion.** Landlord shall notify Tenant when Landlord reasonably believes that Substantial Completion has occurred of (i) the Landlord Work and (ii) the Tenant Improvements. "**Substantial Completion**" means the last to occur of:

(1) Completion of the Landlord Work or Tenant Improvements, as the case may be — the day of actual completion of such Work (excluding any items that are the responsibility of Tenant hereunder), including access to the Building and any off-site work required with respect thereto. In the case of Landlord Work, the Base Building Improvements will be completed aside from Punch List Items. In the case of the Tenant Improvements, the Building will be fully operational and ready and suitable for Tenant to begin beneficial use and occupancy of the Building, the Land and Premises. In order for Landlord to have achieved Substantial Completion of either the Landlord Work or the Tenant Improvements, only minor Punch List Items will remain incomplete, and none of those items nor any work to complete the punch list will prevent or materially interrupt Tenant's beneficial use and occupancy of the Premises or use of the Tenant Improvements. The Punch List Items ("**Punch List Items**") will be prepared by Landlord and Tenant and their respective representatives following an inspection of the Building. Tenant reserves the right to waive any of the above conditions for a part or all of Landlord Work or the Tenant Improvements without relieving Landlord of any other responsibilities;

(2) Certificate of Occupancy — With respect to the Landlord Work, the date that Tenant receives a copy of a Core and Shell Certificate of Occupancy that was issued with respect to the Building. With respect to the Tenant Improvements, the day that Tenant receives a copy of the final, unconditional Certificate of Occupancy for the Building; and

(3) Certificate of Architect — the day that Tenant receives an original, fully executed and sealed Certificate of Substantial Completion on AIA Form G704 and issued by Landlord's Architect certifying to Tenant that to the best of its knowledge and belief after due review and inspection (i) in the case of the Landlord Work, the Landlord Work, has been completed in accordance with the applicable Construction Documents and all Laws, with the only exception of so-called Punch List Items and (ii) in the case of the Tenant Improvements, the Tenant Improvements has been completed in accordance with the applicable Construction Documents and all Laws, with the only exception of so-called Punch List Items.

b. **Completion Notice.** Any such notice delivered to Tenant pursuant to **Section C.3** (a "**Completion Notice**") will (a) specify the date Landlord claims to be the date on which Substantial Completion occurred, (b) include the Certificate of Occupancy and Certificate of the Architect; (c) List the Punch List prepared by Landlord and Tenant following a walk through of the building and (c) specify the date or dates by which each of the remaining items referred to in clause (b) above will be completed or corrected, not to exceed fourteen (14) days from the date of the Completion

Notice. If Tenant agrees with the date of Substantial Completion specified in such Completion Notice, Tenant shall confirm such date in a written notice delivered to Landlord within ten (10) days from receipt of the Completion Notice. If Tenant disagrees with the date of Substantial Completion specified in such Completion Notice, Tenant shall so notify Landlord within such ten (10) day period, setting forth with reasonable specificity Tenant's basis for asserting that one or more of the criteria for Substantial Completion have not been satisfied, provided however that the issuance of the Certificate of Occupancy for the Work shall be dispositive evidence that the sign off on the Work by Governmental Authorities pursuant to Section 2(a)(A) has occurred. Landlord shall be entitled to resubmit such Completion Notice, specifying a later date for Substantial Completion to Tenant.

c. **Date for Substantial Completion.** Landlord shall commence performance of Landlord Work and Tenant Improvements promptly upon approval (or deemed approval) of the Construction Documents and the Tenant Improvement Construction Documents, respectively, and shall be completed to the point of Substantial Completion on or before the date for Substantial Completion as set forth in the Milestone Schedule (which Milestone Events will be extended in accordance with their terms for Force Majeure Events and Tenant Delay) "Completion Extension Events").

d. **Landlord Resources.** Landlord has represented to Tenant, as a material inducement to Tenant's execution of this Lease, that Landlord has sufficient resources, and will devote sufficient resources, to carefully and expertly manage the Work so that the Substantial Completion Date can be met, and Landlord will provide such management with the highest degree of all reasonable care and diligence.

e. **Force Majeure Event.** As used herein, "Force Majeure Event" means a fire, explosion or similar casualty, sabotage, riot or civil commotion, industry wide labor dispute that directly impacts the work, hurricane, tropical storm, flooding or tornado, adverse weather conditions in excess of ten (10) working days (during which work cannot be performed) and extraordinary delays caused by legal, administrative or other governmental proceedings or orders, or other delays of governmental agencies in excess of the typical approval periods required by these agencies or delays due to general strikes or work stoppages (other than those limited to this Project or the Contractor or its Subcontractors); war, insurrection, or terrorist attacks, excluding, however, a lack of sufficient funds or any other financial difficulty of Landlord or any related parties. Landlord and Tenant further agree that the anticipated Substantial Completion Date contemplates up to ten (10) work days of delays in performance of the Work due to adverse weather conditions (including, by way of example only, days of material precipitation). If the actual number of work days of adverse weather conditions exceed ten (10) work days, then the Substantial Completion Date shall be extended on a day-for-day basis. For the sake of clarity and by way of example only if there are fifteen (15) work days of adverse weather conditions then the Substantial Completion Date shall be extended by five (5) work days. Days of adverse weather conditions need not be consecutive. Landlord shall make any claim for an inclement weather extension or an extension due to a Force Majeure Event in writing within five (5) business days of the occurrence for which Landlord is making such claim. Such notice shall specify in detail the cause of the claimed delay and the specific portion of the Work that Landlord believes has been delayed. Failure to provide such notice timely shall be deemed an affirmative waiver of such claim for delay. Any extension of any date set forth in this Lease due to a Force Majeure Event will be only for delay in performance that is an actual and direct result of such Force Majeure Event.

#### 4. **Change Orders.**

a. **"Change Order"** means a written order signed by Tenant, Landlord, and the Contractor, authorizing a change in the Approved Documents, or a change to any date (including the Substantial Completion Date) which is in the Updated Critical Path Construction Schedule and which is likely to delay the Substantial Completion Date, or a change to any pricing for labor or materials which is likely to decrease or increase the amount of the Final Budget. The Substantial Completion Date may be changed and any Cost of the Work (as hereinafter defined) may be authorized only by Change Order.

b. **Right to Request Change Order.** Tenant, without invalidating the Lease, may order changes in the design documents for the Work consisting of additions, deletions or other revisions whether or not such changes materially increase or decrease the Final Budget and or Updated Critical Path Construction Schedule.

c. **Change Order Reimbursement.** If the aggregate of all Change Orders for the Work initiated by Tenant result in a net increase in cost, Landlord shall be entitled to reimbursement for such net increase ("**Change Order Reimbursement**") directly attributable to the Change Orders. Tenant may elect to pay such net increase from the Tenant Improvement Allowance (as hereinafter defined), if available or otherwise the Landlord Work Budget or the Tenant Improvements Budget as applicable will be increased to reflect such Change Order and Tenant will pay for such increase pursuant to Section A.2 hereof. Landlord shall confirm to Tenant's reasonable satisfaction all the net effect of Change Orders on the cost of the Work, and Tenant shall be entitled to audit the books and records of Landlord by not less than thirty (30) days prior written notice given within thirty (30) days following the Substantial Completion Date. Any audit shall be held at Landlord's corporate offices solely to verify the effect of such costs. Any Change Order Reimbursement shall be paid by Tenant to Landlord, within thirty (30) days after the Commencement Date under the Lease, unless otherwise applied to, or paid from, the Tenant Improvement Allowance in accordance with this Section B.4.c.

d. The "**Cost of the Work**" for the purposes of determining the Change Order Reimbursement will be determined in one or more of the following ways:

(1) by mutual acceptance of a lump sum properly itemized and supported by sufficient substantiating data to permit evaluation; or

(2) where appropriate for the type of change, by unit prices agreed upon; or

(3) the basis of reasonable expenditures and savings of those performing the Work attributable to the change, including the expenditures for design services and revisions to the Approved Documents, such to be adjusted by a reasonable allowance for overhead and profit to the Contractor, on labor and material provided by the Contractor in amounts reasonably approved by landlord and Tenant on charges from subcontractors of all tiers. Landlord shall keep and present an itemized accounting together with appropriate supporting data for the entire Work and for inclusion in a Change Order. Unless otherwise provided in the Approved Documents or Construction Contract, cost shall be limited to the following: cost of materials, including sales tax and cost of delivery; cost of labor and services including any sales taxes thereon, including unemployment insurance, and fringe benefits required by agreement or custom; workmen's compensation insurance; bond premiums; rental value of equipment and machinery; additional costs of supervision and field office personnel directly attributable to the change; and fees paid to architects, engineers and other professionals.

e. **Change Order Delay.** When a Change Order is presented for approval, Landlord and Tenant will discuss the number of days of delay in Substantial Completion that they

believe will be attributable to a proposed Change Order. If the aggregate of all Change Orders for the Work initiated by Tenant result in a net delay in any milestone date, Landlord shall be entitled claim Tenant Delay on a day for day basis for each day of delay caused by such Tenant Change Orders. If the aggregate of all Change Orders for the Work initiated by Landlord result in a net delay in Landlord's Substantial Completion of the Work, Tenant shall be entitled claim Landlord Delay on a day for day basis for each day of delay caused by such Landlord Change Orders. (Such delays are referred to herein as "Change Order Delays".) Change Order Delays must be documented when they occur and notice provided to all parties in order to constitute Change Order Delays.

f. **Approval of Change Order.** Landlord will only have the right to reject a Tenant Change Order if such Change Order materially and detrimentally affects first class standard or implementation of the Landlord Work or are not consistent with Law. All Change Orders proposed by Landlord or Tenant shall be deemed approved unless rejected pursuant to the Deemed Approval Procedure. During the second five (5) business day review period of the Deemed Approval Procedure, senior representatives of Landlord and Tenant will meet to reach agreement on the Change Orders. If they cannot reach agreement, Tenant will have the right to require Landlord to accept the Change Order, subject to the price for implementing such Change Order quoted by the Contractor and a corresponding extension of time in which to complete Landlord's Work as required to account for the Change Order.

## 5. **Warranties.**

a. **Landlord's Due Diligence.** As of the Effective Date, Landlord is the contract purchaser of the Land pursuant to a certain purchase and sale agreement dated as of June 12, 2017. Landlord represents and warrants to Tenant that it has examined the physical condition of the Land including (1) the nature, location, and character of the Landlord Work and the Land, including, without limitation, the surface and subsurface conditions of the Land and all structures and obstructions and Hazardous Waste thereon and thereunder, both natural and man-made, and all surface and subsurface water conditions of the site and the surrounding area; (2) the nature, location, and character of the general area in which the Land is located; (3) the title to the Land; and (4) the zoning applicable to the Land. Landlord represents and warrants to Tenant that (i) to the best of its knowledge based solely on environmental reports received by Landlord as of the date construction begins, there is no Hazardous Waste in, on or under the Land; (ii) the soil composition is appropriate to support foundations for the Landlord Work; (iii) the seller under the purchase and sale agreement has title to the Land, subject to no exceptions or encumbrances that would prevent the acquisition of the Land by Seller or would prevent the construction of Work in the ordinary course of business; (iv) the Land is zoned to permit construction of the Landlord Work and the Permitted Use as set forth in the Lease. Landlord shall be responsible for any surface, subsurface, subsurface water or soil conditions or Hazardous Waste upon or within the Land existing as of the date of acquisition. The cost of any remedial action necessitated thereby shall be the sole responsibility of Landlord, shall not be included in the Tenant Improvements Budget and shall not be payable by Tenant ("Soil Remediation").

b. **Warranty.** Landlord warrants the Work against material defects and non-conformities in workmanship and labor and that the Work will be constructed in accordance with the Approved Documents and applicable Laws. Landlord agrees, at its sole cost, to promptly correct the Work reasonably rejected by Tenant notice if such rejection is given in writing within one year after the Commencement Date and any Work actually known by Landlord to be defective or not in conformity with the Approved Construction Documents, whether observed before or after the Commencement Date and whether or not fabricated, installed or completed. Landlord agrees to correct Latent Defects reported to Landlord within thirty six (36) months after the Commencement Date. In addition, if the Work

deviates from the Approved Documents in any material respect and materially and adversely impacts the interface of the Landlord Work with the Tenant Improvements, Landlord shall promptly correct such deviation in order to comply with the Approved Documents. To the extent that Landlord's correction causes a delay in completion of the Tenant Improvements, that delay will be deemed a Landlord Delay (as hereinafter defined). Any such cost will be a Landlord Assumed Cost and will not be considered part of Building Expenses.

c. **Remedies.** If Landlord fails to carry out the Work in accordance with the Approved Documents, and fails within ten (10) business days after receipt of written notice from Tenant to commence and thereafter continue correction of such breach with diligence and promptness, Tenant may give a second written notice to Landlord, and if Landlord does not comply with its obligations within ten (10) business days following receipt by Landlord of such second written notice and without prejudice to any other remedies Tenant may have under this Lease, Tenant may correct such deficiencies. In such case, an appropriate Change Order will be issued by Tenant alone (without the necessity of Landlord or the Contractor signing such Change Order) deducting from payments then or thereafter due Landlord any and all costs of correcting such deficiencies. If the payments then or thereafter due Landlord or the Contractor shall not be sufficient to cover the amount of the deduction, Landlord shall, at Tenant's option, pay Tenant the difference to Tenant upon receipt of a documented invoice therefor or Tenant may offset the cost thereof, with interest thereon at the Interest Rate against Base Rent. Such offset shall not exceed fifty percent (50%) of each monthly installment of Basic Annual Rental, until full reimbursement is made.

d. **Benefit of Warranties.** The parties agree that any warranties relating to the Premises shall be solely for the benefit of Landlord and Tenant and shall be enforced by Landlord. In addition to, and without in any way limiting the foregoing Section B.6.d, Landlord shall obtain a warranties of at least twenty (20) years for the roof and vertical transportation systems of the Building and a warranty from the Contractor with respect to all of the Work for at least one (1) year after final completion of the Building, including both Landlord Work and Tenant Improvements. This Section C.6.d shall not in any way limit any contractual or statutory warranties, express or implied.

6. **Punchlist.** Approximately five (5) business days prior to the applicable Substantial Completion Date, Landlord and Landlord's Architect (or Landlord's contractor performing the applicable component of the Landlord's Work), along with Tenant and Tenant's Representative or construction consultants, shall generate a punch list of non-conforming, defective or incomplete work items, if any, in the applicable component of Landlord Work (the "Punch List"). Landlord shall correct or complete, as applicable, all items on the Punch List for such component. Within sixty (60) days following the date of the generation of the Punch List, Landlord shall complete all items on the Punch List unless the nature of the defect or variance or incomplete work item listed therein is such that a longer period of time is required to repair or correct the same, in which case Landlord shall exercise due diligence in correcting such defect or variance or completing such incomplete work item. Tenant's acceptance of any of the Pre-Occupancy Landlord's Work or Post-Occupancy Landlord's Work as Substantially Completed and completion of the Punch List for each such component of Landlord's Work shall in no way estop Tenant making a claim for any non-conforming, defective or incomplete work items in the applicable component of Landlord's Work which would not be apparent by a reasonable, non-invasive inspection ("Latent Defects") and which were not observed at the time of compilation of the Punch List provided that such claim shall be made in writing within thirty-six (36) months following the Commencement Date. Without limiting the foregoing, discovery of ACMs and/or mold in the Premises after delivery by Landlord shall be deemed to be Latent Defects. Landlord shall, at its sole cost and expense, correct any such Latent Defects. If Landlord fails to correct Latent Defects timely, Tenant may correct such Latent Defect and deduct or offset the cost of such work plus a ten percent (10%) overhead fee and interest on

the amount expended at the Interest Rate until paid from the payments of Base Rent next due and owing under this Lease, provided that such offset may not exceed more than twenty-five percent (25%) of any installment of Base Rent.

7. **Delays.**

a. **Landlord Delay.** "Landlord Delay" As used herein and in the Lease, the term "Landlord Delay" shall mean any actual delay in the Substantial Completion of the Work resulting from: (1) any interference or delay to construction schedule caused by Landlord or the Landlord Contractor, property manager, Landlord Affiliates or their employees; (2) Landlord's failure to approve any of the Construction Documents or any revisions to either or change requests in the timeframes set forth in this Work Agreement, (3) interference in Tenant's Improvements caused by Landlord, Landlord's contractors, employees, or property manager, (4) Landlord's failure to abide by the covenants and obligations set forth in this Tenant's Work Agreement, (5) discovery of Latent Defects in the Premises, (6) failure of the Landlord Work to be in compliance with Laws, which results in the inability to obtain permits in connection with construction of Tenant Improvements or Tenant's occupancy, (7) Landlord's failure to complete any portion of Landlord's Work in accordance with the Milestone Schedule for completion of the applicable portion of Landlord's Work set forth on **Exhibit C-2** attached hereto, (8) Change Order Delays caused by Landlord Change Orders, (9) Landlord's material failure to provide the Work, or (10) delays attributable to a Landlord Transfer, but in each instance excluding delays caused by Force Majeure or a Tenant Delay. In the event of a Landlord Delay, (i) the Commencement Date and the Rent Commencement Date shall be extended by one (1) day for each day of Landlord Delay, and (ii) any Tenant Delay resulting therefrom shall be appropriately reduced.

b. **Tenant Delay.** As used herein, "Tenant Delay" means any actual delay (except for a Landlord Delay) in the Substantial Completion of the Work resulting from: (i) Tenant's failure to comply with its obligations under this Exhibit or to take any action required under this Work Agreement including, without limitation Tenant's failure to take any action within any requisite period specified herein; (ii) Tenant's changes to the Approved Documents after Landlord's approval thereof, to the extent such change delays the Substantial Completion Date or increases the aggregate amount of the Final Budget or any Change Orders requested or required by Tenant; or (iii) any article of material, equipment, component or item of any type whatsoever required by the Tenant Improvements Plans is unavailable or there is a material delay in its availability in accordance with the Updated Critical Path Project Schedule and to the extent such act delays the Substantial Completion Date; (iv) any interference or delay to construction schedule caused by Tenant or any Affiliate of Tenant or any of their employees or contractors; (v) delays in the Substantial Completion Date caused by Tenant Change Orders; (vi) or Tenant's failure to complete Tenant's tasks in accordance with the Milestone Schedule for completion of Tenant's Milestones set forth on **Exhibit C-2** attached hereto, but in each instance excluding delays caused by Force Majeure or a Landlord Delay. In the event of a Tenant Delay, there shall be no extension of the Commencement Date or Rental Commencement Date by reason of Tenant Delay, each of which shall occur in accordance with Section 1.7 and Section 1.8 of the Lease.

c. **Work Schedule.** In connection with a Landlord Delay, Landlord shall, without increasing the cost of the Work, employ such additional forces, obtain such additional equipment, employ such additional supervision, pay such additional overtime wages, and use such priority freight as may be required to bring the Work back on schedule. If any Landlord Delay continues for more than thirty (30) days Landlord shall submit, within five (5) business days of Tenant's written notice and for Tenant's approval not to be unreasonably withheld, conditioned or delayed (time being of the essence), a recovery plan to Tenant detailing Landlord's proposal for bringing the Work back on schedule, and that the

sequence of the performance of the Work be changed. Any costs incurred by Landlord to recover from any such Landlord Delay in the Work shall not be Tenant's responsibility. This Section C.7.c shall not be construed to require that Tenant give Landlord a written notice to perform any of the acts listed herein, and the parties agree that Tenant's failure to give such written notice to Landlord shall not in any way relieve Landlord's obligation to perform the designated portion of the Work or the entire Work within the times listed in the Milestone Schedule and the Updated Critical Path Construction Schedule.

8. **Landlord's Failure to Timely Deliver.** Landlord shall be liable for the remedies and Tenant shall have the rights set forth in the Milestone Schedule if and when Landlord misses the Milestone Dates set forth therein.

9. **Outside Delivery Date.** In the event Landlord fails or is unable to achieve Substantial Completion of the Landlord Work or the Tenant Improvements after the date which is twelve (12) months after the Substantial Completion Date set for in Exhibit C-2 with respect to such Work, subject to Completion Extension Events (the "**Outside Delivery Date**"), including if due to Force Majeure Events, but expressly excluding failure caused by a Tenant Delay, then Tenant may, in its sole and absolute discretion, as its sole remedy cancel and terminate this Lease by providing thirty (30) days written notice (the "**Late Delivery Termination Notice**") thereof to Landlord following the Outside Delivery Date (but prior to Substantial Completion), whereupon this Lease will terminate effective as of the date which is thirty (30) days after the date of Tenant's Late Delivery Termination Notice (the "**Termination Date**"), except Landlord's obligation to pay Tenant Termination Damages, will survive such termination, and such amount will be paid to Tenant within ten (10) days after the date of the Late Delivery Termination Notice as Tenant's sole remedy. Notwithstanding anything to the contrary contained herein, the Late Delivery Termination Notice shall be deemed null and void and of no force or effect in the event that Substantial Completion occurs on or before the Termination Date.

EXHIBIT C-1<sup>1</sup>

BASE BUILDING PRELIMINARY SITE PLAN REQUIREMENTS  
AND  
BASIC BUILDING REQUIREMENTS

8/28/17

**Program Spaces**

- Confirmed services:
- Allergy (NEW)
- Ambulatory Surgery Center (NEW)
- Cardiology
- CP&A Practice (NEW)
- Dermatology
- Developmental Pediatrics
- Endocrinology
- Gastroenterology
- Genetics (NEW)
- Hematology/ Oncology
- Imaging (X-ray, U/S, Fluoro, MRI- NEW)
- Infectious Disease (NEW)
- (not at MC)
- Infusions (NEW)
- Nephrology
- Neurology & EEG
- Neuropsych (not at MC)
- Nutrition
- Obesity Institute (not at MC)
- Ophthalmology
- Orthopedics
- Otolaryngology
- Pain Medicine (NEW)
- PT/OT (NEW)
- Pulmonary / PFT (NEW)
- Reconstructive Surgery
- Rehabilitation Medicine
- Rheumatology
- Sleep Medicine (NEW)
- Speech
- Sports Medicine (NEW)
- Surgery
- Urology

**For consideration:**

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<sup>1</sup> Notwithstanding the site standards and building footprint provisions set forth in this Exhibit C-1, in the event of a conflict between this Exhibit C-1 and Exhibit A hereunder, the site and building foot print will be in general conformity with Exhibit A.

- Child Development
- Community Eye Screening
- Multi-disciplinary Clinics
- Psychology/ Psychiatry (MC)
- Telemedicine
- Urgent Care

**Ruled Out:**

- Food Challenges
- Neurosurgery (MC)
- Vascular Anomalies (MC)

**Legend:**

- NEW = New service not currently offered at UM or LL
- MC = Available at MC ROC (not planned for PG yet)

**Site**

The building shall be sited so the main entrance faces southeast and looks towards the main surface parking lot. The building will have a North Campus Way address. The entry will be at grade and will include a covered patient drop off area. The porte-cochere shall cover two car lengths (~40') and extend out approximately 20'. An ADA compliant sidewalk will encompass the building perimeter to safely direct pedestrians to the main entrance from all parking areas. The surface parking lot shall include all striping, lighting, curb & gutter and landscaping to make an inviting and safe environment. The grading of the parking lot shall meet ADA requirements. The loading dock and trash collection areas will be located away from the main entrance and the on-site vehicular path to and from the loading dock shall accommodate an 18 wheel tractor trailer.

Way finding signage will be provided throughout the Town Center to inform visitors of the building location and its designated parking areas.

**Building Exterior**

The architectural design goal is to provide natural daylight and transparency into public waiting areas by use of larger glazed openings and maintain privacy in treatment areas with smaller glazed openings and shading devices. Exterior façade cladding materials such as architectural precast concrete, brick and aluminum coated panels are being considered for the opaque walls while high performance energy efficient insulated glass will be employed at the glazed elements. The windows shall be ribbon windows. The mechanical penthouse should be enclosed with architectural louvers as necessary for the air handler units and the rest of the penthouse should be enclosed with an insulated metal panel system.

**Building Interior**

The building will be rectangular in shape with a central core that will house the elevators, main building MEP spaces and Telephone-data closets. Patients will enter the building through the main entry into the main lobby which will include an information desk. Way finding signage will direct patients to the appropriate waiting room for their visit. The upper floors shall be accessed by multiple elevators. Clean elevator must be large enough to accommodate a stretcher. Each floor will have a lobby with access to toilet rooms and accessible dual height water fountains per code. The lobbies will lead to a waiting area with a staffed check-in/check-out/registration desk.

An exit stair at each end of the building may be used by staff to walk from floor to floor. Supplies will arrive at the loading dock on the west end of the building on the first floor where they will be unpacked and distributed to various practices via the service elevator. Staff will also collect waste from each floor and bring it down to the loading dock to be disposed. Electrical rooms, water and gas meter rooms, and other building infrastructure should be located centrally.

Inside the new building, the health and safety of patients informs finish material selection. Materials must be durable and easily cleaned so staff can focus on delivering a high standard of care. Walls in patient areas should run from floor to structure above to accommodate pressurization and acoustic privacy requirements outlined in the 2014 FGI. In compliance with the 2014 FGI and Maryland Health Code regulations the following materials are being considered for the specified areas.

#### Comprehensive Definition of Key Program Areas

The following requirements and specifications delineated herein and or attached hereto by reference:

1. Define the Building Shell Condition of the Base Building, including but not limited to, architectural and engineering design.
2. With respect to base building and base building systems improvements, there will be design reviews, input and commentary from the Tenant and Tenant's owner's representative, architect and engineers. Such design reviews, input and commentary shall be agreed to in the context of industry standards for a Class A medical office building. Tenant's approval shall first be obtained for any and all building enhancements or modifications that affect the Tenant's use and occupancy, or operating costs, of the building and Tenant's premises.
3. Delineates the minimum building performance criteria and design and construction standards required for the Base Building Work.
4. All construction shall at a minimum be designed, performed and constructed in accordance with all local and national building Codes, regulations and applicable laws in effect at the time of the issuance of the site plan approval and building permit for the Base Building Work including but not limited to, the Americans with Disabilities Act, and in accordance with the following specifications. In the event that a specification exceeds the minimum requirement by code, regulation or law, the specification noted herein shall be provided.
5. All materials, finishes and construction shall be new and equivalent in quality and application consistent with Class A Buildings. All Base Building Work shall include rough and final cleaning for the related work delineated herein.
6. All items listed herein whether or not using the terms "provide", "furnish" or "install", or any similar meaning terms used in lieu of or in addition to such descriptive words, unless expressly and specifically noted to the contrary, shall mean the complete furnishing and installation of an item or items to constitute a complete in-place final and fully functional element and assembly.
7. A 'floor' or 'full floor', singular or plural, shall mean any floor in which Tenant shall lease and occupy space in its entirety. A multi-tenanted floor shall mean a floor which is, or is to be, occupied by Tenant and/or other Tenants in which there will be common access by all Tenants on such floor to the respective floor elevator lobbies, restrooms and fire egress stairwells.
8. In the event of a conflict between this Exhibit and any other document including base building plans and specifications, the higher quality, the greater quantity and the best performance specification shall be provided that best serves the interest of the Tenant.

#### **SITWORK**

- 1) All on-site and off-site work required to develop and construct the site and Base Building including but not limited to:

- a) Demolition
- b) Excavation
- c) Sheeting, shoring & dewatering
- d) Utilities infrastructure (e.g., sanitary sewer, storm water management, electrical, gas, data/telecommunications)
- e) Curb cuts, drop-off lanes, aprons, street repairs
- f) Curb & gutter
- g) Asphalt/concrete driveways and roadways
- h) Sidewalks, pavers, lampposts, landscaping and other site enhancements and amenities
- i) Traffic signals as required by local jurisdiction
- j) Signage as required by local jurisdiction
- k) Parking and loading in front of Tenant's main lobby entrance shall be determined by the local jurisdiction. Commercially reasonable efforts shall be used to secure a no parking and/or no loading zone in front of Tenant's main lobby entrance; but allow for drop-off lane(s).

## STRUCTURE

- 1) Loads, Column Spacing, Slabs/Decks & Reinforcement, Floor Heights:
  - a) Total building height shall not exceed 50'
  - b) All footings and foundations as required.
  - c) The structure frame shall generally be structural steel supporting concrete fill on composite steel deck with 100 lbs. per square foot total floor slab capacity (80 lbs. / sq. ft. live load, 20 lbs. / sq. ft. for dead load); occupied areas of the Roof Decks and Terraces shall be per code.
  - d) Typical structural bays: 30' x 30' (center line of column to center line of column) with limited columns at the perimeter and minimal free-floating columns on the floor plates.
  - e) Floor Flatness value of 25 and a Floor Levelness value of 17 as defined by and in accordance with ACI 117-90 and ASTM E-1155-87 shall be achieved on all floors of the Building with formwork/shoring in place. Post formwork/shoring removal, Leveling shall be done within a tolerance of 3/4" over 10' those slab areas that will be finished with hard surfaces applied to it (e.g. stone or tile or vertical glass partitions) per Tenant's Plans.
  - f) Structural support/reinforcement shall be provided as required for Tenant's high density loads as outlined in Exhibit B-1, including but not limited to, roof, terraces, satellite dishes, antennas, exterior signage on Base Building, concentrated filing areas, moving file systems, print shop, HVAC equipment, stand-by emergency generator set(s) including fuel tank(s) and Medical equipment.
  - g) Floor slab recesses shall be provided in elevator lobbies and other high traffic/high visible areas as per Tenant's Architect drawings. Such recesses shall be a maximum 3/4" slab depression.
  - h) Open slab edge conditions between any exterior wall assembly and each floor slab shall be fire-stopped and sealed (top) to prevent access and to provide for sound attenuation.
  - i) Tenant's desired ceiling height and column layout dimensions for long spans shall be accommodated at Tenant's conference/training/auditorium/multi-purpose areas.

- j) All floors to be constructed in a manner that allows for 15'6" top of slab to underside of slab above and 12'-0" Tenant finished ceiling on typical floors.
- k) Stairs, ramps, lifts, pathways, etc. as required shall be provided at and between different levels in the Base Building to accommodate Tenant's use.
- l) Fire stairs to be sized appropriately for code compliant egress and accommodate Tenant's occupancy use.
- m) Fire egress stairs shall be designed, constructed and controlled so that in no event shall other tenants exit through Tenant's Premises.

2) Surface Parking:

- a) All painting, striping, markings and signage (handicap, entrance, exit, location, directional, instructional) to be included.
- b) All lighting, luminance values for the lighting in the driveways, parking and walkway and consistent with IES standards at a minimum; but in any event well lit to enhance safety (no dark or under-lit areas). All light fixtures vapor light seal to prevent moisture infiltration and to keep bugs out.
- c) Provide 2-3 Level 2 and DC Fast Charge charging stations for Battery Electric Vehicles (BEVs) in a quantity and in locations to meet Tenant's requirements.
- d) Provide panic button devices centrally located in the parking area.

**EXTERIOR & ATRIUM WALLS**

1) Wall assembly:

- a) Perimeter enclosure shall primarily consist of a high performance window wall or curtain wall façade with 1" insulated ( $\frac{1}{4}$ " thick heat strengthened outer light with a low-E coating on the No. 2 Surface,  $\frac{1}{2}$ " air space, and  $\frac{1}{4}$ " heat strengthened or fully tempered clear glass inner light where required by performance criteria or code) glass vision lights. Glass assembly performance (windows and doors) shall conform to energy code envelope requirements and shall provide a commercially acceptable level of sound attenuation per the OITC standards. Curtain wall to be organized in 5' modules shall be provided throughout the perimeter of the new structure. Pre-cast or masonry accents with punched windows as approved by Tenant.
- b) Interior side of exterior wall assembly (including sills, square column enclosures at perimeter, etc.) shall be watertight, insulated, dry walled slab to slab (full height), taped, spackled and readyed to a USG Level 4 finish for painting.
- c) All wall assemblies at the core shall extend to underside of concrete deck (slab to slab) and be finished as per #1(a) above except as required for MEP operations (e.g., return air openings).
- d) Exterior trim and/or shade pocket at all perimeter window head conditions to allow for Tenant's finished ceiling system tie-in. To the extent applicable with the design, the inside of the exterior walls shall include factory finished mullions and sills.

2) Glass & Glazing:

- a) Exterior curtain wall glass system to have a minimum (not lower than), visible transmittance value of

50%, a minimum (not higher than) U-value of 0.3 and a minimum (not higher than) Solar Heat Gain Coefficient (SHGC) of .37.

- b) Window treatment / coverings on all exterior windows shall be manually operated mecho-style roller shades. Glass entrance doors, hardware and revolving doors and/or vestibules for all lobby and building entrances and as required by Tenant at Tenant's main lobby and other entrances to the building.

## ROOF & WATERPROOFING

### 1. Roof:

- a) IRMA roofing system with minimum 60-mil thick membrane is provided at all roof and terraces. Type and color must meet any LEED criteria defined by the tenant. Minimum 15-year manufacturer's warranty.
- b) All other tenants if any, in the Project shall be required to install and operate scrubbers and take such other measures as necessary to reasonably prevent dust, particulates, vapor, mist, grease, smoke, odors, etc. from impacting Tenant's use and enjoyment for its intended purposes of Tenant's premises, outdoor roof-top and other outdoor decks and terraces.

### 2. Lightning Protection System:

- a) Lightning protection system at roof and terraces, in accordance with NFPA, LPI, FM Global and UL standards. If there is a conflict between standards, UL Master Label requirements shall govern. Such UL Master Label lightning protection inspection and certificate shall be obtained as part of Base Building scope.

### 3. Below Slab Waterproofing:

- a) Waterproofing and vapor barrier below slab-on-grade unless a mat-slab foundation is used.
- b) Foundation walls shall be waterproofed.

### 4. Lighting:

- a) General purpose LED lighting for access and maintenance.
- b) Specialty LED lighting for roof decks/terraces/landscaping/hardscapes

## VERTICAL TRANSPORTATION

### 1. Elevator systems to comply with the following:

- a) Hydraulic type hoist system to provide maximum performance and optimum ride quality. Base building elevator system design, service and performance shall be reviewed and reported as "excellent" by an independent elevator consultant engaged by Tenant.
- b) 4,000 lb. minimum capacity for the passenger (5,000 lb. minimum for freight).
- c) Quantity and design <30 second maximum interval and better than fourteen percent (14%) five (5) minute handling capacity of the population assuming five percent (5%) absenteeism and a building population of approximately 4,500 people. Typical elevator cab travel speed of 350 feet per minute

("FPM") minimum for Low-Rise passenger elevators, 800 FPM for High-Rise elevators and 500 FPM for dedicated freight elevators. 3'6" minimum center opening doors for all passenger elevators, 4'0" minimum center opening doors for all freight elevators. Elevator design parameters shall be consistent with the most efficient, effective and responsive movement of people thru the building at peak times. Final performance parameters to be established by a mutually agreed upon elevator expert and such final performance parameters shall be subject to Tenant's approval.

- d) Interior elevator cab clear heights shall be approximately 9'0" high for passenger elevators and approximately 10'0" high for freight elevators.
- e) Two passenger elevators and two freight elevator (floors 1 thru 3).
- f) Two (2) dedicated freight elevator service with ante-rooms shall include stops on each floor. Finishes in the dedicated freight elevator shall be of sufficient durability and to withstand marring, breakage or damage. Freight elevator shall have distinct separate call buttons.
- g) Interior finish for all elevator cabs shall be at the quality and level for a Class A building with Tenant having reviewed and approved all finishes. The entire floor of the elevator cabs shall be stone tile. Each elevator cab interior to also include, but not be limited to, back painted glass (Bendheim or McGrory equal)/stainless steel (or equal) walls, high-end ceilings treatments and upscale LED lighting.
- h) Each elevator cab shall have TV/display monitors (size of displays to be approved by Tenant) with ability to broadcast Captivate or equal and Tenant's communications.
- i) Micro-processor based control system. Individual floor programmable lock-off/controlled access capability and fully functionality within each elevator cab with all controls, wiring, connections, devices and programming included. Elevators are equipped with security access devices integral to elevator button panel and traveling cable to run the system.
- j) Calculations (from the agreed upon elevator consultant/expert) shall be provided to substantiate and provide an appropriate number, size, speed and type of elevator system. Elevator access shall be integrated with Tenant's security access control system as required.

#### INTERIOR FINISHES/ELEMENTS

The following elements are common to each of the areas listed below (numbers 1 through 8), unless otherwise specifically noted:

- a) GWB partitions – slab to slab insulated (with SAFB) between spaces. Complete demising partition shall be provided on all multi-tenant floors.
- b) Solid core stain grade premium grade wood doors with narrow profile metal frames (fire rated as applicable) for all core doors that are visible in core locations.
- c) Stairwell doors shall have mortise hardware with electrified locksets and card readers tied into the Building security system (or tied-in to Tenant's security system, at Tenant's election). The Utility Room doors that are visible in core locations shall match the solid core stain premium grade wood doors and those not visible at the core locations shall be paint grade.

#### 1. Main Lobby (finishes by Tenant):

- a) Upgraded flooring – depressed slab for thick set stone finish (e.g., granite or marble).
- b) Specialty finish on walls and wall base (e.g. stone, millwork, fabric panels, reveals, feature panels, wall coverings, back painted glass, architectural glass, etc.).

- c) Elevator doors and door jambs clad with upgraded materials such as stainless steel or comparable material. Elevator openings shall be complete with thresholds.
- d) Specialty LED lighting (wall washers, pendants, sconces, indirect cove, etc.).
- e) Gypsum board and/or acoustic ceilings.
- f) All code required signage
- g) Integration of active display screen technology

2. Elevator Lobbies (finishes by Tenant):

- a) Finished flooring (e.g. carpet or other quality material).
- b) Specialty finish on walls and wall base (stone, millwork, fabric panels, reveals, feature panels).
- c) Elevator doors and door jambs clad with upgraded materials such as stainless steel or comparable material. Elevator openings shall be complete with thresholds.
- d) Specialty LED lighting (wall washers, pendants, sconces, indirect cove, etc.).
- e) Gypsum board and/or acoustic ceilings.
- f) All code required signage.

3. Core Corridors (finishes by Tenant):

- a) Carpet floor covering – minimum of 28 ounce face weight.
- b) Lay-in acoustical tile ceilings. Narrow profile grid (Fine line or similar)
- c) Lighting- LED fixtures
- d) Paint finish on core corridor walls with upgraded wall base.
- e) Hi/Lo electric water coolers with bottle refill spout.

4. Restrooms (Core Restrooms on 1<sup>st</sup> Floor Only):

- a) Restrooms shall each have a foyer with counter surface for personal articles.
- b) Stone or premium porcelain tile flooring.
- c) Stone or premium porcelain tile is provided at wet walls full height.
- d) Premium porcelain tile on all other walls in the restrooms.
- e) Combination of GWB and accessible lay-in acoustical tile ceilings.
- f) Wall hung toilet fixtures with automatic flush sensors and valves with low voltage power, not battery operated.
- g) Underhung lavatories with lever trim in monolithic countertops with automatic hands-free integral dispensing (water and soap) fixtures. Fixtures shall be circuited with low voltage power, not battery operated.

- h) All countertops are stone or approved solid surface (not plastic laminate).
- i) Electric water heater(s) as required to provide hot water to restrooms with drain pans and water leak detectors. Heaters shall have full accessibility for maintenance, repair and replacement.
- j) Recessed with access cover, a hot water hose bib connection below countertop for cleaning.
- k) Ceiling hung toilet partitions, stainless steel with latches including stall occupancy indicators and coat hooks. Toilet partitions shall provide an acceptable level of privacy (minimal gaps and with heights of partitions and doors to meet Tenant's requirements and approval.
- l) Supply air ductwork and diffuser (no separate thermostat) provided in addition to exhaust system.
- m) Floor drains in each toilet room with trap primers.
- n) Water closet and lavatory fixture counts shall be per code.
- o) Recessed wall mounted automated hands free paper towel dispensers with integral waste receptacles shall be provided. Paper towel dispensers shall be circuited with low voltage power, not battery operated.
- p) Free standing waste receptacles by restroom exit doors.
- q) Sanitary dispensers, toilet seat cover dispensers, and dual roll toilet paper dispensers.
- r) Mirrors above and from lavatory counter backsplash.
- s) Electrical outlets above and below countertops.
- t) All lighting shall be LED fixtures with majority of light sources as indirect.

5. Mechanical / Telephone / Electrical Rooms:

- a) Epoxy grade floor coating and integral base.
- b) Painted Level III finish drywall walls (properly rated).
- c) Fire rated plywood backboards for telephone equipment as required by Tenant, shall be installed on one full wall as designated by the Tenant.
- d) Supply air tapped from corridor ductwork with diffuser and exhaust fan provided for telephone/electrical rooms. Provide a dedicated thermostat for control in these rooms.
- e) Tenant racks/wall mounted equipment may be located in base building MEP rooms.
- f) Floor drains with trap primers are provided in all mechanical rooms, overflow curbs at basement and Penthouse levels.
- g) LED lighting.

6. Janitor Closets (accessed outside of restroom and within core):

- a) Epoxy grade floor coating and integral base.
- b) Stainless steel on all walls including "wet" walls to five feet (5') above finished floor.
- c) Floor utility sink/basin.

d) LED lighting.

7. Stairwells:

- a) Rated drywall assembly (shaft wall).
- b) Non-slip treads (full tread not just nose of tread), risers and landings. .
- c) Stairwell railings with painted finish.
- d) Painted walls with level IV finish at GWB walls, and only block filler paint at CMU.
- e) LED lighting.
- f) Stairwells to include emergency lighting.
- g) Tenant will be allowed to, at Tenant's option, to modify base building stair finishes between contiguous floors provided modifications comply with code.

**PLUMBING**

1. Wet stacks per floor to meet Tenant needs. (On each floor and at each wet stack to include one 1" valved capped stub domestic cold water, 1" valved capped stub hot water, one 4" capped sanitary riser (w/ tap) and one 3" capped vent line. Final riser/capped outlet sizing to be confirmed with tenant programming.
2. Dual-level (Hi/Lo) chilled water fountains with bottle fillers outside of mail level restrooms, and at suitable locations on other floors.
3. All domestic water supply risers for base building requirements including taps and isolation valves (Watercop or equal type valve) for Tenant's use on each half of each floor in each core ( and in each Tower as applicable). Such automatic closing valves shall include a minimum of ten (10) wireless leak detection sensors per floor (e.g., Waterhound or equal).
4. Domestic water pressure booster pump, if required for psi performance and/or by code.
5. All base building meters, sub-meters for Tenant spaces, utility connections and fees required or charged by governmental, quasi-governmental and public utility companies for base building systems including but not limited to storm water, sanitary, domestic water, and natural gas; as applicable.
6. All plumbing lines, including roof drains, shall be insulated for noise and condensation.
7. Provide distributed electric water heaters for each restroom with drain pans and water leak detectors. Heaters shall have full accessibility for maintenance, repair and replacement
8. Floor drains in each restroom with trap primers, as determined by Tenant's needs.
9. Floor drains for Tenant's icemaker equipment.
10. Heat trace on all plumbing piping exposed to exterior elements to prevent freezing

**FIRE PROTECTION**

1. Sprinkler System: Provide a FM Global and code compliant base building combination standpipe and sprinkler

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system including but not limited to fire standpipe supply risers and drains, valves, fire pump, and all appropriate sprinkler flow, switches and tamper alarm devices interconnected to the building fire alarm system to meet applicable code. The base building sprinkler system shall be hydraulically designed in accordance with applicable code to serve a sprinkler head density of not exceeding the greater density of i) one head per 120 sf within the Tenant leased space or ii) code for a finished occupied space. Concealed sprinkler heads will be provided at all finished common base building areas including but not limited to lobbies, restrooms, etc.

2. Tenant areas: Provide sprinkler heads on a ratio of not less dense than one (1) head per 225 square feet. Provide sprinkler head coverage per code as required in the atrium(s) and other base building stair openings including but not limited to water curtains, if required by code. Final spacing shall be determined by tenant occupancy/hazard type.
3. Tenant will be responsible for relocation and addition of sprinkler heads to accommodate tenant layout. If practicably achievable under the Base Building construction schedule and code, sprinkler systems and heads shall be coordinated and installed to accommodate the final condition of the Tenant's space to avoid and minimize sprinkler head and branch line relocations; provided Tenant's ceiling layout has been received on a timely basis.
4. Notwithstanding anything contained herein to the contrary, sprinkler mains and branch lines shall be installed so as not to interfere with or restrict Tenant's finished ceiling height
5. External fire department connections.
6. Provide separate fire hose valves within stairwell enclosures on each floor.
7. Dry pipe, pre-action systems for Tenant's in-board data center or medical imaging spaces, contingent on.

## H.V.A.C.

### 1. System Performance

#### a) Outdoor Conditions:

Summer    95°F DB for transmission loads  
              78°F WB for cooling tower design  
              93°F DB/75°F WB Coincident

Winter     10°F DB

#### b) Indoor Conditions:

1. Winter: 72 degrees DB (+/- 2 degrees)
2. Summer: 73 degrees DB (+/- 2 degrees), 50% maximum relative humidity
3. Tenant specialty spaces will be designed to code required temp/humidity

#### c) Internal heat gain based:

1. 1 person per 135 u.s.f.
2. Lighting load at 1.0 watt / u.s.f.
3. Equipment load of 2.5 watts / u.s.f.
4. Final loads to be determined based on tenant occupancy

#### d) Sound attenuate mechanical rooms and any other Base Building areas as required to achieve Noise

Criteria (NC) 40 at all tenant spaces, except to NC 45 directly adjacent to mechanical equipment rooms. Provide sound attenuators, sound lining, and reduced air velocity as required to achieve listed NC values.

- e) Tenant will be provided with remote web-based control as required to call and obtain after-hours, zoned, base building heating/cooling. Tenant systems may tie into Base Building system; at Tenant's election.
- f) Outside air/ventilation minimum per the version of ASHRAE 62.1 standard referenced by applicable code and applicable LEED requirements as necessary to meet code and obtain the building's LEED certification. Provide outside air/ventilation at a rate of 0.14 CFM/SF with consistent outdoor air duct/shaft size from mechanical penthouse to the Tenant's concentrated floor assemblies. The outside air/ventilation for the lobby shall meet code/LEED requirements.
- g) Separate, ducted fan exhaust systems (fans, motors, duct, dampers, louvers, controls) for base building toilet rooms.
- h) Smoke control and evacuation (fire/life safety) system for base building slab openings, atriums, atrium openings and stairwells per applicable code including but not limited to fire/smoke baffles and/or curtains at railings around such openings.
- i) Base building design will include valved and capped cooling taps on each floor for Tenant's condenser water cooled supplemental air conditioning system. Separate condenser water system shall be capable of providing 24 hours x 7 days per week x 365 days per year operation including all necessary taps, isolation valves, strainers, and drains. Capacity of this supplemental system will provide not less than average of 20 tons of condenser water cooling capacity per floor (in each Tower as applicable).
- j) A base building HVAC system shall be provided in accordance with the design conditions listed herein, as required by applicable code. Base building systems will be sized to meet temperature and humidity requirements of tenant healthcare programming, including filtration requirements.
- k) System shall have the ability to operate independently in separate zones with a minimum of one floor per zone (per tower as applicable).
- l) Floor-by-floor chilled water variable speed air-handling units, Heating plant and chiller water plant to be variable flow. Typical floor system to include chilled water variable speed air-handling units (AHU's) with low profile series fan powered terminal devices (FPTDs). Rooftop air handling units shall be considered in lieu of floor-by-floor units. Final equipment layout to be determined by tenant needs.
- m) Central plant chilled water system will consist of centrifugal water chilling units, or as determined by tenant need. Also included is a waterside economizer heat exchanger and associated chilled water pumps to serve the building. Chilled water pumps will be variable speed type with variable frequency drive motor controllers and differential pressure controls. All equipment shall be designed and constructed with full service platforms for easy access for maintenance and repair.
- n) Supplemental condenser water system connected to cooling tower cells with associated variable speed pumps, variable frequency motor controllers and differential pressure controls. Cooling towers shall be equipped with sand separator and coupon racks. Use of cooling towers will be determined by tenant requirements.
- o) Water treatment system to inhibit scaling, microbiological fouling, corrosion and other contaminants in the HVAC system with automated controlled blowdown.
- p) Tenant Main Lobby: An HVAC system shall be provided including, but not limited to, air handling unit, and insulated main and branch ductwork sensors and thermostats as required to properly condition the lobby. Heating as required shall be provided for the Tenant Lobby vestibule(s).

## 2. Ductwork:

- a) All ductwork provided under the base building scope shall be in accordance with SMACNA, applicable edition at the time of design and installed to allow for Tenant's clear ceiling height to be achieved in all areas.
  - b) All supply duct work up to and including FPTD Terminals.
  - c) All return ductwork openings, transfers, fire dampers, smoke duct detectors and dampers, backdraft dampers and grilles and louvers as required for the Base Building HVAC system.
  - d) Minimum 4" static construction for ductwork from air handling equipment to FPTD terminals.
  - e) Base building tenant space HVAC system is designed as ducted return system.
  - f) Sound lining/duct insulation will be provided as necessary to achieve listed NC values. Sound attenuating measures for FPTD terminals will be provided to achieve listed NC values. Hospital grade sound attenuators will be provided where sound lining is prohibited by code.
  - g) Vibration isolation curbs and/or dunnage for all base building HVAC and plumbing motor/pump equipment will be provided to achieve NC values listed herein.
3. Insulation: Ductwork will be insulated in accordance with applicable code, as required to meet NC design criteria listed herein, and to minimize condensation. Ductwork for the supply of air conditioned air will be externally wrapped or internally lined with insulation.
4. Fan Powered Terminal Devices ('FPTD'):
- a) Reheat coils will be provided on all perimeter FPTDs. Heating coils will not be provided for cooling only FPTD terminals serving interior areas, unless required to satisfy code required temperature/humidity limitations for particular tenant spaces. Heating coils will be provided for all FPTDs directly below a roof or above or adjacent to a non-conditioned space. Use of FPTD's shall be contingent upon tenant HVAC intended hours of operation.
  - b) Average of one FPTD per 500 r.s.f. for perimeter zones (considered to be within 15 feet of a perimeter wall). Average of one FPTD per 1,000 r.s.f. for interior zones. Average calculation shall be equal to the total r.s.f. in Tenant's Premises / r.s.f. ratios above for each respective zone.
  - c) FPTD's will be fan powered series type with ECM motors and acoustic inlet plenums as required to meet NC criteria herein.
  - d) The base building mechanical system, including FPTD's may be up-sized and increased in quantity for Tenant's higher load areas and conference center/facilities where occupancy density is greater. To the extent that such FPTDs and mechanical system modifications are required and they exceed the base building FPTDs, then such excess quantities, and modifications shall be at Tenant's cost and included as part of the tenant interior design process. Design shall be coordinated with the intent of minimizing relocation of FPTD's provided and installed under base building design.
5. Diffusers/Return Air Grilles:
- a) Included in elevator floor lobbies, and core areas (including but not limited to restrooms).
  - b) Quantity and type (multi-directional air flow) as required for proper air distribution. Flex duct shall not be greater than three feet (3') in length.

6. Direct Digital Automatic Temperature Control (DDC) / Building Energy Management System, including:
  - a) Thermostats/sensors with control wiring for each FPTD will be coiled with control wiring loop (50' long) and attached to FPTD terminal for installation by Tenant's contractor during Tenant's lease space construction.
  - b) DDC control of FPTD terminals added/relocated by Tenant and other Tenant equipment, including all system programming and mapping of devices.
  - c) Certified air & water balance for base building/core HVAC systems will be provided for upon substantial completion of the Base Building.
  - d) Control system will be installed under base building scope.
  - e) Certified air & water balance for entire base building/core HVAC system upon substantial completion of the Base Building.
  - f) DDC system shall be complete with remote capability, including but not limited to, alarms, notification and settings modification.
  
7. Motors/Pumps:
  - a) Variable speed/frequency drives on motors (not on less than .5 HP motors) will be provided for applicable variable flow fans and pumps for energy efficiency.

## ELECTRICAL

1. Distribution:
  - a) Main Electrical Service & Switchgear:
    1. Main electrical service, switchboard/gear (switchgear shall have TVSS devices, independently tested to verify ratings), pads, feeders, switches, transformers and grounding.
    2. Switchboards shall 480/277 volt 3 phase service.
    3. Plug-in busway risers.
  - b) Floor Electrical Closets serving Tenant space:
    1. A minimum of two (2) electrical closets per floor, or as determined by tenant fit-out.
    2. All bus riser connections, taps, disconnect switches, feeders, conduit and K rated transformers for loads.
    3. A minimum of 6 watts per rentable square foot shall be available in electrical closets for tenant lighting (1 watt/rsf) and convenience power (5.0 watts/rsf). Additional power shall be provided for specialty equipment, as determined by final tenant layout.
    4. 480/277 maximum voltage rated lighting panel boards, fully populated with circuit breakers (specified circuits and spares).
    5. 480/277 maximum voltage rated panel boards for mechanical equipment.

5. 120/208V receptacle panel boards, fully populated with circuit breakers (specified circuits and spares).
  7. Standby power panel boards, circuits, risers and connections for lights, security, and fire alarm/sprinkler systems will be provided as required by applicable code.
  8. Sub meters for Tenant's electrical consumption measuring will be provided by as required under base building scope.
  9. Sleeves shall be installed in the concrete decks during base building construction to accommodate future Tenant electrical and communications conduit needs (sizes & locations TBD).
- c) Mechanical system electrical loads, including FPTDs and heaters, separated from lighting and convenience/receptacle loads and not included in the watts/RSF noted in b) 2. above.
  - d) Feeders and overcurrent protective devices shall be sized in accordance with applicable code.
  - e) Under slab heating system for space immediately above non-conditioned space, if applicable.
  - f) Complete electrical circuit(s) for Tenant's exterior building signage including but not limited to conduit, circuit breakers, wiring, disconnect switches, junction boxes and connections with photocells.
  - g) Convenience outlets are required by code for the core & shell including outdoor NEMA rated electrical outlets for roof decks, terraces and courtyards.
2. All light fixtures (functional, decorative) shall be included for restrooms, core areas, atrium(s) and exterior of building. Light fixtures to be LED type, and lighting shall include but not be limited to landscape, occupancy and accent lighting in terraces, courtyards and roof decks. Fixtures shall be on a BMS control system or on a Lutron or equivalent lighting control system. Exterior lighting of the buildings shall be of an architectural world class character and quality, and as acceptable to and approved by Tenant.
3. Fire Alarm Supervision, Detection & Annunciation System.
- a) A complete system as required for type of building construction. Complete and fully addressable detection and alarm system shall include, but not be limited to, fire alarm control panel, fire annunciator panel, fire alarm terminal cabinets & risers, power boost signal amplification modules, voltage transformers and interconnections to all key devices or equipment, including but not limited to, such items as elevator recall, sprinkler flow and tamper switches, emergency generator, fire pump, HVAC equipment, smoke evacuation system and monitoring devices and service. Fire annunciator panel and graphics to incorporate any zones or graphics required to indicate or annunciate Tenant's use of the Premises, in accordance with code.
  - b) Includes all required base building speakers, smoke detectors, duct detectors, heat detectors, pull stations, strobe lights, audible devices and other devices in the lobbies, elevator shafts, entrance foyers, common areas, fire stairwell exits, restrooms and core areas. In addition to Base Building core/shell devices installed, terminal cabinets, transponders, amplifiers, batteries, Notification Appliance Circuit (NAC) power supplies, and NAC circuits shall be provided within the fire alarm system capacity on a per floor basis in all fire alarm control panels, to accommodate future tenant devices (speakers, strobes, etc.) required by code.
  - c) Tie-ins of all base building fire alarm detection and notification/annunciation devices to the base building fire alarm/control system.

4. Emergency power generator and related standby power distribution system shall be provided for base building life safety systems. The emergency generator shall not be located in a flood plain. The generator fuel tanks may be located in the lower level and all fill inlets and vent line terminations shall be provided. Emergency power risers and panels shall be provided for tenant code required needs.
5. Tenant shall be allowed to place its equipment on the emergency generator for the building. Conduits and pathways (sleeves, openings in slabs) shall be provided for connectivity from equipment locations to and through risers for Tenant's electrical conduit and fuel supply and vent systems.

**FIBER / CABLE & COMMUNICATIONS EQUIPMENT:**

**1. Communications/Data:**

- a) Building Entrance Facility - provide two (2) new complete and separate Building Entrance Facilities ('BEF/Demarc') to support Tenant's requirements in accordance with ANSI/TIA/EIA standards for entrance facilities. The BEF/Demarc shall include the following:
  - i. Allow the Tenant's communications to remain operational should one of the services becomes interrupted.
  - ii. House data/telecommunications cabinets, racks, cable tray and wall fields to support/terminate incoming utility services.
  - iii. Provide plywood to support incoming utility services.
  - iv. Fire rated construction if required by code.
  - v. Include all necessary electrical circuits as required by the telecom vendor for initial service.
  - vi. Be climate controlled as required by the telecom vendor for initial service.
  - vii. Include lighting to measure no less than 30 fc at the finished floor level.
  - viii. Include fire protection such as fire/smoke/heat detectors and alarms, and sprinkler system as required per code.
  - ix. Include curb or seals at doorways.
  - x. Be secured via the Base Building security access control system, and Tenant shall be provided unimpeded access to the BEF/Demarc rooms as needed.
- b) Conduit banks/laterals from streets to two (2) BEF/Demarc rooms as required by voice/data Carriers.
- c) Eight (8) six inch (6") sleeves from penthouse roof level to top floor telephone in each Core (and in each Tower as applicable). Provide capped conduit path to the roof for future antenna and/or equipment installation by the Tenant.
- d) Eight (8) four inch (4") conduits from each BEF/Demarc room to core telephone room riser in each Core (and in each Tower as applicable).
- e) Eight (8) six-inch sleeves in slab to accommodate 4" conduit within each of the typical floor telephone rooms in each Core (and in each Tower as applicable).
- f) 4' x 8' sheets fire rated plywood backboards per closet shall be applied to one full wall, location as designated by the Tenant.
- g) Cable television service shall be provided to the building BEF/Demarc and distribute the main cable and signal to at least one telephone/electric closet on each floor core (in each Tower as applicable).
- h) DAS/WiFi/cellular/het-net service will be provided throughout the building common areas including elevators to support the use of mobile hand-held devices by Tenant and its guests.

**SPECIALTIES, EQUIPMENT & OTHER**

**1. Security System:**

- a) Controlled perimeter entry system (Datawatch, Kastle, or equal) including but not limited to lobby, loading dock, base building entrances, exits and elevators. System shall have instantaneous and simultaneous lock down capability for all exterior doors from one centralized location to be determined by the Tenant.
- b) Elevator cabs shall have individual floor lock-off capability – fully complete, programmed and functional.
- c) Central computer or dedicated tie to 24 hour monitoring service with Network Video Recorders.
- d) Cameras shall monitor activities 24/7 at points of pedestrian and vehicular ingress and egress including all main lobbies, etc. and shall maintain visual access recordings for a minimum of 30 days.
- e) Tenant shall have the right to install its own security system for its Premises and is not obligated to use or contract with the base building security system vendor; however in such event base building security access vendor shall fully cooperate with Tenant in compatibility configuration so that Tenant's employees only have to use one (1) identification to access the base building and Tenant's Premises.
- f) Base building scope shall include initial approximately \_\_\_\_\_ programmed access cards and/or fobs. (final quantity to be determined by Tenant)

- 2. Signage and placards for all "core" rooms including but not limited to, restrooms, utility rooms, suite numbering, stairwells, and all directional and instructional signs.
- 3. Electronic directory signage in the main building lobbies; at Tenant's election, for Tenant to have a separate Building lobby directory in Tenant main lobby that will accommodate all of Tenant's employees and Tenant's affiliates at no cost to Tenant.
- 4. All base building utility connections and fees charged by governmental, quasi-governmental and public utility companies.
- 5. All utility consumption costs during the course of constructing the Tenant's leasehold improvements.
- 6. Window washing anchors/devices on roof per the approved base building design, to clean all envelope surfaces; including providing an access system as required to accomplish above.
- 7. Recessed fire extinguisher cabinets where required by local jurisdiction.
- 8. Trash compactors and dumpsters; including separate compactors and dumpsters for recycling rubbish.

Loading Dock: The number of berths shall per local codes, and not be infringed by dumpsters or trash compactors. Minimum one loading dock berth and one trash compactor berth.

**EXHIBIT C-2**  
**MILESTONE SCHEDULE**

9/1/17

<b>Milestone</b>	<b>Milestone Date</b>	<b>Remedy</b>
1. Tenant Delivery of Building Program Document. The actual date received by Landlord shall be the Milestone Trigger Date for this Milestone Schedule.	October 13, 2017	Tenant Delay – Day for Day – see Footnote #4.
2. Certified Site Plan Approval	261 days from Milestone Trigger Date	Landlord Delay – Day for Day (from Milestone Date until Milestone is met).
3. Base Building Schematic Plan	56 days from Milestone Trigger Date	Landlord Delay – Day for Day (from Milestone Date until Milestone is met).
4. Base Building Design Development Plan	105 days from Milestone Trigger Date	Landlord Delay – Day for Day (from Milestone Date until Milestone is met)
6. Base Building Bid Set	148 days from Milestone Trigger Date	Landlord Delay – Day for Day (from Milestone Date until Milestone is met)
7. Tenant Improvement Bid Set	148 days from Milestone Trigger Date Base Building Bid Set Delivery	Landlord Delay – Day for Day (from Milestone Date until Milestone is met).
5. Base Building Construction Drawing	241 days from Milestone Trigger Date	Landlord Delay – Day for Day (from Milestone Date until Milestone is met).
8. Landlord acquires Land and provides Tenant with Sources and Uses of Funds Statement with debt and equity commitment for funding pursuant to Section 2.17 of the Lease	November 1, 2018	Tenant Termination Right. Tenant may terminate the lease for a period of 120 days past the Milestone date.
9. Start Excavation	256 days from Milestone Trigger Date, subject to extension for Force Majeure and Tenant Delays	Landlord Delay – Day for Day (from Milestone Date until Milestone is met).
10. Substantial Completion of Base Building	561 days from Milestone Trigger Date, subject extension due to Force Majeure and Tenant Delay	Landlord Delay – Day for Day if Milestone not met.
11. Substantial Completion of Tenant Improvements	708 days from Milestone Trigger Date, subject extension due to Force Majeure and Tenant Delay	Landlord Delay – Day for Day (from Milestone Date until Milestone is met)  Tenant may also terminate Lease if conditions are not satisfied within one (1) year after Milestone Date (exclusive of Force Majeure delays and

		Tenant Delays) and in such event Landlord will pay Tenant Termination Damages as Tenant's sole remedy.
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Footnotes:

1. Tenant shall pursue a Certificate of Need for certain proposed functions in the building. Landlord and Tenant shall deliver the project in accordance with the Milestone Schedule. Tenant inability to provide information associated with the Certificate of Need shall be a Tenant Delay.
2. All durations above are indicated in calendar days.
3. The remedies set forth in this schedule are in addition to any remedies provided in the Lease, including the Tenant's right to exercise self help pursuant to Section 3.5 if a Milestone is not met. If the Completion Guaranty is in effect, Tenant shall also have its rights and remedies under the Completion Guaranty.
4. There shall be no delay or extension of the Commencement Date or the Rental Commencement Date resulting from any Tenant Delay.
5. The Commencement Date and the Rental Commencement Date shall be moved forward for one (1) day for each day of Landlord Delay.

Exhibit C-3MATRIX OF BASE BUILDING/TENANT IMPROVEMENT WORK*(Updated 7/26/17)*

Category	Description Base Building Tenant	Base Building	Tenant Improvements
<b>SITework</b>			
	Pad Ready site	X	
	Utility infrastructure/service to building - water, sewer, electric, gas, fiber optic cable for IT systems	X	
	Excavation, backfilling	X	
	Dewatering, underground drainage systems	X	
	Stormwater management systems	X	
	Roadwork, Curb/gutter/sidewalks providing access to the site and on site	X	
	Parking facilities	X	
	Street, Parking light poles	X	
	Landscaping, hardscape, sidewalks	X	
<b>STRUCTURE</b>			
	Foundations	X	
	Concrete and/or Steel Building Structural members	X	
	Floor/Roof slabs/systems	X	
	Loading Capacity (per code/specifications)	X	
	Additional Loading Capacity for Tenant Requirements	X	
	Fire Proofing of any Structural members	X	
	Structural support systems for all MEPS systems	X	
	Floor loading capacity for Tenant specialty equipment	X	
	Structural support for tenant specialty equipment	X	
<b>BUILDING ENVELOPE</b>			
	Roofing systems	X	
	Facade systems	X	
	Waterproofing systems	X	
	Enclosures for all Core & Shell Building Systems	X	
	Entry port cochere covering main entrance	X	

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Perimeter doors/hardware	X	
	Loading dock overhead doors/hardware	X	
	Fireproofing systems for fire separation by floor, etc.	X	
<b>ARCHITECTURAL SYSTEMS</b>			
	Gypsum Board Partitions (taped & spackled)	X	
	Perimeter (including columns)	X	
	Columns (interior)	X	
	Core walls	X	
	Partitions within Tenant areas		X
	Base Building Toilet Rooms (all finishes*)	X	
	MEP Rooms (all finishes)*	X	
	Exit Stairs (all finishes)*	X	
	Janitor Closets (all finishes)*	X	
	Main Lobbies (all finishes)*		X
	Mail Room ( all finishes)*		X
	Mechanical, Telecom and Electrical Rooms	X	
	Elevator lobby finishes on Tenant floors		X
	Painting / Wallcovering in Tenant Areas		X
	Tenant Areas (all finishes*)		X
	Window Blinds		
	Standard Blinds	X	
	Specialty Blinds	X	
	Doors & Hardware		
	Core	X	
	Tenant Area		X
	Mullion Adapters		X
	ADA Code Requirements		
	Surface Parking	X	
	Site	X	
	Building Entries	X	
	Main Lobby	X	
	Elevator	X	

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Exit Stairs	X	
	Base Building Toilet Rooms	X	
	Tenant Area		X
	Exterior Signage		
	Top of Building/Location Signage - structural support	X	
	Top of Building/Location Signage - sign		X
	Pedestrian Level identification signs		X
	Towne Center directional sign		X
	Interior Signage		
	Building Directories	X	
	Core Areas - life safety & code	X	
	Tenant Areas		X
	Loading Dock		
	Lifts, bumpers, ramps, railings, stairs, docks	X	
<b>VERTICAL TRANSPORTATION</b>			
	Passenger elevators - to meet MOB use needs	X	
	Freight elevators - to meet MOB use needs	X	
	Escalators	X	
<b>PLUMBING</b>			
	Water/Sanitary service to building	X	
	Water/Sanitary risers in building	X	
	Water service for Mechanical/Fire Protection Systems	X	
	Wet columns (2 per floor) including hot and cold water	X	
	Water/Sanitary to core fixtures	X	
	Core Fixtures - Restrooms, Janitors Closets, etc.	X	
	Electric Water Coolers	X	
	Bottle filling stations	X	
	Hot water distribution to core restrooms	X	

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Hot water distribution to restrooms within tenant space		X
	Gas Service	X	
<b>FIRE PROTECTION</b>			
	Fire pumps, backflow preventers	X	
	Standpipes/Vertical distribution	X	
	Distribution to main loop		
	Valve Connections	X	
	Main loop, branch mains and branches	X	
	Flow & Tamper Switches	X	
	Branches, drops and heads (per code)		
	Core	X	
	Tenant Area (code minimum, 1 per 225 rsl)	X	
	Additional or Relocated Heads per Tenant Plan		X
	Main Lobbies	X	
	Extinguisher Cabinets/Extinguishers		
	Core	X	
	Tenant Area		X
	Local Fire Alarm	X	
	For Tenant Tie-in; every other floor	X	
	Fire Phones (per code)	X	
	Fire Control Room	X	
	Elevators	X	
	Stairways	X	
	Annunciator Panels (per code/specifications)	X	
	Integration with BAS system	X	
<b>MECHANICAL</b>			
	Main Building HVAC System	X	
	Air Handling Units	X	
	Chillers	X	
	Cooling Towers	X	
	Heat Recovery Systems	X	

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Pumps, piping, insulation, valves, vibration isolation, sound attenuation, etc.	X	
	Building Automation System	X	
	Vertical duct distribution system	X	
	Supplemental loop for 24 HVAC system	X	
	Commissioning of system	X	
	Variable Air Handling Boxes		
	Perimeter Fan Powered VAV Boxes with reheat - 8 per floor	X	
	Interior Fan Powered VAV Boxes with reheat - 1/750 sf around perimeter	X	
	Perimeter Fan Powered VAV Boxes with reheat - beyond 8 per floor		X
	Interior Fan Powered VAV boxes - beyond 1/750sf interior spaces		X
	Thermostats/Controls/Power per the above quantities/guidelines	X	
	Balancing of base building system	X	
	Thermostats/Controls/Power for the VAV boxes supplied by Tenant.		X
	Balancing of Tenant Spaces		X
	Exhaust/ Ventilation		
	MEP Rooms	X	
	Toilet Rooms	X	
	Elevator Rooms	X	
	Stairs	X	
	Medium Pressure Trunk Duct (one loop around each floor)	X	
	Low Pressure Trunk Duct		X
	Duct Runouts		X
	Diffusers (Perimeter slot and interior)		
	Main Lobby	X	
	Core	X	
	Tenant Lobbies		X
	Tenant Spaces		X

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Supplemental A/C Units		
	Units (power, piping, controls)		X
<b>ELECTRICAL</b>			
	Main Electrical Service		
	Incoming Service	X	
	Transformers	X	
	Switchgear	X	
	Emergency Generator - life safety and Tenant specialty systems	X	
	Electrical Distribution		
	Vertical electrical distribution system / Buss Duct Riser (capacity per specification)	X	
	Distribution to Electrical Closets on each floor	X	
	Low voltage panels	X	
	High voltage panels	X	
	Transformers	X	
	LV Panels for tenant specialty equipment within tenant space		X
	Electrical service to all Core & Shell building MEPS systems	X	
	Emergency Lighting		
	Core Area	X	
	Tenant Area	X	
	Light Fixtures		
	Core Area	X	
	Tenant Area		X
	Elevator Lobby - Tenant Floor		X
	Main Lobbies	X	
	Convenience Outlets		
	Core Area	X	
	Tenant Area		X
	Surge Protection		

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	Main Switchgear	X	
	Floor Panels – Harmonic Filter	X	
	Lighting protection systems	X	
	Life Safety voice/strobe/exit light systems		
	Core Areas	X	
	Tenant Areas		X
	Panel Contacts	X	
	Telephone/Data Core Drills in Core Closets	X	
	Voice/Data Distribution		
	Incoming Service	X	
	Vertical Backbone	X	
	Horizontal Distribution		X
	Grounding System	X	
	Outlets - Tenant areas		X
	Outlets for core, life safety, fire protection, mech	X	
	Telephone Switch (service, room, backer boards)	X	
	Life Safety /Emergency Power Systems	X	
	Uninterrupted Power Source (UPS)	X	
	Automatic Transfer Switch (for UPS)	X	
	Emergency Generator – Base Building Use Only	X	
	Emergency Power for Tenant needs		X
	UPS for Tenant needs		X
	Electrical Service to trash/recycling compactors	X	
	Electrical service to loading dock equipment/OH doors	X	
<b>SECURITY</b>			
	Bollards at main entrances	X	
	CCTV infrastructure, cameras, wire - fore & perimeter security	X	
	CCTV infrastructure, cameras, wire -		X

Execution Copy

Category	Description Base Building Tenant	Base Building	Tenant Improvements
	tenant spaces		
	Card readers (including power & conduit)		
	Garage Gates	X	
	Building Entries	X	
	Elevators	X	
	Typical Floors – Suite Entry	X	X
	* 'all Finishes' means all floors, ceilings, walls and associated finishes		

EXHIBIT C-4

[Intentionally Deleted]

Exhibit C-5**FORM OF LANDLORD/TENANT BUDGET**

9/8/17

It is the intention of Landlord and Tenant that all costs necessary for the design and construction of the Building and Premises, to complete the improvements to the point where such improvements may be used for their intended purpose are to be included. Failure to include specific items and costs, including failure to provide detailed information regarding such items and costs shall not preclude their addition subsequent to the execution of this Lease and the same shall not be deemed Excluded Costs.

Description	Amount	Cost/RSF
<b><u>LANDLORD WORK BUDGET</u></b>		
<b>A. Site Plan Approval</b>		
1 - Architectural		
2 - Civil Engineering		
3 - Landscape Design		
4 - Legal		
5 - Traffic Consultant		
6 - County Site Plan Permit/Filing Fees		
7 - Consultant Reimbursables		
8 - Project Management Fees <sup>1</sup>		
<b>B. Consultants</b>		
1 - Acoustical		
2 - Architecture - Core and Shell		
3 - Civil Engineer		
4 - Code Consultant		
5 - Commissioning		
6 - Estimating		
7 - Graphics/Wayfinding		
8 - Landscaping		
9 - LEED Architect		
10 - LEED Commissioning		
11 - LEED Energy Analysis		
12 - Legal - Contracts		
13 - Legal - General		
14 - Lighting		
15 - Material Testing-Building		
16 - MEP (Core & Shell)		
17 - Peer Review - Permits		

- 18 . Security
- 19 . Structural
- 20 . Telecommunications
- 21 . Traffic/Parking
- 22 . Vertical Transportation
- 23 . Waterproofing Consultant
- 24 . Consultant Reimbursables

C. Inspections and Permits

- 1 . Local Dept Public Works
  - a . Storm Water Management Plan
  - b . Grading Permit & Bond for Grading
  - d . Street Permit & Bond for Street Work
  - e . Storm Drain Permit & Bond
  - f . Storm Water Permit Plan
  - g . Storm Water Permit Bond
- 2 . Local Bldg Permit Authority
  - a . Building Permit
- 3 . Impact Fees&Utility Connections
- 4 . Local Water Authority
  - a . Hydraulic Planning Analysis
  - b . Fixture Fees/ Water Meters
  - c . On-Site Water & Sewer Plan
  - d . Inspection Permit Fees
  - e . Connection Fees for water & sewer
  - f . Bonding Amount
- 5 . NPDES Permit
- 6 . Reforestation
- 7 . Testing & Inspection - Soils during construction
- 8 . Testing & Inspection - core/shell
- 9 . Electric Fees
- 10 . Telecommunications Fees

D. Construction

- 1 . Building Construction
  - 1.1 Division 01 — General Requirements
  - 1.2 Division 02 — Site Construction
  - 1.3 Division 03 — Concrete
  - 1.4 Division 04 — Masonry
  - 1.5 Division 05 — Metals
  - 1.6 Division 06 — Wood and Plastics
  - Division 07 — Thermal and Moisture
  - 1.7 Protection

- 1.8 Division 08 — Doors and Windows
- 1.9 Division 09 — Finishes
- 1.10 Division 10 — Specialties
- 1.11 Division 11 — Equipment
- 1.12 Division 12 — Furnishings
- 1.13 Division 13 — Special Construction
- 1.14 Division 14 — Conveying Systems
- 1.15 Division 15 — Mechanical
- 1.16 Division 16 — Electrical

Mark-Ups

- 2 . LEED Certifications
- 3 . Builder's Risk Insurance
- 4 . General Liability Insurance
- 5 . General Conditions and Fee
- 6 . Contingency
- 7 . Payment & Performance Bond

**E. Furniture, Fixtures & Equipment**

- 1 . Interior window blinds
- 2 . Lobby Directory
- 3 . Parking control devices - card access
- 4 . Signage in core areas /wayfinding signage
- 5 . Loading Dock Equipment
- 6 . Security Equipment
- 7 . Site Furnishings

**F. Construction Period Costs**

- 1 . Utilities

**G. Other / General Contingency**

- 1 . Landlord Management Fee <sup>1</sup>
- 2 . Project Management Fee (JLL)
- 3 . General Contingency

**TOTAL LANDLORD WORK BUDGET**

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**TENANT IMPROVEMENT BUDGET**

**H. Consultants**

- 1 . Acoustical
- 2 . Architecture -Tenant Interiors
- 3 . Code Consultant
- 4 . Commissioning
- 5 . CON Consulting

- 6 . Estimating
- 7 . Graphics - Tenant Signage
- 8 . LEED Architect
- 9 . LEED Commissioning
- 10 . Legal - Contracts
- 11 . Legal - General
- 12 . Lighting
- 13 . Material Testing-Interiors
- 14 . MEP (Interiors)
- 15 . Medical Equipment Planner/Procurement
- 16 . Peer Review - Permits
- 17 . Purchasing Agent - Non Medical FF&E
- 18 . Security
- 19 . Structural
- 20 . Telecommunications
- 21 . Consultant Reimbursables

I. Inspections and Permits

- 1 . Certificate of Need
- 2 . Licenses
- 3 . Local Bldg Permit Authority
  - a . Building Permit
  - b . Exterior Sign Permit
- 4 . Testing & inspection - Misc. for Interiors
- 5 . Misc. Utility Fees

J. Construction

- 1 . Building Construction
  - 1.1 . Division 01 — General Requirements
  - 1.2 . Division 02 — Site Construction
  - 1.3 . Division 03 — Concrete
  - 1.4 . Division 04 — Masonry
  - 1.5 . Division 05 — Metals
  - 1.6 . Division 06 — Wood and Plastics
  - 1.7 . Division 07 — Thermal and Moisture Protection
  - 1.8 . Division 08 — Doors and Windows
  - 1.9 . Division 09 — Finishes
  - 1.10 . Division 10 — Specialties
  - 1.11 . Division 11 — Equipment
  - 1.12 . Division 12 — Furnishings
  - 1.13 . Division 13 — Special Construction
  - 1.14 . Division 14 — Conveying Systems

- 1.15 Division 15 — Mechanical
- 1.16 Division 16 — Electrical
- Mark-Ups
- 2 - LEED Certifications
- 3 - Builder's Risk Insurance
- 4 - General Liability Insurance
- 5 - General Conditions and Fee
- 6 - Contingency
- 7 - Payment & Performance Bond

**K. Furniture, Fixtures & Equipment**

- 1 - Art
- 2 - Audio Visual Systems/Equipment
- 3 - Bio Hazard Waste Containers
- 4 - Cable TV
- 5 - Accounting/Cash Mgt Systems
- 6 - Information Technology Systems/Equipment
- 7 - Interior window blinds
- 8 - Lobby Directory
- 9 - Lobby Plantings
- 10 - Lobby Reception Desk
- 11 - Lockers
- 12 - Medical Equipment
- 13 - Office/Administrative FF&E
- 14 - Phone System/Equipment
- 15 - Safe
- 16 - Security Equipment
- 17 - Signage - Tenant Interiors
- 18 - Signage - Temp during construction
- 19 - Supplies
- 20 - Security Equipment
- 21 - Trash Compactor

**L. Construction Period Costs**

- 1 - Utilities

**M. Other / General Contingency**

- 1 - Marketing / Opening
- 2 - Project Management Fee (JLL)
- 3 - General Contingency

**TOTAL TENANT IMPROVEMENT BUDGET**

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GRAND TOTAL	
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Footnotes:

- 1. Landlord Management Fee and Project Management Fees under Landlord Work Budget are together limited to a total of 2% of Landlord Work hard costs.
- General Notes:
- 1. Budget does not include non-fixed FF&E
  - 2. Budget does not include general supplies: linens, medical supplies, Magazines, etc.

EXHIBIT D

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT (this "Agreement"), is made as of the \_\_\_ day of \_\_\_\_\_, 20\_\_\_, by and among (i) \_\_\_\_\_, a \_\_\_\_\_ corporation ("Lender"), having offices at \_\_\_\_\_; and (ii) \_\_\_\_\_ ("Tenant"), having its principal place of business at \_\_\_\_\_ ("Landlord"), having offices at and a mailing address at \_\_\_\_\_ joins in this agreement for purposes of acknowledging the provision of Paragraph 9 hereof. The Lender, the Tenant and the Landlord are sometimes hereinafter collectively referred to herein as the "parties".

RECITALS:

A. Landlord and Tenant entered into a certain Lease Agreement dated \_\_\_\_\_, (the "Lease"), pursuant to which Tenant has leased from Landlord certain space (the "Demised Premises"), consisting of approximately \_\_\_\_\_ rentable square feet of office space, that is a part of that certain real property and office and medical building (consisting of \_\_\_\_\_ rentable square feet of office space) and other improvements thereon located (or to be located) at \_\_\_\_\_ Lanham, Maryland (the "Property"). The real property comprising the Property consists of the Building and Land (and other improvements located thereon), as such terms are defined in the Lease, and as is more particularly described in Exhibit A attached hereto and made a part hereof.

B. Landlord hereby represents to Tenant that Lender is the holder of a certain \_\_\_\_\_ dated as of \_\_\_\_\_, 2\_\_\_\_\_, made by Landlord for the benefit of Lender (as the same may be renewed, modified, supplemented, amended, spread, consolidated, replaced, substituted for, added to or extended from time to time, the "Deed of Trust"), which encumbers, among other things, the Demised Premises and Landlord's interest in the Lease.

C. Landlord, Lender and Tenant desire to enter into this Agreement upon the terms, covenants and conditions contained herein.

**NOW, THEREFORE**, in consideration of the premises, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

(1) Tenant acknowledges the truth and accuracy of the foregoing Recital A, which, together with the other recitals, is by this reference fully incorporated into this agreement.

(2) Subject to the provisions of paragraph 5 below, the lease shall at all times be subordinate to the lien of the deed of trust, and to all amounts secured by the deed of trust and all renewals, modifications, supplements, amendments, consolidations, replacements, substitutions, additions and extensions of the deed of trust.

(3) Upon any foreclosure of the deed of trust or other acquisition of the demised premises pursuant to the trustee's power contained therein (including, without limitation, conveyance in lieu of foreclosure), subject to the provisions of paragraph 5 below, Tenant shall attorn to lender or any other party so acquiring the demised premises or so succeeding to Landlord's rights (together with lender's or such party's successors and assigns, "Successor Landlord") and shall recognize Successor Landlord as its landlord under the lease. In such event, the lease shall continue as a direct lease between Successor

Landlord and Tenant upon all of the terms, covenants and conditions thereof as are then applicable, except that Successor Landlord shall not be:

(a) liable for any previous act or omission of any prior landlord (including Landlord) under the Lease, provided that the foregoing shall not be deemed to (i) relieve Successor Landlord from the obligation to perform (which obligation to perform shall commence once Successor Landlord succeeds to the interest of Landlord under the Lease) any obligations of the Landlord under the Lease, including Landlord's obligations under Exhibit C of the Lease, which remain unperformed at the time that Successor Landlord succeeds to the interest of Landlord under the Lease and Tenant's right of first offer pursuant to Section 22 of the Lease, or (ii) relieve Successor Landlord from the obligation to cure (which obligation to cure shall commence once Successor Landlord succeeds to the interest of Landlord under the Lease) any defaults of a continuing nature; or

(b) except for any of Tenant's offset rights set forth in the Lease, subject to any offsets, defenses, claims or counterclaims that Tenant may have against any prior landlord (including Landlord); provided, however, that (i) the rent payable to Successor Landlord after Successor Landlord succeeds to the interest of Landlord under the Lease shall not be subject to any offset that may have accrued to Tenant prior to the date that Successor Landlord succeeds to the interest of Landlord under the Lease, but shall be subject to any such offset rights accruing after the date that Successor Landlord succeeds to the interest of Landlord under the Lease and offset rights accruing under Section 3.5, 8.6, 9.1, or 14.4 of the Lease and Section C(5)(c) of Exhibit C to the Lease, following notice to Lender pursuant to Section 6 hereof, that Tenant has invoked its right to cure a Landlord default, and (ii) nothing shall limit any rent abatement or rent relief provisions set forth in Sections 8.6, 10.2 or 12 of the Lease; or

(c) bound by any prepayment of rent or other charges under the Lease made more than one (1) month in advance of the date on which any such payment becomes due under the terms of the Lease, unless such prepayment shall have been expressly approved in writing by Lender; or

(d) bound by any amendment, modification, extension, expansion, termination, cancellation or surrender of the Lease, except as expressly permitted under the Lease (including without limitation, (i) any termination rights set forth in Section 2.17 or 10 of the Lease, Section C(9) of Exhibit C to the Lease and (ii) any amendment entered into in order to evidence the terms of any expansion of the Demised Premises or extension of the term of the Lease pursuant to any options or rights under the Lease, including the Rent agreed to by Landlord and Tenant or determined by the dispute mechanism provided therein), unless the same shall have been expressly approved in writing by Lender, such consent not to be unreasonably withheld, conditioned or delayed; or

(e) bound to refund, or be liable for the refund of, all or any portion of any security funds deposited by Tenant to or with Landlord for any purpose, unless and until such security deposit (or portion thereof) shall have been delivered by Landlord to, and actually received by, Successor Landlord. In the event of receipt of any such security deposit, the obligations of Successor Landlord with respect thereto shall be limited to the amount of such security deposit actually received by Successor Landlord, and Successor Landlord shall be entitled to all rights, privileges and benefits of Landlord set forth in the Lease with respect thereto.

(3) It is expressly acknowledged and agreed, that although subparagraphs (a) and (b) may limit certain rights and remedies of Tenant against a Successor Landlord with respect to defaults by the Landlord under the Lease which occurred prior to the date such Successor Landlord acquires Landlord's interest in the Demised Premises, such provisions shall not prevent Tenant from exercising other rights

and remedies under the Lease (including the right to terminate its obligations thereunder in accordance with the terms of this Agreement and the Lease), if any such default(s) continue after the Successor Landlord acquires Landlord's interest in the Demised Premises, subject to any applicable cure period set forth in Section 6 hereof.

(4) The attornment provided for in paragraph 3 of this agreement and the non-disturbance provided for in paragraph 5 of this agreement shall inure to the benefit of and be binding upon any Successor Landlord (including, without limitation, lender), shall be self-operative, and no further instrument shall be required to give effect to such attornment. Tenant nevertheless agrees, upon demand of any Successor Landlord (including, without limitation, lender), to promptly execute, from time to time, instruments in confirmation and acknowledgment of such attornment upon and subject to the terms and conditions of this agreement. Nothing contained in this paragraph 4 shall be construed to impair any right otherwise exercisable by any Successor Landlord pursuant to the Lease or Law.

(5) Lender shall not name Tenant as a party defendant to any action for foreclosure or other enforcement of the deed of trust (unless required by law), nor shall the Lease be terminated by lender or its successors and assigns or any person claiming by, through or under lender or the deed of trust (including any Successor Landlord) in connection with, or by reason of, foreclosure or other proceedings for the enforcement of the deed of trust, or by reason of a transfer of Landlord's interest under the Lease pursuant to the taking of a deed or assignment in lieu of foreclosure (or similar device), nor shall Tenant's use or possession of the demised premises be interfered with by lender or its successors and assigns or any person claiming by, through or under lender or the deed of trust, unless Landlord pursuant to and in accordance with the terms of the Lease would have had such right under the terms of the Lease. Tenant agrees that this agreement satisfies any condition or requirement in the Lease relating to the granting of a subordination, non-disturbance and attornment agreement by lender in connection with the deed of trust. Tenant further agrees that in the event there is any inconsistency between the terms and provisions of this agreement and the terms and provisions of the Lease with respect to non-disturbance by lender, the terms and provisions hereof shall be controlling.

(6) Tenant shall use reasonable efforts to provide to lender by certified mail, return receipt requested, a copy of any notice of default served upon Landlord, at the address of lender set forth herein (to the attention of \_\_\_\_\_), and Tenant expressly acknowledges and agrees that lender shall have the right (but not the obligation) to cure Landlord's default specified in said notice within the same time periods afforded the Landlord under the Lease; provided, however, the failure to give such notice shall not render the notice provided to Landlord ineffective nor shall it effect any abatement or other rights or remedies Tenant may have under the Lease. Notwithstanding the foregoing, in the event Tenant is entitled to terminate the Lease as a result of a default by Landlord under the Lease, Tenant will not terminate the Lease unless and until Tenant has provided to lender such notice and afforded lender (or the Successor Landlord, as applicable) the right (but not the obligation) to cure Landlord's default specified in said notice within the same time periods afforded the Landlord under the Lease. Nothing contained herein shall extend the period to exercise or otherwise affect any termination right that Tenant may have pursuant to the Lease.

(7) Lender shall permit insurance proceeds to be used to rebuild the Building Improvements following a casualty provided that lost rent insurance covers lost rent during any period during which Basic Rent abates following such casualty.

(8) Anything herein or in the Lease to the contrary notwithstanding, in the event that any Successor Landlord (including, without limitation, lender) shall acquire fee title to the demised premises,

such Successor Landlord shall have no obligation, nor shall any Successor Landlord incur any liability, beyond such Successor Landlord's then interest, if any, in the property and the rents, issues, profits and proceeds (including sale, condemnation, insurance and otherwise) therefrom, and Tenant shall look exclusively to such interest, if any, in the property and the rents, issues, profits and proceeds (including sale, condemnation, insurance and otherwise) therefrom for the payment and discharge of any obligations imposed upon any Successor Landlord (including, without limitation, lender) hereunder or under the Lease; and such Successor Landlord is hereby released and relieved of any other liability hereunder and under the Lease. Tenant agrees that with respect to any money judgment which may be obtained or secured by Tenant against any Successor Landlord (including, without limitation, lender), Tenant shall look solely to the estate or interest owned by such Successor Landlord in the property and the rents, issues, profits and proceeds (including sale, condemnation, insurance and otherwise) therefrom and Tenant will not collect or attempt to collect any such judgment (a) from any officer, director, shareholder, member, employee, agent or representative of any Successor Landlord, or (b) out of any assets of such Successor Landlord, other than such Successor Landlord's estate or interest in the property and the rents, issues, profits and proceeds (including sale, condemnation, insurance and otherwise) therefrom.

(9) Tenant hereby agrees as follows for the benefit of lender, knowing that lender is entitled to, and has in fact, relied on the same:

(a) That neither this Agreement nor anything to the contrary in the Lease or in any modifications or amendments thereto shall, prior to Lender's acquisition of Landlord's interest in the Demised Premises, operate to give rise to or create any responsibility or liability for the control, care, management or repair of the Demised Premises upon Lender, or impose responsibility for the carrying out by Lender of any of the covenants, terms or conditions of the Lease or of any modification or amendment specified herein or hereafter consented to by Lender, nor, prior to Lender's acquisition of Landlord's interest in the Demised Premises, shall said instruments operate to make Lender responsible or liable for any waste committed on the Demised Premises by any party whomsoever, or for any dangerous or defective condition of the Demised Premises, or for any negligence in the management, upkeep, repair or control of the Demised Premises resulting in loss, injury or death to Tenant or any licensee, invitee, guest, employee, agent or stranger. Notwithstanding anything to the contrary in the Lease, Lender, its successors and assigns or a purchaser under the terms of the Deed of Trust, shall be responsible for performance of only those covenants and obligations of the Lease accruing after Lender's acquisition of Landlord's interest in the Demised Premises, except as otherwise set forth herein; it being understood that such limit of responsibility shall not prevent Tenant from exercising its right to terminate its obligations under the Lease in accordance with the terms of this Agreement and the Lease, if any such non-performance continues after the date on which Lender or its successors or assigns acquires Tenant's interest in the Demised Premises, subject to the Successor Landlord's notice and cure rights in connection with a default as set forth in Section 6 hereof; and

(b) That in the event Lender gains title to the Demised Premises and becomes Successor Landlord, Lender may assign its interest as Successor Landlord without notice to or the consent of any other party (including, without limitation, Tenant).

(10) Landlord represents to Tenant that Landlord has collaterally assigned to lender all of Landlord's right, title and interest under the Lease, and that after an "event of default" occurs under the deed of trust, lender shall have, among other things, the right to collect, and Landlord hereby irrevocably authorizes and directs Tenant to pay to lender or its designee (and Tenant hereby agrees to pay to lender or lender's designee in such event), all rent and other sums due pursuant to the Lease, following lender's delivery to Tenant of notice of such an "event of default" and such payments by Tenant

**Execution Copy**

to lender shall be credited against the rent due under the Lease; and Landlord waives and releases any claim it may have against Tenant for any sum paid by Tenant to lender pursuant to any such notice.

(11) This agreement may not be modified, amended or terminated except by a writing duly executed by the party against whom the same is sought to be asserted. This agreement constitutes the entire agreement between the parties with respect to the subject matter hereof.

(12) This agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns. The provisions of this agreement shall be binding upon any guarantor of Tenant's obligations under the Lease.

(13) All notices, demands or requests made pursuant to, under, or by virtue of this agreement must be in writing and shall be deemed duly given if delivered in person or upon receipt, if delivered by a recognized overnight delivery service providing for a receipted delivery (e.g., federal express) to the address set forth below. Any party may change the place that notices, demands and/or requests are to be sent by written notice delivered in accordance with this agreement.

Lender's Address  
For Notice:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_

Landlord's Address  
For Notice:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_

With a copy to:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Attn: \_\_\_\_\_

Tenant's Address: CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Director, Ambulatory Services

With a copy to:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Vice President, Chief Legal Officer

and

CHILDREN'S HOSPITAL

111 Michigan Avenue  
Washington, DC 20010

Attn: Charles Weinstein, Esq., Executive Vice President, Chief Real  
Estate and Facility Officer

and

Holland & Knight LLP  
800 17<sup>th</sup> Street, NW, Suite 1100  
Washington, DC 20006  
Attn: Dennis M. Horn, Esq.

(14) This agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same instrument.

(15) Tenant hereby acknowledges receipt of notice that lender has made a loan secured by the deed of trust and that during the term of such loan lender shall be a lender of Landlord for purposes of the Lease.

*[Remainder of page intentionally left blank]*

*IN WITNESS WHEREOF*, the parties hereto have duly executed this Agreement the day and year first above written.

WITNESS/ATTEST:

\_\_\_\_\_  
Name: \_\_\_\_\_

WITNESS/ATTEST:

\_\_\_\_\_  
Name: \_\_\_\_\_

TENANT:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

LANDLORD:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

LENDER:

\_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Execution Copy**

**EXHIBIT A**  
*[attach legal description of real property]*

**EXHIBIT E**

**DEVELOPMENT AND COMPLETION GUARANTY**

Woodmore – Children's Hospital Lease

THIS DEVELOPMENT AND COMPLETION GUARANTY (this "**Guaranty**") is made as of \_\_\_\_\_, \_\_\_\_\_, by WALT PETRIE and TERRY L. RICHARDSON, an individual (each a "**Guarantor**"), jointly and severally, for the benefit of CHILDREN'S HOSPITAL, a State of Maryland not-for-profit corporation (the "**Tenant**").

**RECITALS:**

WHEREAS, WTC LOT 17, LLC ("**Landlord**") and Tenant have entered into a lease dated as of \_\_\_\_\_ ("**Lease**")

WHEREAS, Guarantor(s) are principals of Landlord and have agreed to provide this Guaranty to induce Tenant to enter into the Lease and to permit Landlord to transfer its interest under the Lease.

NOW, THEREFORE, in consideration of the premises, the mutual covenants contained herein and other good and valuable consideration in hand paid, the receipt and sufficiency of which are hereby acknowledged, Guarantor and Tenant, each intending to be legally bound hereby, hereby agree as follows:

**1. Recitals; Definitions.**

1.1 The foregoing recitals are true and correct and are incorporated into this Guaranty by this reference and made a material part of this Guaranty.

1.2 Capitalized terms used and not defined in this Guaranty shall have the meaning attributed to them in the Lease.

**2. Representations and Warranties.**

2.1 Solely with respect to itself, each Guarantor represents and warrants to Tenant as follows:

(a) the making and performance of this Guaranty by Guarantor will not result in any breach of any term, condition or provision of, or constitute a default under, any contract, agreement or other instrument to which Guarantor is a party or by which it is bound, or result in a breach of any regulation, order, writ, injunction or decree of any court or any commission, board or other administrative agency entered in any proceeding to which Guarantor is a party or by which it is bound;

(b) Guarantor has reviewed, with the advice and benefit of its legal counsel, the terms and provisions of the Lease including the Work Agreement attached as Exhibit C to the Lease, and the documents referenced in each of the foregoing;

(c) this Guaranty has been duly authorized, executed and delivered by Guarantor, and this Guaranty, and each term and provision hereof, is the legal, valid and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms, subject only to applicable bankruptcy, insolvency and similar laws affecting the rights of creditors generally, and subject to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);

(d) no actions, suits, or proceedings are pending or, to Guarantor's knowledge, threatened against or affecting Guarantor or Landlord before any governmental authority which could, if adversely decided, result in a material adverse change in the financial condition of Guarantor (in comparison to any state of affairs existing before the date of this Guaranty) or of the ability of Guarantor to perform, or of Tenant to enforce, any material provision of this Guaranty;

(e) no consent, approval or authorization of, or registration, declaration, or filing with, any governmental authority or any other Person is required that has not been obtained in writing by Guarantor, in connection with the execution, delivery and performance by Guarantor of this Guaranty and the transactions contemplated by this Guaranty;

(f) Guarantor is not insolvent (as such term is defined or determined for purposes of Bankruptcy Reform, Act of 1978 (11 U.S.C. § 101-1330), as amended or recodified or any other bankruptcy law (collectively, the "**Bankruptcy Code**")), and the execution and delivery of this Guaranty will not make Guarantor insolvent;

(g) to the knowledge of Guarantor as of the date hereof, neither this Guaranty nor any financial information, certificate or statement furnished to Tenant by or on behalf of Guarantor contains any untrue statement of a material fact or intentionally or knowingly omits to state a material fact necessary to make the statements herein and therein, in the light of the circumstances under which they are made, not misleading;

(h) to the knowledge of Guarantor, as of the date hereof no conditions exist which would prevent Guarantor from complying with the provisions of this Guaranty within the time limits set forth herein and/or in the Lease, as may be extended or deemed extended pursuant to the terms thereof;

(i) Guarantor has filed all tax returns and reports required by law to have been filed by it, and has paid all taxes, assessments and governmental charges levied upon it or any of its assets which are due and payable, except any such taxes or charges which are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside;

(j) there are no conditions precedent to the effectiveness of this Guaranty; and

(k) all financial statements delivered to Tenant at any time by or on behalf of Guarantor (i) to Guarantor's knowledge, are true and correct in all material respects, (ii) fairly present in a manner consistent with prior statements submitted to Tenant the respective financial conditions of the subjects thereof and for the periods referenced therein, and (iii) have been prepared in accordance with generally accepted accounting principles (if Guarantor is not a

natural Person) (or other accounting principles as Tenant may agree to in its discretion, such agreement not to be unreasonably withheld, conditioned or delayed) consistently applied, and there has been no material adverse change in the financial position of such Guarantor since the respective dates of (or periods covered by) such statements, and without limiting the foregoing, all assets shown on such financial statements, unless clearly designated to the contrary on such financial statements, (A) are free and clear of any exemption or any claim of exemption of Guarantor or any other Person, (B) accurately reflect all debt and prior pledges or encumbrances (direct or indirect) of or on any of Guarantor's assets at the date of the financial statements and at all times thereafter and (C) are owned individually by Guarantor and not jointly with any spouse or other Person. No property held jointly by any Guarantor with any third party shall be included in the assets shown on such Guarantor's financial statements.

2.2 Guarantor agrees that all of the representations and warranties of Guarantor in this Guaranty are made and shall be true as of the date of this Guaranty and shall survive the execution and delivery of this Guaranty. Guarantor shall inform Tenant in writing within five (5) Business Days upon its discovering any breach of such representations or warranties.

2.3 Guarantor acknowledges that Tenant is executing the Lease and permitting the Landlord Transfer in reliance upon the representations, warranties and agreements contained in this Guaranty. Tenant shall be entitled to such reliance notwithstanding any investigation which has been made, has not been made or may be conducted by Tenant or on Tenant's behalf.

### 3. Guaranty.

3.1 Guarantor hereby absolutely and unconditionally guarantees to Tenant and its successors and assigns, the full and complete performance of all of Landlord's agreements, obligations and covenants to: (i) construct and complete the Project in accordance with the Lease, the Milestone Schedule, the Approved Documents and applicable Law; (ii) pay all costs required to complete the Project above the funds required to be provided by the Tenant and Lender, (iii) remove from the Premises all mechanics' and materialmen's liens and any other claims of lien arising from the failure to pay for the performance of the obligations contracted for by or on behalf of the Landlord or its Affiliates described in the preceding clause (i); and (iv) pay in full of all amounts due to any contractor, subcontractor, or materialman who is engaged by Landlord at any time in work or supplying materials for the construction of the Project or otherwise to reimburse Tenant for any out-of-pocket and documented amounts reasonably expended by Tenant on behalf of Landlord in the exercise of self-help rights associated with Tenant's performance of Landlord's obligation to construct and complete the Project, pursuant to the Lease (collectively, the "**Guaranteed Obligations**").

3.2 Provided that this Guaranty has been executed on behalf of the Guarantors pursuant to Section 20.13 of the Lease, and in the event of any default by Landlord under the Lease in constructing and completing the Project, including, without limitation, Landlord's failure to commence, thereafter diligently prosecute and complete the Landlord Work and Tenant Improvements pursuant to the Milestone Schedule ("**Landlord Default**"), Tenant shall provide written notice to Guarantor thereof simultaneously with its notice to Landlord of such default, and, if not cured by Landlord, upon the expiration of any applicable notice and/or cure period (the "**Guarantor Performance Commencement Date**"), Guarantor agrees, upon request by

Tenant, at Guarantor's option either: (a) to assume responsibility for the performance of the Guaranteed Obligations (to the extent such Landlord Default arises from a failure by Landlord to perform the Guaranteed Obligations), prior to the date for Completion of the Project and Punch List Items specified in the Lease, and to pay all costs and expenses in connection therewith, at Guarantor's own cost and expense; or (b) to cure any Landlord Default (to the extent such Landlord Default arises from a failure by Landlord to perform the Guaranteed Obligations), to the extent curable. If the Landlord Default is not curable, Guarantor will fulfill its obligations under Section 3.2(a) of this Guaranty.

**4. Reports.**

**4.1 Intentionally Omitted.**

**4.2** On and after the Guarantor Performance Commencement Date, promptly after Tenant's request, but no more frequently than quarterly, Guarantor shall deliver to Tenant such additional information, reports and statements regarding the business operations reasonably related to the Work or the financial condition of Guarantor as Tenant may reasonably request.

**5. Guaranty of Completion and Payment; Independent Obligation.** This is a direct, absolute, unconditional, guaranty of completion, and is a guaranty of payment and performance, not of collection but only as to the Guaranteed Obligations. The obligations of Guarantor under this Guaranty are independent and primary commencing on the Guarantor Performance Commencement Date, and Tenant shall not be required to take any action against Landlord, any mortgagee, or any other Person or resort to any other collateral or security given for the performance of Landlord as a precondition to the obligations of each Guarantor under this Guaranty. Guarantor hereby waives any rights it may have to compel Tenant to proceed against the Landlord, or any security, or to participate in any security for Guarantor's obligations hereunder, even though any rights which such Guarantor may have against Landlord or others may be destroyed, diminished or otherwise affected by such action or lack thereof. Neither the declaration of a Landlord Default, nor the exercise of any remedies against Landlord, shall in any way affect Guarantor's responsibility for the obligations guaranteed hereunder, even though any rights which Guarantor may have against Landlord or others may be destroyed, diminished or otherwise affected by such action. Notwithstanding anything in this Guaranty or the Lease to the contrary, in consideration for Guarantor agreeing to guaranty the Guaranteed Obligations pursuant to this Guaranty, Tenant agrees to perform its obligations under the Lease in all material respects and shall not terminate the Lease while enforcing this Guaranty or while any Guarantor is performing its obligations hereunder.

**6. No Release or Waiver.**

**6.1** No action which Landlord or Tenant may take or omit to take in connection with the Project, nor any course of dealing with Landlord or any other Person, shall release Guarantor's obligations hereunder or affect this Guaranty in any way. By way of example, but not in limitation of the foregoing, Guarantor hereby expressly agrees that Tenant may, from time to time, and without notice to Guarantor, but with the written prior agreement of Landlord:

- (a) amend, change or modify, in whole or in part, the Lease;

- (b) waive any terms, conditions or covenants of the Lease, or grant any extension of time or forbearance for performance of the same;
- (c) compromise or settle any amount due or owing, or claimed to be due or owing, under the Lease;
- (d) surrender, release or subordinate any or all security for the Lease, or accept additional or substituted security therefor; and
- (e) release, substitute or add guarantors of the Lease.

Guarantor further agrees that it shall not be released from its obligations hereunder, nor shall Guarantor's obligations under this Guaranty be altered or impaired by any delay of Tenant in enforcing the terms and conditions of the Lease or any other document to which Tenant is a party or beneficiary or by any waiver of any Landlord Default under the Lease or any such other document, or by any other act, omission, thing, fact or circumstance which might otherwise operate as a legal or equitable discharge of Landlord or a legal or equitable limitation on or diminution of the liability of Landlord under the Lease. No extension of the time of payment or performance of any obligation hereunder guaranteed, or the renewal thereof, nor delay in the enforcement thereof or of this Guaranty, or the taking, exchanging, surrender or release of other security therefor, or the release or compromise of any liability of Landlord shall affect the liability of or in any manner release any Guarantor, and this Guaranty shall be a continuing one and remain in full force and effect until each and every obligation hereby guaranteed shall have been paid and performed in full, or Tenant has affirmatively released Guarantor from the obligation in writing.

6.2 Notwithstanding the provisions of Section 6.1, or any other provision of this Guaranty, Tenant agrees that upon Substantial Completion of the Project and completion of all Punch List Items (and payment for the foregoing), all claims against each Guarantor under this Guaranty with regard to the Project shall be extinguished.

**7. Intentionally Omitted.**

**8. Waivers.**

8.1 To the fullest extent each Guarantor may do so under applicable Law, except as may be expressly provided in this Guaranty to the contrary, Guarantor expressly waives notice of acceptance of this Guaranty or the right to enforce any of the terms of the Lease, or any liability under this Guaranty. Except as provided in Section 3.2 and in Section 9.1 or any other express provision of this Guaranty, to the extent permitted by applicable Law, Tenant shall not be required to give any notice to Guarantor hereunder in order to preserve or enforce Tenant's rights hereunder, any such notice being expressly waived by Guarantor. In addition, if and to the extent permitted by applicable Law, Guarantor agrees that Tenant shall have no duty to disclose to Guarantor any information it receives or has reasonably available to it regarding the financial status of the Landlord, or any contractor, subcontractor or materialmen involved in the construction of the Project or any information relating to the Project, whether or not such information indicates that the risk that Guarantor may be required to perform hereunder has been

or may be increased. Guarantor assumes full responsibility for being and keeping informed of all such matters.

8.2 In addition to the foregoing, Guarantor expressly waives the following:

(a) lack of validity, genuineness or enforceability of any provision of any of the Development Agreement, the Lease or any other agreement between Tenant, Landlord, Guarantor or any other Person;

(b) any defense based on the incapacity, lack of authority, death or disability of any Person or the failure of Tenant to file or enforce a claim against the estate of any Person in any administrative, bankruptcy or other proceeding;

(c) any defense based on an election of remedies by Tenant, whether or not such election may affect in any way the recourse, subrogation or other rights of Guarantor against the Landlord or any other Person in connection with the Guaranteed Obligations;

(d) any defense based on the negligence of Tenant in administering or overseeing the Project or any part thereof, or taking or failing to take any action in connection therewith; and

(e) any defense based on any change to the Approved Documents or the Lease or any of the documents referenced in any of the foregoing made without the consent or knowledge of Guarantor.

## 9. Guaranty Event of Default; Remedies.

9.1 It is expressly agreed that any of the following shall be a “**Guaranty Event of Default**” by Guarantor under this Guaranty (without, except as expressly set forth below, any notice, cure or grace period):

(a) the failure of Guarantor to notify Tenant of its intent to commence and diligently pursue to completion the Guaranteed Obligations within ten (10) Business Days after its receipt of written notice from Tenant that Landlord has failed to cure a default under the Lease prior to the expiration of all applicable notice and/or cure periods and commencement of such activities within thirty (30) days after delivery of such notice;

(b) the failure of Guarantor to timely deliver to Tenant the reports required under Section 4 herein, and the failure of Guarantor to cure such default within thirty (30) days after its receipt of written notice from Tenant of such default;

(c) the death, dissolution or incompetency of Guarantor, and the failure of a replacement of this Guaranty to be delivered to Tenant within sixty (60) days after such death, dissolution or incompetency with a Guaranty executed by a Guarantor of comparable net worth;

(d) the falsity in any material respect of; or any material representation in, any representation made to Tenant by Guarantor in the event Guarantor fails to promptly cure any such false statement or representation;

(e) intentionally omitted;

(f) except as set forth in subsection (a) through (e) or subsection (g) of this Section 9.1, any violation, default or breach by Guarantor of the Guaranteed Obligations, and the failure of Guarantor to cure such violation, default or breach within thirty (30) days after its receipt of written notice from Tenant of such failure; provided, however, if such violation, default or breach cannot reasonably be cured within such thirty (30) day period, Guarantor shall have commenced to cure such violation, default or breach within such thirty (30) day period, and thereafter diligently and expeditiously proceeds to cure same, then such thirty (30) day period shall be extended for so long as it shall require Guarantor to effect such cure, but in no event more than an additional hundred and twenty (120) days; and/or

(g) the occurrence of any Insolvency Event (as defined below) with respect to Guarantor. The term "Insolvency Event" shall mean any of the following: in the event that by order of a court of competent jurisdiction, a receiver or liquidator or trustee of Guarantor or any of its property shall be appointed and shall not have been discharged within ninety (90) days, or, if by decree of such a court, Guarantor shall be adjudicated bankrupt or insolvent or any of Guarantor's property shall have been sequestered, and such decree shall remain undischarged and unstayed for ninety (90) days after the entry thereof, or if a petition to reorganize Guarantor pursuant to any federal, state, Tenant, or local bankruptcy, insolvency or similar type laws, or any other similar statute applicable to Guarantor, as now or hereafter in effect, shall be filed against Guarantor and shall not be dismissed within ninety (90) days after such filing, or if Guarantor shall file a petition in voluntary bankruptcy under any provision of any bankruptcy law or shall consent to the filing of any bankruptcy or reorganization petition against it under such law, or if (without limitation of the generality of the foregoing) Guarantor shall file a petition for an arrangement or to reorganize Guarantor pursuant to any federal, state, Tenant, or local bankruptcy, insolvency or similar type laws, or any other similar statute applicable to Guarantor, as now or hereafter in effect, or shall make an assignment for the benefit of its creditors, or shall admit in writing Guarantor's inability to pay its debts generally as they become due, or shall consent to the appointment of a receiver or trustee or liquidator of Guarantor or of all or any part of Guarantor's property.

9.2 Following the occurrence of a Guaranty Event of Default, Tenant shall have such rights and remedies available to it as permitted by law and in equity and may enforce this Guaranty independently of any other remedy or security Tenant at any time may have or hold in connection with the Guaranteed Obligations, and it shall not be necessary for Tenant to marshal assets in favor of Landlord, Guarantor or any other Person or to proceed upon or against and/or exhaust any security or remedy before proceeding to enforce this Guaranty. Additionally, Guarantor agrees that upon any Guaranty Event of Default, Tenant may, without the consent of or notice to Guarantor: (a) complete the performance of the Guaranteed Obligations; (b) exercise its rights under the Lease, and/or (c) take or refrain from taking such other action to enforce the provisions of this Guaranty as it may from time to time determine in its sole discretion.

10. **Indemnification.** Guarantor agrees to indemnify and hold harmless Tenant for all reasonable, direct, out-of-pocket costs and expenses, including, without limitation, all court costs, reasonable attorneys' fees and expenses, and costs of collection incurred or paid by Tenant arising out of or in connection with (a) Tenant's performance of the Guaranteed Obligations

following an uncured default hereunder by Guarantor, and (b) the enforcement of this Guaranty by Tenant including, in both cases, reasonable attorneys' fees and costs. Notwithstanding the foregoing, Guarantor shall not have any obligation to indemnify Tenant for any costs and expenses, including, without limitation, all court costs, reasonable attorneys' fees and expenses, if Guarantor should prevail in an enforcement action, in which event Tenant shall indemnify Guarantor for Guarantor's cost and expenses associated therewith; provided, further, the immediately preceding proviso clause shall not be deemed to release Guarantor from its indemnification obligations under this Guaranty if Tenant prevails against Guarantor in any enforcement action notwithstanding the fact that Tenant may not have prevailed against Guarantor in a previous enforcement action.

**11. No Limitation of Obligations.** To the fullest extent Guarantor may do so under applicable Law, Guarantor agrees that it shall make no claim or setoff, defense, recoupment or counterclaim of any sort whatsoever, nor shall Guarantor seek to impair, limit or defeat in any way its obligations hereunder. To the fullest extent Guarantor may do so under applicable Law, Guarantor hereby waives any right to the claims referenced in the preceding sentence in limitation of its obligations hereunder.

**12. No Right of Subrogation.** Until all of the Guaranteed Obligations are fully paid, performed and/or fulfilled, Guarantor agrees solely with respect to itself that it: (i) shall have no right of subrogation against Landlord by reason of any payments or acts of performance by Guarantor in compliance with the obligations of Guarantor under this Guaranty; (ii) waives any right to enforce any remedy which Guarantor now or hereafter shall have against Landlord by reason of any payment or act of performance in compliance with the obligations of Guarantor hereunder; and (iii) subordinates any present or future, liquidated or unliquidated, liability, indebtedness or obligations of Landlord to Guarantor, irrespective of the respective dates of the incurrence, accrual or maturity thereof~ to the indebtedness and obligations of Landlord to Tenant under the Lease.

**13. No Assignment or Delegation; Merger.** Guarantor shall not assign or delegate its obligations under this Guaranty except as set forth herein. If Guarantor is not a natural person and is merged into or with any other company, firm or corporation, the resulting merged company, firm or corporation shall become liable as a Guarantor under this Guaranty to the same extent as the original named Guarantor hereunder.

**14. Notice of Bankruptcy or Insolvency.** Guarantor agrees to furnish to Tenant written notice of any Insolvency Event as soon as such Guarantor becomes aware of the existence of such Insolvency Event.

**15. Choice of Law and Consent to Jurisdiction.** This Guaranty shall in all respects be governed by and construed in accordance with the laws of the State of Maryland, without reference to its conflicts of law principles. Guarantor hereby consents to jurisdiction of the federal or local jurisdiction courts within the State of Maryland for purposes of such litigation and waives any right it may have to seek a change of venue of such proceedings. Guarantor further agrees not to assert in any action, suit or proceeding arising out of or relating to the Lease that Guarantor is not personally subject to the jurisdiction of such courts, that the action, suit or other proceeding is brought in an inconvenient form, or that the venue of the action, suit or other

proceeding is improper. Guarantor agrees that service of process may be made, and personal jurisdiction over Guarantor obtained, by serving a copy of the summons and complaint upon Guarantor at the notice address set forth below in accordance with the applicable laws of the State of Maryland. Nothing herein contained, however, shall prevent Tenant from exercising any action or exercising any right against Guarantor within any other jurisdiction or state. Initiating such proceeding or taking such action in any other jurisdiction or state shall not, however, constitute a waiver of the agreement herein contained that the laws of the State of Maryland shall govern the rights and obligations of the parties hereunder. Guarantor agrees that Tenant may, and Guarantor agrees not to oppose Tenant's attempts to, consolidate any litigation arising out of or relating to this Guaranty with any action(s), suit(s) or proceeding(s) against the Landlord or any other individual or entity and/or the property of any of the foregoing missing out of or relating to the Lease.

16. **Notices.** Any notice, demand, statement or request required under this Guaranty shall be in writing and delivered by certified mail (return receipt requested, postage pre-paid), by hand, or by reputable private overnight commercial courier service, at the following respective addresses:

**IF TO TENANT:**

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Director, Ambulatory Services

With a copy to:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Vice President, Chief Legal Officer

and

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Charles Weinstein, Esq., Executive Vice President, Chief Real Estate and Facility Officer

**IF TO GUARANTOR:**

Walt Petrie  
c/o WTC Lot 17, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401

Terry L. Richardson  
c/o Petrie Richardson Ventures, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401

Notices served upon Tenant or Guarantor in the manner aforesaid shall be deemed to have been received for all purposes under this Guaranty as follows: (i) if hand delivered to a party against receipted copy, when the copy of the notice is receipted; (ii) if given by nationally recognized overnight delivery service, on the next business day after the notice is deposited with the overnight delivery service; or (iii) if given by certified mail, return receipt requested, postage prepaid, on the date of actual delivery or refusal thereof. Notices delivered to Petrie Richardson Ventures, LLC and to WTC Lot 17, LLC pursuant to Section 1 of the Lease will also constitute delivery of notice to the Guarantors pursuant to this Guaranty. If notice is tendered under the terms of this Guaranty and is refused by the intended recipient of the notice, the notice shall nonetheless be considered to have been received and shall be effective as of the date provided in this Guaranty.

17. **Severability.** In the event that any provision of this Guaranty is held to be void or unenforceable, all other provisions shall remain unaffected and be enforceable.

18. **Waiver of Jury Trial.** TO THE EXTENT PERMITTED BY LAW, EACH PARTY HEREBY: (I) COVENANTS AND AGREES NOT TO ELECT TRIAL BY JURY OF ANY ISSUE HEREUNDER TRIABLE OF RIGHT BY A JURY; AND (II) WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY ISSUE FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN, KNOWINGLY AND VOLUNTARILY, BY GUARANTOR, AND THIS WAIVER IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A JURY TRIAL WOULD OTHERWISE ACCRUE. EACH PARTY ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE OTHER PARTY TO PROVIDE OR ACCEPT THIS GUARANTY, AS APPLICABLE. FOR THE PURPOSES OF THIS SECTION 18, THE TERM "PARTY" IS DEEMED TO MEAN TENANT, AS WELL AS GUARANTOR.

19. **Time is of the Essence.** Time is of the essence with respect to all matters set forth in this Guaranty.

[SIGNATURE PAGE FOLLOWS]

SIGNATURE PAGE TO  
DEVELOPMENT AND COMPLETION GUARANTY

IN WITNESS WHEREOF, each Guarantor has executed this Guaranty as of the date first written above.

GUARANTOR:

\_\_\_\_\_  
Walt Petrie

\_\_\_\_\_  
Terry L. Richardson

(c) this Guaranty has been duly authorized, executed and delivered by Guarantor, and this Guaranty, and each term and provision hereof, is the legal, valid and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms, subject only to applicable bankruptcy, insolvency and similar laws affecting the rights of creditors generally, and subject to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);

(d) no actions, suits, or proceedings are pending or, to Guarantor's knowledge, threatened against or affecting Guarantor or Landlord before any governmental authority which could, if adversely decided, result in a material adverse change in the financial condition of Guarantor (in comparison to any state of affairs existing before the date of this Guaranty) or of the ability of Guarantor to perform, or of Tenant to enforce, any material provision of this Guaranty;

(e) no consent, approval or authorization of, or registration, declaration, or filing with, any governmental authority or any other Person is required that has not been obtained in writing by Guarantor, in connection with the execution, delivery and performance by Guarantor of this Guaranty and the transactions contemplated by this Guaranty;

(f) Guarantor is not insolvent (as such term is defined or determined for purposes of Bankruptcy Reform, Act of 1978 (11 U.S.C. § 101-1330), as amended or recodified or any other bankruptcy law (collectively, the "**Bankruptcy Code**")), and the execution and delivery of this Guaranty will not make Guarantor insolvent;

(g) to the knowledge of Guarantor as of the date hereof, neither this Guaranty nor any financial information, certificate or statement furnished to Tenant by or on behalf of Guarantor contains any untrue statement of a material fact or intentionally or knowingly omits to state a material fact necessary to make the statements herein and therein, in the light of the circumstances under which they are made, not misleading;

(h) to the knowledge of Guarantor, as of the date hereof no conditions exist which would prevent Guarantor from complying with the provisions of this Guaranty within the time limits set forth herein and/or in the Lease, as may be extended or deemed extended pursuant to the terms thereof;

(i) Guarantor has filed all tax returns and reports required by law to have been filed by it, and has paid all taxes, assessments and governmental charges levied upon it or any of its assets which are due and payable, except any such taxes or charges which are being contested in good faith by appropriate proceedings and for which adequate reserves have been set aside;

(j) there are no conditions precedent to the effectiveness of this Guaranty; and

(k) all financial statements delivered to Tenant at any time by or on behalf of Guarantor (i) to Guarantor's knowledge, are true and correct in all material respects, (ii) fairly present in a manner consistent with prior statements submitted to Tenant the respective financial conditions of the subjects thereof and for the periods referenced therein, and (iii) have been prepared in accordance with generally accepted accounting principles (if Guarantor is not a

natural Person) (or other accounting principles as Tenant may agree to in its discretion, such agreement not to be unreasonably withheld, conditioned or delayed) consistently applied, and there has been no material adverse change in the financial position of such Guarantor since the respective dates of (or periods covered by) such statements, and without limiting the foregoing, all assets shown on such financial statements, unless clearly designated to the contrary on such financial statements, (A) are free and clear of any exemption or any claim of exemption of Guarantor or any other Person, (B) accurately reflect all debt and prior pledges or encumbrances (direct or indirect) of or on any of Guarantor's assets at the date of the financial statements and at all times thereafter and (C) are owned individually by Guarantor and not jointly with any spouse or other Person. No property held jointly by any Guarantor with any third party shall be included in the assets shown on such Guarantor's financial statements.

2.2 Guarantor agrees that all of the representations and warranties of Guarantor in this Guaranty are made and shall be true as of the date of this Guaranty and shall survive the execution and delivery of this Guaranty. Guarantor shall inform Tenant in writing within five (5) Business Days upon its discovering any breach of such representations or warranties.

2.3 Guarantor acknowledges that Tenant is executing the Lease and permitting the Landlord Transfer in reliance upon the representations, warranties and agreements contained in this Guaranty. Tenant shall be entitled to such reliance notwithstanding any investigation which has been made, has not been made or may be conducted by Tenant or on Tenant's behalf.

### 3. Guaranty.

3.1 Guarantor hereby absolutely and unconditionally guarantees to Tenant and its successors and assigns, the full and complete performance of all of Landlord's agreements, obligations and covenants to: (i) construct and complete the Project in accordance with the Lease, the Milestone Schedule, the Approved Documents and applicable Law; (ii) pay all costs required to complete the Project above the funds required to be provided by the Tenant and Lender, (iii) remove from the Premises all mechanics' and materialmen's liens and any other claims of lien arising from the failure to pay for the performance of the obligations contracted for by or on behalf of the Landlord or its Affiliates described in the preceding clause (i); and (iv) pay in full of all amounts due to any contractor, subcontractor, or materialman who is engaged by Landlord at any time in work or supplying materials for the construction of the Project or otherwise to reimburse Tenant for any out-of-pocket and documented amounts reasonably expended by Tenant on behalf of Landlord in the exercise of self-help rights associated with Tenant's performance of Landlord's obligation to construct and complete the Project, pursuant to the Lease (collectively, the "**Guaranteed Obligations**").

3.2 Provided that this Guaranty has been executed on behalf of the Guarantors pursuant to Section 20.13 of the Lease, and in the event of any default by Landlord under the Lease in constructing and completing the Project, including, without limitation, Landlord's failure to commence, thereafter diligently prosecute and complete the Landlord Work and Tenant Improvements pursuant to the Milestone Schedule ("**Landlord Default**"), Tenant shall provide written notice to Guarantor thereof simultaneously with its notice to Landlord of such default, and, if not cured by Landlord, upon the expiration of any applicable notice and/or cure period (the "**Guarantor Performance Commencement Date**"), Guarantor agrees, upon request by

Tenant, at Guarantor's option either: (a) to assume responsibility for the performance of the Guaranteed Obligations (to the extent such Landlord Default arises from a failure by Landlord to perform the Guaranteed Obligations), prior to the date for Completion of the Project and Punch List Items specified in the Lease, and to pay all costs and expenses in connection therewith, at Guarantor's own cost and expense; or (b) to cure any Landlord Default (to the extent such Landlord Default arises from a failure by Landlord to perform the Guaranteed Obligations), to the extent curable. If the Landlord Default is not curable, Guarantor will fulfill its obligations under Section 3.2(a) of this Guaranty.

#### **4. Reports.**

##### **4.1 Intentionally Omitted.**

4.2 On and after the Guarantor Performance Commencement Date, promptly after Tenant's request, but no more frequently than quarterly, Guarantor shall deliver to Tenant such additional information, reports and statements regarding the business operations reasonably related to the Work or the financial condition of Guarantor as Tenant may reasonably request.

**5. Guaranty of Completion and Payment; Independent Obligation.** This is a direct, absolute, unconditional, guaranty of completion, and is a guaranty of payment and performance, not of collection but only as to the Guaranteed Obligations. The obligations of Guarantor under this Guaranty are independent and primary commencing on the Guarantor Performance Commencement Date, and Tenant shall not be required to take any action against Landlord, any mortgagee, or any other Person or resort to any other collateral or security given for the performance of Landlord as a precondition to the obligations of each Guarantor under this Guaranty. Guarantor hereby waives any rights it may have to compel Tenant to proceed against the Landlord, or any security, or to participate in any security for Guarantor's obligations hereunder, even though any rights which such Guarantor may have against Landlord or others may be destroyed, diminished or otherwise affected by such action or lack thereof. Neither the declaration of a Landlord Default, nor the exercise of any remedies against Landlord, shall in any way affect Guarantor's responsibility for the obligations guaranteed hereunder, even though any rights which Guarantor may have against Landlord or others may be destroyed, diminished or otherwise affected by such action. Notwithstanding anything in this Guaranty or the Lease to the contrary, in consideration for Guarantor agreeing to guaranty the Guaranteed Obligations pursuant to this Guaranty, Tenant agrees to perform its obligations under the Lease in all material respects and shall not terminate the Lease while enforcing this Guaranty or while any Guarantor is performing its obligations hereunder.

#### **6. No Release or Waiver.**

6.1 No action which Landlord or Tenant may take or omit to take in connection with the Project, nor any course of dealing with Landlord or any other Person, shall release Guarantor's obligations hereunder or affect this Guaranty in any way. By way of example, but not in limitation of the foregoing, Guarantor hereby expressly agrees that Tenant may, from time to time, and without notice to Guarantor, but with the written prior agreement of Landlord:

- (a) amend, change or modify, in whole or in part, the Lease;

(b) waive any terms, conditions or covenants of the Lease, or grant any extension of time or forbearance for performance of the same;

(c) compromise or settle any amount due or owing, or claimed to be due or owing, under the Lease;

(d) surrender, release or subordinate any or all security for the Lease, or accept additional or substituted security therefor; and

(e) release, substitute or add guarantors of the Lease.

Guarantor further agrees that it shall not be released from its obligations hereunder, nor shall Guarantor's obligations under this Guaranty be altered or impaired by any delay of Tenant in enforcing the terms and conditions of the Lease or any other document to which Tenant is a party or beneficiary or by any waiver of any Landlord Default under the Lease or any such other document, or by any other act, omission, thing, fact or circumstance which might otherwise operate as a legal or equitable discharge of Landlord or a legal or equitable limitation on or diminution of the liability of Landlord under the Lease. No extension of the time of payment or performance of any obligation hereunder guaranteed, or the renewal thereof, nor delay in the enforcement thereof or of this Guaranty, or the taking, exchanging, surrender or release of other security therefor, or the release or compromise of any liability of Landlord shall affect the liability of or in any manner release any Guarantor, and this Guaranty shall be a continuing one and remain in full force and effect until each and every obligation hereby guaranteed shall have been paid and performed in full, or Tenant has affirmatively released Guarantor from the obligation in writing.

6.2 Notwithstanding the provisions of Section 6.1, or any other provision of this Guaranty, Tenant agrees that upon Substantial Completion of the Project and completion of all Punch List Items (and payment for the foregoing), all claims against each Guarantor under this Guaranty with regard to the Project shall be extinguished.

## **7. Intentionally Omitted.**

## **8. Waivers.**

8.1 To the fullest extent each Guarantor may do so under applicable Law, except as may be expressly provided in this Guaranty to the contrary, Guarantor expressly waives notice of acceptance of this Guaranty or the right to enforce any of the terms of the Lease, or any liability under this Guaranty. Except as provided in Section 3.2 and in Section 9.1 or any other express provision of this Guaranty, to the extent permitted by applicable Law, Tenant shall not be required to give any notice to Guarantor hereunder in order to preserve or enforce Tenant's rights hereunder, any such notice being expressly waived by Guarantor. In addition, if and to the extent permitted by applicable Law, Guarantor agrees that Tenant shall have no duty to disclose to Guarantor any information it receives or have reasonably available to it regarding the financial status of the Landlord, or any contractor, subcontractor or materialmen involved in the construction of the Project or any information relating to the Project, whether or not such information indicates that the risk that Guarantor may be required to perform hereunder has been

or may be increased. Guarantor assumes full responsibility for being and keeping informed of all such matters.

8.2 In addition to the foregoing, Guarantor expressly waives the following:

(a) lack of validity, genuineness or enforceability of any provision of any of the Development Agreement, the Lease or any other agreement between Tenant, Landlord, Guarantor or any other Person;

(b) any defense based on the incapacity, lack of authority, death or disability of any Person or the failure of Tenant to file or enforce a claim against the estate of any Person in any administrative, bankruptcy or other proceeding;

(c) any defense based on an election of remedies by Tenant, whether or not such election may affect in any way the recourse, subrogation or other rights of Guarantor against the Landlord or any other Person in connection with the Guaranteed Obligations;

(d) any defense based on the negligence of Tenant in administering or overseeing the Project or any part thereof, or taking or failing to take any action in connection therewith; and

(e) any defense based on any change to the Approved Documents or the Lease or any of the documents referenced in any of the foregoing made without the consent or knowledge of Guarantor.

## 9. Guaranty Event of Default; Remedies.

9.1 It is expressly agreed that any of the following shall be a “**Guaranty Event of Default**” by Guarantor under this Guaranty (without, except as expressly set forth below, any notice, cure or grace period):

(a) the failure of Guarantor to notify Tenant of its intent to commence and diligently pursue to completion the Guaranteed Obligations within ten (10) Business Days after its receipt of written notice from Tenant that Landlord has failed to cure a default under the Lease prior to the expiration of all applicable notice and/or cure periods and commencement of such activities within thirty (30) days after delivery of such notice;

(b) the failure of Guarantor to timely deliver to Tenant the reports required under Section 4 herein, and the failure of Guarantor to cure such default within thirty (30) days after its receipt of written notice from Tenant of such default;

(c) the death, dissolution or incompetency of Guarantor, and the failure of a replacement of this Guaranty to be delivered to Tenant within sixty (60) days after such death, dissolution or incompetency with a Guaranty executed by a Guarantor of comparable net worth;

(d) the falsity in any material respect of; or any material representation in, any representation made to Tenant by Guarantor in the event Guarantor fails to promptly cure any such false statement or representation;

(e) intentionally omitted;

(f) except as set forth in subsection (a) through (e) or subsection (g) of this Section 9.1, any violation, default or breach by Guarantor of the Guaranteed Obligations, and the failure of Guarantor to cure such violation, default or breach within thirty (30) days after its receipt of written notice from Tenant of such failure; provided, however, if such violation, default or breach cannot reasonably be cured within such thirty (30) day period, Guarantor shall have commenced to cure such violation, default or breach within such thirty (30) day period, and thereafter diligently and expeditiously proceeds to cure same, then such thirty (30) day period shall be extended for so long as it shall require Guarantor to effect such cure, but in no event more than an additional hundred and twenty (120) days; and/or

(g) the occurrence of any Insolvency Event (as defined below) with respect to Guarantor. The term "**Insolvency Event**" shall mean any of the following: in the event that by order of a court of competent jurisdiction, a receiver or liquidator or trustee of Guarantor or any of its property shall be appointed and shall not have been discharged within ninety (90) days, or, if by decree of such a court, Guarantor shall be adjudicated bankrupt or insolvent or any of Guarantor's property shall have been sequestered, and such decree shall remain undischarged and unstayed for ninety (90) days after the entry thereof, or if a petition to reorganize Guarantor pursuant to any federal, state, Tenant, or local bankruptcy, insolvency or similar type laws, or any other similar statute applicable to Guarantor, as now or hereafter in effect, shall be filed against Guarantor and shall not be dismissed within ninety (90) days after such filing, or if Guarantor shall file a petition in voluntary bankruptcy under any provision of any bankruptcy law or shall consent to the filing of any bankruptcy or reorganization petition against it under such law, or if (without limitation of the generality of the foregoing) Guarantor shall file a petition for an arrangement or to reorganize Guarantor pursuant to any federal, state, Tenant, or local bankruptcy, insolvency or similar type laws, or any other similar statute applicable to Guarantor, as now or hereafter in effect, or shall make an assignment for the benefit of its creditors, or shall admit in writing Guarantor's inability to pay its debts generally as they become due, or shall consent to the appointment of a receiver or trustee or liquidator of Guarantor or of all or any part of Guarantor's property.

9.2 Following the occurrence of a Guaranty Event of Default, Tenant shall have such rights and remedies available to it as permitted by law and in equity and may enforce this Guaranty independently of any other remedy or security Tenant at any time may have or hold in connection with the Guaranteed Obligations, and it shall not be necessary for Tenant to marshal assets in favor of Landlord, Guarantor or any other Person or to proceed upon or against and/or exhaust any security or remedy before proceeding to enforce this Guaranty. Additionally, Guarantor agrees that upon any Guaranty Event of Default, Tenant may, without the consent of or notice to Guarantor: (a) complete the performance of the Guaranteed Obligations; (b) exercise its rights under the Lease, and/or (c) take or refrain from taking such other action to enforce the provisions of this Guaranty as it may from time to time determine in its sole discretion.

10. **Indemnification.** Guarantor agrees to indemnify and hold harmless Tenant for all reasonable, direct, out-of-pocket costs and expenses, including, without limitation, all court costs, reasonable attorneys' fees and expenses, and costs of collection incurred or paid by Tenant arising out of or in connection with (a) Tenant's performance of the Guaranteed Obligations

following an uncured default hereunder by Guarantor, and (b) the enforcement of this Guaranty by Tenant including, in both cases, reasonable attorneys' fees and costs. Notwithstanding the foregoing, Guarantor shall not have any obligation to indemnify Tenant for any costs and expenses, including, without limitation, all court costs, reasonable attorneys' fees and expenses, if Guarantor should prevail in an enforcement action, in which event Tenant shall indemnify Guarantor for Guarantor's cost and expenses associated therewith; provided, further, the immediately preceding proviso clause shall not be deemed to release Guarantor from its indemnification obligations under this Guaranty if Tenant prevails against Guarantor in any enforcement action notwithstanding the fact that Tenant may not have prevailed against Guarantor in a previous enforcement action.

**11. No Limitation of Obligations.** To the fullest extent Guarantor may do so under applicable Law, Guarantor agrees that it shall make no claim or setoff, defense, recoupment or counterclaim of any sort whatsoever, nor shall Guarantor seek to impair, limit or defeat in any way its obligations hereunder. To the fullest extent Guarantor may do so under applicable Law, Guarantor hereby waives any right to the claims referenced in the preceding sentence in limitation of its obligations hereunder.

**12. No Right of Subrogation.** Until all of the Guaranteed Obligations are fully paid, performed and/or fulfilled, Guarantor agrees solely with respect to itself that it: (i) shall have no right of subrogation against Landlord by reason of any payments or acts of performance by Guarantor in compliance with the obligations of Guarantor under this Guaranty; (ii) waives any right to enforce any remedy which Guarantor now or hereafter shall have against Landlord by reason of any payment or act of performance in compliance with the obligations of Guarantor hereunder; and (iii) subordinates any present or future, liquidated or unliquidated, liability, indebtedness or obligations of Landlord to Guarantor, irrespective of the respective dates of the incurrence, accrual or maturity thereof~ to the indebtedness and obligations of Landlord to Tenant under the Lease.

**13. No Assignment or Delegation; Merger.** Guarantor shall not assign or delegate its obligations under this Guaranty except as set forth herein. If Guarantor is not a natural person and is merged into or with any other company, firm or corporation, the resulting merged company, firm or corporation shall become liable as a Guarantor under this Guaranty to the same extent as the original named Guarantor hereunder.

**14. Notice of Bankruptcy or Insolvency.** Guarantor agrees to furnish to Tenant written notice of any Insolvency Event as soon as such Guarantor becomes aware of the existence of such Insolvency Event.

**15. Choice of Law and Consent to Jurisdiction.** This Guaranty shall in all respects be governed by and construed in accordance with the laws of the State of Maryland, without reference to its conflicts of law principles. Guarantor hereby consents to jurisdiction of the federal or local jurisdiction courts within the State of Maryland for purposes of such litigation and waives any right it may have to seek a change of venue of such proceedings. Guarantor further agrees not to assert in any action, suit or proceeding arising out of or relating to the Lease that Guarantor is not personally subject to the jurisdiction of such courts, that the action, suit or other proceeding is brought in an inconvenient form, or that the venue of the action, suit or other

proceeding is improper. Guarantor agrees that service of process may be made, and personal jurisdiction over Guarantor obtained, by serving a copy of the summons and complaint upon Guarantor at the notice address set forth below in accordance with the applicable laws of the State of Maryland. Nothing herein contained, however, shall prevent Tenant from exercising any action or exercising any right against Guarantor within any other jurisdiction or state. Initiating such proceeding or taking such action in any other jurisdiction or state shall not, however, constitute a waiver of the agreement herein contained that the laws of the State of Maryland shall govern the rights and obligations of the parties hereunder. Guarantor agrees that Tenant may, and Guarantor agrees not to oppose Tenant's attempts to, consolidate any litigation arising out of or relating to this Guaranty with any action(s), suit(s) or proceeding(s) against the Landlord or any other individual or entity and/or the property of any of the foregoing missing out of or relating to the Lease.

16. **Notices.** Any notice, demand, statement or request required under this Guaranty shall be in writing and delivered by certified mail (return receipt requested, postage pre-paid), by hand, or by reputable private overnight commercial courier service, at the following respective addresses:

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CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Director, Ambulatory Services

With a copy to:

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Executive Vice President, Chief Legal Officer

and

CHILDREN'S HOSPITAL  
111 Michigan Avenue  
Washington, DC 20010  
Attn: Charles Weinstein, Esq., Executive Vice President, Chief Real Estate and Facility Officer

**IF TO GUARANTOR:**

Walt Petrie  
c/o WTC Lot 17, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401

Terry L. Richardson  
c/o Petrie Richardson Ventures, LLC  
1919 West Street, Suite 100  
Annapolis, MD 21401

Notices served upon Tenant or Guarantor in the manner aforesaid shall be deemed to have been received for all purposes under this Guaranty as follows: (i) if hand delivered to a party against receipted copy, when the copy of the notice is receipted; (ii) if given by nationally recognized overnight delivery service, on the next business day after the notice is deposited with the overnight delivery service; or (iii) if given by certified mail, return receipt requested, postage prepaid, on the date of actual delivery or refusal thereof. Notices delivered to Petrie Richardson Ventures, LLC and to WTC Lot 17, LLC pursuant to Section 1 of the Lease will also constitute delivery of notice to the Guarantors pursuant to this Guaranty. If notice is tendered under the terms of this Guaranty and is refused by the intended recipient of the notice, the notice shall nonetheless be considered to have been received and shall be effective as of the date provided in this Guaranty.

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18. **Waiver of Jury Trial.** TO THE EXTENT PERMITTED BY LAW, EACH PARTY HEREBY: (I) COVENANTS AND AGREES NOT TO ELECT TRIAL BY JURY OF ANY ISSUE HEREUNDER TRIABLE OF RIGHT BY A JURY; AND (II) WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY ISSUE FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN, KNOWINGLY AND VOLUNTARILY, BY GUARANTOR, AND THIS WAIVER IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A JURY TRIAL WOULD OTHERWISE ACCRUE. EACH PARTY ACKNOWLEDGES THAT THIS WAIVER IS A MATERIAL INDUCEMENT FOR THE OTHER PARTY TO PROVIDE OR ACCEPT THIS GUARANTY, AS APPLICABLE. FOR THE PURPOSES OF THIS SECTION 18, THE TERM "PARTY" IS DEEMED TO MEAN TENANT, AS WELL AS GUARANTOR.

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[SIGNATURE PAGE FOLLOWS]

**Exhibit 4**  
**Project Drawings**

**Exhibit 5**  
**Hospital CON Application, Table C**

**TABLE C. CONSTRUCTION CHARACTERISTICS**

*INSTRUCTION: If project includes non-hospital space structures (e.g., parking garages, medical office buildings, or energy plants), complete an additional Table C for each structure.*

	NEW CONSTRUCTION	RENOVATION
<b>BASE BUILDING CHARACTERISTICS</b>	Check if applicable	
<b>Class of Construction</b> (for renovations the class of the building being renovated)*		
Class A	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Class B	<input type="checkbox"/>	<input type="checkbox"/>
Class C	<input type="checkbox"/>	<input type="checkbox"/>
Class D	<input type="checkbox"/>	<input type="checkbox"/>
<b>Type of Construction/Renovation*</b>		
Low	<input type="checkbox"/>	<input type="checkbox"/>
Average	<input type="checkbox"/>	<input type="checkbox"/>
Good	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Excellent	<input type="checkbox"/>	<input type="checkbox"/>
<b>Number of Stories</b>	1	

\*As defined by Marshall Valuation Service

<b>PROJECT SPACE</b>	List Number of Feet, if applicable	
<b>Total Square Footage</b>	Total Square Feet	
Basement	N/A	
First Floor	N/A	
Second Floor	N/A	
Third Floor	10,550 SF	
Fourth Floor	N/A	
<b>Average Square Feet</b>	10,550 SF	
<b>Perimeter in Linear Feet</b>	Linear Feet	
Basement	N/A	
First Floor	N/A	
Second Floor	N/A	
Third Floor	492' - 3"	
Fourth Floor	N/A	
<b>Total Linear Feet</b>	492' - 3"	
<b>Average Linear Feet</b>	492' - 3"	
<b>Wall Height (floor to eaves)</b>	Feet	
Basement	N/A	
First Floor	N/A	
Second Floor	N/A	
Third Floor	16' - 7"	
Fourth Floor	N/A	
<b>Average Wall Height</b>	16' - 7"	
<b>OTHER COMPONENTS</b>		
<b>Elevators</b>	List Number	
Passenger	N/A	
Freight	N/A	
<b>Sprinklers</b>	Square Feet Covered	
Wet System	10,550 SF	
Dry System	N/A	
<b>Other</b>	Describe Type	
<b>Type of HVAC System for proposed project</b>	AIR HANDLER UNIT, CHILLER	
<b>Type of Exterior Walls for proposed project</b>		

**Exhibit 6**

**Hospital CON Application, Table E**



**Exhibit 7**

**List of Past Lease Activity**

List of Lease Activity

Name	Lease or Building Name	Address	City	State	Zip	Type	Dates of Involvement
Walter Reed	Walter Reed	6900 Georgia Avenue, NW	Washington	DC	20307	Extended	July 2016 - Present
Wisconsin Avenue Administration	Georgetown Plaza	2233 Wisconsin Avenue, NW	Washington	DC	20007	Office	July 2016 - Present
Pebble - Calvert Cardiology	Calvert Medical Arts Building	130 Hospital Road	Prince Frederick	MD	20678	Pebble	July 2016 - Present
CP&A - Silver Spring	CP&A - Lockwood Drive	10801 Lockwood Drive	Silver Spring	MD	20901	Primary Care	July 2016 - Present
CP&A - Bowie	12200 Annapolis Road	12200 Annapolis Road	Glenn Dale	MD	20769	Primary Care	July 2016 - Present
Health Center - Adams Morgan	Dorchester House	1630 Euclid Street, NW	Washington	DC	20009	Primary Care	July 2016 - Present
Health Center - THEARC	Health Center - Mississippi Avenue SE	1901 Mississippi Avenue, SE	Washington	DC	20020	Primary Care	July 2016 - Present
Health Center - Comp Clinic	Comp Clinic	2220 11th Street, NW	Washington	DC	20001	Primary Care	July 2016 - Present
CP&A - Greenbelt	CP&A - Greenbelt	7701 Greenbelt Road	Greenbelt	MD	20770	Primary Care	July 2016 - Present
CP&A - Clinton	CP&A - Woodyard Road	9015 Woodyard Road	Clinton	MD	20735	Primary Care	July 2016 - Present
Health Center - Columbia Heights	Health Center	3336 14th Street, NW	Washington	DC	20010	Primary Care	July 2016 - Present
ROC - Laurel	ROC - Baltimore Boulevard	13922 Baltimore Boulevard	Laurel	MD	20707	ROC	July 2016 - Present
ROC - Annapolis	ROC - Annapolis	1730 West Street	Annapolis	MD	21401	ROC	July 2016 - Present
ROC - Prince George's County	ROC - Prince George's County	2900 North Campus Way	Lanham	MD	20706	ROC	July 2016 - Present
ROC - Friendship Heights	5028 Wisconsin Ave NW	5028 Wisconsin Avenue, NW	Washington	DC	20016	ROC	July 2016 - Present
ROC - Frederick	ROC - Frederick	5285 Westview Drive	Frederick	MD	21703	ROC	July 2016 - Present
ROC - Takoma	ROC - Neuropsychology	6833 4th Street, NW	Washington	DC	20012	ROC	July 2016 - Present
ROC - Howard County	ROC - Howard County	7625 Maple Lawn Boulevard	Fulton	MD	20759	ROC	July 2016 - Present
ROC - Upper Marlboro	ROC - Pennsylvania Avenue	9440 Pennsylvania Avenue	Upper Marlboro	MD	20772	ROC	July 2016 - Present

**Exhibit 8**  
**Authorization to Sign**



December 18, 2017

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Letter of Authorization

To Whom It May Concern:

I hereby authorize Charles Weinstein, Esq., Executive Vice President and Chief Real Estate and Facility Officer to act on behalf on Children's Hospital, Children's National Medical Center and its affiliates in all manners relating to Children's Hospital's application for a Certificate of Need, including signing of all documents relating to the application.

This authorization is valid until further written notice from me.

Sincerely,

A handwritten signature in black ink, appearing to read "Kurt Newman". The signature is fluid and cursive.

Kurt Newman, MD  
President and Chief Executive Officer  
Children's National Medical Center

**Exhibit 9**  
**Financial Assistance Policy**



**I. STATEMENT OF POLICY**

The purpose of this Financial Assistance Policy (FAP) is to establish standard procedures for the determination of Financial Assistance to patients of Children's National Medical Center (CNMC) and its substantially related entities that are in financial need. Throughout the remainder of the FAP, use of the term "CNMC" refers to Children's National Medical Center and its substantially related entities.

As part of this FAP, CNMC will offer Financial Assistance to patients who are unable to pay their hospital and/or clinic bills due to difficult financial situations regardless of age, gender, race, creed, disability, social or immigrant status, sexual orientation, or religious affiliation. A CNMC Financial Counselor, designated business office representative, or committee with authority to offer Financial Assistance will review individual cases and make a determination of Financial Assistance that may be offered.

Accordingly, this FAP:

- Includes eligibility criteria for Financial Assistance
- Describes the basis for calculating amounts charged to patients eligible for Financial Assistance under this FAP:
  - Describes the method by which patients may apply for Financial Assistance
  - Describes how the hospital will widely publicize the FAP within the community served by the hospital

CNMC will provide, without discrimination, care for Emergency Medical Conditions to individuals regardless of whether they are eligible for Financial Assistance. CNMC shall comply with the Emergency Medical Treatment and Labor Act (EMTALA) by providing medical screening examinations and stabilizing treatment and referring or transferring an individual to another facility, when appropriate, and provide emergency services. CNMC prohibits any actions that would discourage individuals from seeking emergency medical care.

This FAP is in compliance with the Patient Protection and Affordable Care Act of 2010.

CNMC Entities Covered by this Policy

The services covered by this FAP include all emergency and other medically necessary care provided by CNMC and its substantially related entities, physicians and medical professionals employed by CNMC and Children's National Medical Associates.

Providers Not Covered by this Policy

The physicians and medical professionals not employed by CNMC or its subsidiaries are not covered by this policy.

## II. **DEFINITIONS**

For the purpose of this FAP, the terms below are defined as follows:

**Amounts Generally Billed (AGB):** Means the amounts generally billed for emergency or other medically necessary care to individuals who have insurance covering such care, determined in accordance with Treasury Regulations §1.501(r)-5(b).

**Emergency Medical Condition:** A medical condition manifesting itself by acute symptoms of sufficient severity (including severe pain, psychiatric disturbances and/or symptoms of substance abuse) such that the absence of immediate medical attention could reasonably be expected to result in placing the health of the individual (or, with respect to a pregnant woman, the health of the woman or her unborn child) in serious jeopardy, serious impairment to bodily functions, or serious dysfunction of any bodily organ or part.

**Family Income:** Family Income is determined using the Census Bureau definition, which uses the following income when computing federal poverty guidelines:

- Includes earnings, unemployment compensation, workers' compensation, Social Security, Supplemental Security Income, public assistance, veterans' payments, survivor benefits, pension or retirement income, interest, dividends, rents, royalties, income from estates, trusts, educational assistance, alimony, child support, assistance from outside the household, and other miscellaneous sources;
- Noncash benefits (such as food stamps and housing subsidies) do not count;
- Determined on a before-tax basis;
- Excludes capital gains or losses; and
- If a person lives with a family, includes the income of all family members (non-relatives, such as housemates, do not count).

**Financial Assistance:** Reduction in the amount of gross charges for patients with demonstrated inability to pay.

**Gross Charges:** CNMC's full, established price for medical care that it consistently and uniformly charges patients before applying any contractual allowances, discounts, or deductions.

**Medically Necessary Care:** Medical, surgical or other services required for the prevention, diagnosis, cure, or treatment of a health related illness, condition or disability including services necessary to prevent a detrimental change in either medical, behavioral, mental, or dental health status.

**Substantially Related Entities:** Companies affiliated or owned by Children's National Medical Center that provide Medically Necessary Care, including Children's National Specialists of Virginia, all hospital facilities, regional outpatient centers, health centers, ambulatory surgery centers, mobile care centers, and offsite emergency rooms, and members of Children's National Medical Associates.

**Uninsured:** The patient has no level of insurance or is not being represented by an attorney, auto insurance, or filed a workmen’s compensation claim to assist with meeting his/her payment obligations.

**Underinsured:** The patient has some level of insurance, but still has out-of-pocket medical expenses that are greater than 30% of their Family Income less housing expenses.

**CNMC Primary Service Area (PSA):**

Cities Washington, DC  
Alexandria City, Virginia

Maryland Counties  
Anne Arundel  
Calvert County  
Charles County  
Frederick County  
Howard County  
Montgomery County  
Prince Georges County  
Washington County

Virginia Counties  
Arlington County  
Fairfax County  
Fauquier County  
Loudon County  
Prince William County  
Stafford County

**III. PROCEDURES**

Eligibility for Financial Assistance

Eligibility for Financial Assistance will be considered for individuals who are uninsured, underinsured, ineligible for any government health care benefit program, or unable to pay for their care, based upon a determination of financial need in accordance with this FAP, and have resided in the PSA for at least 6 months. This policy may cover patients that do not reside in our PSA when the hospital is required to stabilize the medical condition of the patient before discharge.

Financial need will be determined in accordance with procedures that involve verifying income and residency in our PSA. The patient or the patient’s guarantor will be required to cooperate and complete the FAP Application and provide the following:

1. Documentation of gross monthly Family Income. These documents will include pay stubs for the last six (6) weeks worked, or award letters for unemployment, worker’s compensation, or public assistance, alimony, retirement, and/or

disability income. This can include notarized support and unemployment statements. If self-employed, provide an income tax return for the past 2 years.

2. Proof of ineligibility for State/Federal/Local medical assistance programs unless applicant is known not to be eligible for such coverage. (If we are unable to determine your eligibility by your income, you must provide proof of a denial).
3. A valid current form of identification for the patient, parents, or guardian. This can include a passport, alien registration card, work authorization or any picture ID with the name and address printed on it.
4. Proof of address – This can include a copy of your lease, mortgage statement, rent receipt, or a notarized letter from your landlord.
5. If applicable, school verification or report card for patient.

The granting of Financial Assistance shall be based on an individualized determination of financial need, and shall not take into account age, gender, race, creed, disability, social or immigrant status, sexual orientation, or religious affiliation. CNMC shall determine whether or not patients are eligible to receive Financial Assistance for deductibles, co-insurance, or co-payment responsibilities.

CNMC will make reasonable efforts to explore appropriate alternative sources of payment and coverage from public and private payment programs, and to assist patients to apply for such programs. CNMC may make inquiries to obtain reports from third parties such as credit agencies, on certain patients to determine whether they may be presumptively eligible (presumptive eligibility) for Financial Assistance to relieve the financial burden.

CNMC will make Financial Assistance determination within two business days of receiving a completed application, including all required documentation. Financial Assistance will be denied for patient's that submit an incomplete application, or submit documents that cannot be verified. The grant of Financial Assistance by CNMC will expire 6 months from the approval date ("Expiration Date"). At that time, patients will need to re-apply for continued Financial Assistance by contacting the Financial Information Center.

#### Basis for Determining Financial Assistance

Services eligible under this FAP will be made available to the patient in accordance with financial need as determined in reference to Federal Poverty Levels (FPL) in effect at the time of the determination. Once a patient has been determined by CNMC to be eligible for Financial Assistance, that patient shall not be responsible for any future bills until the Expiration Date. The basis for the amounts CNMC will charge patients qualifying for Financial Assistance is as follows:

- a. Patients whose Family Income is at or below 400% of the FPL and who have resided in our PSA for at least 6 months are eligible for full Financial Assistance.<sup>1</sup>

---

<sup>1</sup> This provision is intended to meet the definition of "sliding scale fee" as defined by the DC Health Professional Loan Repayment Regulations (D.C. Code § 7-751.01- §7-751.17, as may be amended from time to time) and applicable Guidelines.

All patients eligible for Financial Assistance are charged less than AGB as all eligible patients do not receive a bill for emergency or Medically Necessary Care.

For patients who qualify for Financial Assistance and who are cooperating in good faith to resolve their hospital bills, CNMC will not send unpaid bills to outside collection agencies, and will cease all collection efforts. CNMC will not impose extraordinary collections actions such as wage garnishments; liens on primary residences, or other legal actions for any patient.

Method for Applying for Financial Assistance

Referral of patients for Financial Assistance may be made by any member of the CNMC staff including but not limited to physicians, nurses, financial counselors, social workers, case managers, chaplains, and religious sponsors. A request for Financial Assistance may be made by the patient or a family member, close friend, or associate of the patient, subject to applicable privacy laws.

Contact the following for information about this FAP or assistance with the FAP application process.

<b>Counselors</b>	<b>Location</b>	<b>Phone</b>
Financial Counselors	Financial Information Center	Based on guarantors name: <ul style="list-style-type: none"><li>• <b>A-K:</b> 202-476-5002</li><li>• <b>L-Z:</b> 202-476-5505</li></ul>
Customer Service	Patient Accounts Phone Calls	301-572-3542 or 1-800-787-0021

Communication of Financial Assistance to Patients and within the Community

Notification about Financial Assistance available from CNMC shall include a contact number and be disseminated through various means, including but not limited to, the publication of notices in patient statements, and by posting notices in emergency rooms, at urgent care centers, admitting and registration departments, hospital business offices, and patient financial services offices that are located on facility campuses, and at other public places as CNMC may select. CNMC will publish and widely publicize a summary of this FAP on facility websites, in brochures which will be available in patient access sites, and at other places within the community served by the hospital as CNMC may select. Such notices and summary information will be provided in the primary languages spoken by the population serviced by CNMC.

Regulatory Requirements

In implementing this FAP, CNMC management and facilities shall comply with all other federal, state, and local laws, rules, and regulations that may apply to activities conducted pursuant to this FAP.

**IV. ACCOUNTABLE EXECUTIVE AND REVIEWER(S)**

- A. Accountable Executive: Vice President of Revenue Cycle
- B. Division Responsible for Review: Finance
- C. Committee Responsible for Review: Leadership Council

**V. APPROVAL**

Approved by:

\_\_\_\_\_  
Leadership Council

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chairman of the Board, CNMC

\_\_\_\_\_  
Date

**VI. APPLICABILITY**

All Children's National employees

**VII. REVIEW OR REVISION DATE**

July 1, 2016

January 1, 2018

**Exhibit 10**  
**Charity Care Provided by Maryland ASFs**

## Ben Tudor

---

**Subject:** RE: Charity Care Policy

**From:** Bill Chan -MDH- <[bill.chan@maryland.gov](mailto:bill.chan@maryland.gov)>

**Date:** December 18, 2017 at 3:43:31 PM EST

**To:** "Braveboy, Aisha" <[ABravebo@childrensnational.org](mailto:ABravebo@childrensnational.org)>

**Subject:** Re: FW: Charity Care Policy

Aisha

As I said, after a quick review, here are the questions that would need to be addressed regarding the charity care policy

- 1) Confirm that this would be the same policy for the proposed ambulatory surgery facility?
- 2) COMAR 10.24.11.05A(2)(1)(i) requests

Determination of Eligibility for Charity Care. Within two business days following a patient's request for charity care services, application for medical assistance or both, the facility shall make a determination of probable eligibility.

CNMC will need to have this language in the Charity Care Policy.

3) Communication of Financial Assistance to patients and within the Community. When responding to this section of our standard, provide examples such as location within ASF where this Charity Care Policy will be seen by public, copies of publications/brochures that include the Charity Care Policy, any local newspapers (i.e., Washington Post, Washington Times, local papers, etc) that shows date of publication or notification annually regarding publication of charity care policy provided to public, and/or links to websites showing location of notification of this policy for public.

4) Should provide historical amounts of charity care provided in Maryland or DC, as percentage of total operating expenses. As a comparison, ASFs in Maryland provided 0.52% of charity care in 2015.

Hope this helps.

Bill

On Mon, Dec 18, 2017 at 10:21 AM, Braveboy, Aisha <[ABravebo@childrensnational.org](mailto:ABravebo@childrensnational.org)> wrote:

Please see attached policy for your review. Please advise if this will satisfy the COMAR requirements.

---

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--

William D. Chan  
Health Policy Analyst  
Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, MD 21215  
(410)764-3374  
[bill.chan@maryland.gov](mailto:bill.chan@maryland.gov)  
<http://mhcc.dhmf.maryland.gov>

Visit our website at: [healthcarequality.mhcc.maryland.gov](http://healthcarequality.mhcc.maryland.gov)  
for consumer link to **Maryland Health Care Quality Reports**

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**Exhibit 11**

**The Joint Commission Accreditation Certificate**

# Children's National Medical Center

Washington, DC

has been Accredited by



## The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the  
Hospital Accreditation Program

July 23, 2016

Accreditation is customarily valid for up to 36 months.

  
Craig W. Jones, FACHE  
Chair, Board of Commissioners

ID #6304  
Print/Reprint Date: 09/21/2016

  
Mark R. Chassin, MD, FACP, MPP, MPH  
President

The Joint Commission is an independent, not-for-profit national body that oversees the safety and quality of health care other services provided in accredited organizations. Information about accredited organizations may be provided direct The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance individual organizations can be obtained through The Joint Commission's web site at [www.jointcommission.org](http://www.jointcommission.org).



**Exhibit 12**

**Maryland Office of Health Care Quality Licenses**



**STATE OF MARYLAND  
DEPARTMENT OF HEALTH AND MENTAL HYGIENE  
OFFICE OF HEALTH CARE QUALITY  
SPRING GROVE CENTER  
BLAND BRYANT BUILDING  
55 WADE AVENUE  
CATONSVILLE, MARYLAND 21228**

License No. A1321

Issued to: **Childrens National Amb Surg Ctr At Montgomery Co**  
9850 Key West Avenue 2nd Floor  
Rockville, MD 20850

Type of Facility or Community Program: **FREESTANDING AMBULATORY SURGICAL  
CENTER**

Date Issued: April 27, 2015

**SPECIALTY: MULTI-SPECIALITY**

Authority to operate in this State is granted to the above entity pursuant to The Health-General Article, Title 19 Annotated Code of Maryland, including all applicable rules and regulations promulgated there under. This document is not transferable.

Expiration Date: April 27, 2018

*Patricia Tomoko May, M.D.*

Director

*Falsification of a license shall subject the perpetrator to criminal prosecution and the imposition of civil fines.*



Maryland Department of Health and Mental Hygiene  
Office of Health Care Quality  
Spring Grove Center • Bland Bryant Building  
55 Wade Avenue • Catonsville, Maryland 21228-4663  
Lawrence J. Hogan, Jr., Governor • Boyd K. Rutherford, Lt. Governor • Van T. Mitchell, Secretary

May 1, 2015

Administrator  
Childrens National Amb Surg Ctr At Montgomery Co  
9850 Key West Avenue 2nd Floor  
Rockville, MD 20850

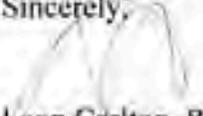
Dear Administrator:

This is to acknowledge receipt of a licensure fee of \$3000.00 and an application to license your facility as a Ambulatory Surgical Center.

The enclosed license will be in effect until April 27, 2018, unless revoked. It is your authority to operate a Ambulatory Surgical Center under the Department of Health and Mental Hygiene regulations, COMAR 10.05.01 and 10.05.05.

This license is to be displayed in a conspicuous place, at or near the entrance, plainly visible and easily read by the public. If question arise, please contact our Office by calling (410) 402-8040.

Sincerely,

  
Leon Carlton, Program Coordinator  
Ambulatory Care Programs  
Office of Health Care Quality

Enclosure: License

**Exhibit 13**  
**Form of Transfer Agreement**

CHILDREN'S AMBULATORY SURGERY CENTER  
OF MONTGOMERY COUNTY

POLICIES & PROCEDURES

**SUBJECT:** Transport to Alternate Care Facilities

**DATE EFFECTIVE:** 01/00

**DEPARTMENT:** Perioperative

**NUMBER:** ASC N33.0

**STATEMENT OF POLICY**

Patients who require medical, nursing or facility care beyond the scope of the Ambulatory Surgery Center will be transferred to a hospital.

**PURPOSE:**

To provide appropriate extended medical and nursing care in the post-anesthesia recovery phase.

**IMPLEMENTATION:**

Transfer of a patient from the facility falls into two categories:

- A. Non-urgent extended care
- B. Emergency

A. Non-urgent extended care

1. Patients in category A, whose medical condition warrants admission to the hospital will be transported by the CNMC transport team. If parent and surgeon prefer another institution arrangements will be made after approval by the Executive Director, Center for Surgical Care.
2. The decision to admit will be made after consultation with the surgeon, anesthesiologist and nursing staff.
3. Transport will be arranged by a telephone call to the ECIC office at CNMC. The attending surgeon or anesthesiologist will give report to the attending Emergency Room physician.
4. Every attempt will be made to arrange to have the patient a "direct admission" to the hospital.
5. The child will be discharged from the Ambulatory Surgery Center.
6. CNMC's transport team will transport the child to the hospital.
7. It is the discretion of the anesthesiologist whether or not to accompany the patient during transport to the hospital.

B. Emergent

1. In an emergency, the patient shall be transported to the nearest emergency room.
2. A 911 - emergency call will be made for transport.
3. A physician must accompany the patient.
4. Medical information (copy of the chart) will be carried to the ER physician.

Approved by:

Beryl Murray, MD, MBA  
Director, Perioperative Services

[Signature]  
Executive Director, Center for Surgical Care

Date Originated: 01/00

Revised 03/01

06/03

10/04

Reviewed by  
1/09

## TRANSFER AGREEMENT

THIS TRANSFER AGREEMENT ("Agreement") is made and entered into by and between Adventist HealthCare, Inc., doing business as Shady Grove Adventist Hospital ("Hospital") and [Children's Hospital Ambulatory Surgery Center] ("Center") and are sometimes individually referred to herein as "facility" and collectively as "facilities."

### RECITALS:

A. The parties hereto desire to enter into this Agreement governing the transfer of patients between the two facilities located in Maryland ("State").

B. The parties hereto desire to enter into this Agreement in order to specify the rights and duties of each of the parties and to specify the procedure for ensuring the timely transfer of patients between the facilities.

NOW, THEREFORE, to facilitate the continuity of care and the timely transfer of patients and records between the facilities, the parties hereto agree as follows:

1. **TRANSFER OF PATIENTS.** In the event any patient of either facility is deemed by that facility ("Transferring Facility") as requiring the services of the other facility ("Receiving Facility") and the transfer is deemed medically appropriate, a member of the nursing staff of the Transferring Facility or the patient's attending physician will contact the admitting office or Emergency Department of the Receiving Facility to arrange for appropriate treatment as contemplated herein. All transfers between the facilities shall be made in accordance with applicable federal and state laws and regulations, the standards of the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO") and any other applicable accrediting bodies, and reasonable policies and procedures of the facilities. Neither the decision to transfer a patient nor the decision to not accept a request to transfer a patient shall be predicated upon arbitrary, capricious, or unreasonable discrimination or based upon the patient's inability to pay for services rendered by either facility. The Receiving Facility's responsibility for the patient's care shall begin when the patient is admitted to the Receiving Facility.

2. **RESPONSIBILITIES OF THE TRANSFERRING FACILITY.** The Transferring Facility shall be responsible for performing or ensuring performance of the following:

1. Provide, within its capabilities, for the medical screening and stabilizing treatment of the patient prior to transfer.
2. Arrange for appropriate and safe transportation and care of the patient during transfer, in accordance with applicable federal and state laws and regulations.

3. Designate a person who has authority to represent the Transferring Facility and coordinate the transfer of the patient from the facility.
4. Notify the Receiving Facility's designated representative prior to transfer to receive confirmation as to availability of appropriate facilities, services, and staff necessary to provide care to the patient.
5. Prior to patient transfer, the transferring physician shall contact and secure a receiving physician at the Receiving Facility who shall attend to the medical needs of the patient and who will accept responsibility for the patient's medical treatment and hospital care.
6. Provide, within its capabilities, appropriate personnel, equipment, and services to assist the transferring physician with the coordination and transfer of the patient.
7. Provide, within its capabilities, personnel, equipment, and life support measures determined appropriate for the transfer of the patient by the transferring physician.
8. Forward to the receiving physician and the Receiving Facility a copy of those portions of the patient's medical record that are available and relevant to the transfer and continued care of the patient, including records related to the patient's condition, observations of signs or symptoms, preliminary diagnosis, treatment provided, results of any tests, and, with respect to a patient with an emergency medical condition that has not been stabilized, a copy of the patient's informed consent to the transfer or physician certification that the medical benefits of the transfer outweigh the risk of transfer. If all necessary and relevant medical records are not available at the time the patient is transferred, then the records will be forwarded by the Transferring Facility as soon as possible.
9. Transfer the patient's personal effects, including, but not limited to, money and valuables, and information related to those items.
10. Provide the Receiving Facility any information that is available concerning the patient's coverage or eligibility under a third party coverage plan, Medicare or Medicaid, or a health care assistance program established by a county, public hospital, or hospital district.
11. Notify the Receiving Facility of the estimated time of arrival of the patient.
12. Provide for the completion of a certification statement, summarizing the risk and benefits of the transfer of a patient with an emergency condition that has not been stabilized, by the transferring physician or other qualified personnel if the physician is not physically present at the facility at the time of transfer.
13. Acknowledge any contractual obligations and comply with any statutory or regulatory obligations that might exist between a patient and a designated provider.

14. Recognize the right of a patient to request to transfer into the care of a physician and hospital of the patient's choosing.

15. Recognize the right of a patient to refuse consent to treatment or transfer.

16. Establish a policy and/or protocols (i) for maintaining the confidentiality of the patient's medical records in accordance with applicable state and federal law and (ii) for the inventory and safekeeping of any patient valuables sent with the patient to the Receiving Facility.

3. **RESPONSIBILITIES OF THE RECEIVING FACILITY.** The Receiving Facility shall be responsible for performing or ensuring performance of the following:

1. Provide, as promptly as possible, confirmation to the Transferring Facility regarding the availability of bed(s), appropriate facilities, services, and staff necessary to treat the patient and confirmation that the Receiving Facility has agreed to accept transfer of the patient.

2. Provide, within its capabilities, appropriate personnel, equipment, and services to assist the receiving physician with the receipt and treatment of the patient transferred, maintain a call roster of physicians at the Receiving Facility and provide, on request, the names of on-call physicians to the Transferring Facility.

3. Reserve beds, facilities, and services as appropriate for patients being transferred from the Transferring Facility who have been accepted by the Receiving Facility and a receiving physician, if deemed necessary by a transferring physician unless such are needed by the Receiving Facility for an emergency.

4. Designate a person who has authority to represent and coordinate the transfer and receipt of patients into the facility.

5. When appropriate and within its capabilities, assist with the transportation of the patient as determined appropriate by the transferring or receiving physician.

6. Maintain the confidentiality of the patient's medical records in accordance with applicable state and federal law.

7. Establish a policy and/or protocols (i) for maintaining the confidentiality of the patient's medical records in accordance with applicable state and federal law, (ii) for the receipt of the patient into the facility, and (iii) for the acknowledgment and inventory of any patient valuables transported with the patient.

8. Upon request, provide current information concerning its eligibility standards and payment practices to the Transferring Facility and patient.

9. Acknowledge any contractual obligations and comply with any statutory or regulatory obligations that might exist between a patient and a designated provider.

4. **BILLING.** All charges incurred with respect to any services performed by either facility for patients received from the other facility pursuant to this Agreement shall be billed and collected by the facility providing such services directly from the patient, third party coverage, Medicare or Medicaid, or other sources normally billed by that facility. In addition, it is understood that professional fees will be billed by the physicians or other professional providers that may participate in the care and treatment of the patient at usual and customary charges. Each facility agrees to provide information in its possession to the other facility and such physicians/providers sufficient to enable them to bill the patient, responsible party, or appropriate third party payor.

5. **RETRANSFER; DISCHARGE.** The Transferring Facility agrees to re-admit the patients at such time as the patient is ready for transfer back to the Transferring Facility or discharge from the Receiving Facility, in accordance with the direction from the Transferring Facility and with the proper notification of the patient's family or guardian, unless the patient is to be transferred to another agreed upon location. If the patient is to be transferred back to the Transferring Facility, the Receiving Facility will be responsible for the care of the patient up until the time the patient is re-admitted to the Transferring Facility.

6. **COMPLIANCE WITH LAW.** Both facilities shall comply with all applicable federal and state laws, rules and regulations, including, without limitation, those laws and regulations governing the maintenance of medical records and confidentiality of patient information as well as with all standards promulgated by any relevant accrediting agency.

7. **RESPONSIBILITY; INSURANCE.** The facilities shall each be responsible for their own acts and omissions in the performance of their duties hereunder, and the acts and omissions of their own employees and agents. In addition, each party shall maintain, throughout the term of this Agreement, comprehensive general and professional liability insurance and property damage insurance coverage in amounts reasonably acceptable to the other party, and shall provide evidence of such coverage upon request.

8. **TERM; TERMINATION.**

1. The initial term of this Agreement ("Initial Term") shall be for a period of one (1) year, commencing September 12, 2005, unless sooner terminated as provided herein. At the end of the Initial Term and each Renewal Term (as hereinafter defined), if any, this Agreement may be renewed for an additional term of one (1) year ("Renewal Term"), but only upon mutual written agreement of the parties.

2. In the event the parties continue to abide by the terms of this Agreement after the expiration of the Initial Term or any Renewal Term, this Agreement shall continue on a month-to-month basis thereafter.

3. Either party may terminate this Agreement without cause upon thirty (30) days written notice to the other party. Either party may terminate this Agreement upon breach by the other party of any material provision of this Agreement, provided such breach continues for five (5) days after receipt by the breaching party of written notice of such breach from the non-breaching party. This Agreement may be terminated immediately upon the occurrence of any of the following events:

2. Either facility closes or discontinues operation to such an extent that patient care cannot be carried out adequately.

3. Either facility loses its license, is convicted of a criminal offense related to health care, or is listed by a federal agency as being debarred, excluded or otherwise ineligible for federal program participation.

9. **ENTIRE AGREEMENT; MODIFICATION.** This Agreement contains the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior agreements, oral or written, and all other communications between the parties relating to such subject matter. This Agreement may not be amended or modified except by mutual written agreement.

10. **GOVERNING LAW.** This Agreement shall be construed in accordance with the laws of the State of Maryland. The provisions of this Paragraph shall survive expiration or other termination of this Agreement regardless of the cause of such termination.

11. **PARTIAL INVALIDITY.** If any provision of this Agreement is prohibited by law or court decree of any jurisdiction, said prohibition shall not invalidate or affect the remaining provisions of this Agreement.

12. **NOTICES.** All notices hereunder by either party to the other shall be in writing, delivered personally, by certified or registered mail, return receipt requested, or by overnight courier, and shall be deemed to have been duly given when delivered personally or when deposited in the United States mail, postage prepaid, addressed as follows:

If to Hospital: Shady Grove Adventist Hospital  
9901 Medical Center Drive  
Rockville, Maryland 20850  
Attn: President

If to Center: *[Children's Hospital Ambulatory Surgery Center]*  
*441 Michigan Avenue, N.W.*  
*Washington, D.C. 20010*  
Attn: Director

or to such other persons or places as either party may from time to time designate by written notice to the other.

13. **WAIVER.** A waiver by either party of a breach or failure to perform hereunder shall not constitute a waiver of any subsequent breach or failure.

14. **ASSIGNMENT; BINDING EFFECT.** Facilities shall not assign or transfer, in whole or in part, this Agreement or any of Facilities' rights, duties or obligations under this Agreement without the prior written consent of the other Facility, and any assignment or transfer by either Facility without such consent shall be null and void. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and permitted assigns.

15. **CHANGES IN LAW.**

1. **Legal Event; Consequences.** Notwithstanding any other provision of this Agreement, if, subsequent to the effective date hereof, the governmental agencies that administer the Medicare, Medicaid, or other federal programs (or their representatives or agents), or any other federal, state or local governmental or nongovernmental agency, or any court or administrative tribunal passes, issues or promulgates any law, rule, regulation, standard, interpretation, order, decision or judgment, including but not limited to those relating to any Safe Harbor regulations pursuant to 42 U.S.C. 1320-7b (anti-kickback statute) or any self-referral regulations pursuant to 42 U.S.C. 1395nn ("Stark II") (collectively or individually, "Legal Event"), which, in the good faith judgment of one party (the "Noticing Party"), materially and adversely affects either party's licensure, accreditation, certification, or ability to refer, to accept any referral, to bill, to claim, to present a bill or claim, or to receive payment or reimbursement from any federal, state or local governmental or non-governmental payor, or which subjects the Noticing Party to a risk of prosecution or civil monetary penalty, or which, in the good faith judgment of the Noticing Party, indicates a Safe Harbor rule or regulation with which the Noticing Party desires further compliance, then the Noticing Party may give the other party notice of intent to amend or terminate this Agreement in accordance with the next Subparagraph.

2. **Notice Requirements.** The Noticing Party shall give notice to the other party together with an opinion of counsel setting forth the following information:

1. The Legal Event(s) giving rise to the notice;
2. The consequences of the Legal Event(s) as to the Noticing Party;
4. The Noticing Party's intention to either:

1. Terminate this Agreement due to unacceptable risk of prosecution or civil monetary penalty; or

2. Amend this Agreement, together with a statement that the purpose thereof is one or more of the following:

- (1) to further comply with any Safe Harbor rules or regulations created or affected by the Legal Event(s); and/or

- (2) to satisfy any licensure, accreditation or certification requirements created or affected by the Legal Event(s); and/or

- (3) to preserve the Noticing Party's ability to refer, accept referrals, or present bills or claims to or from the other party or any other person or entity; and/or

- (4) to eliminate or minimize the risk of prosecution or civil monetary penalty;

5. The Noticing Party's proposed amendment(s); and

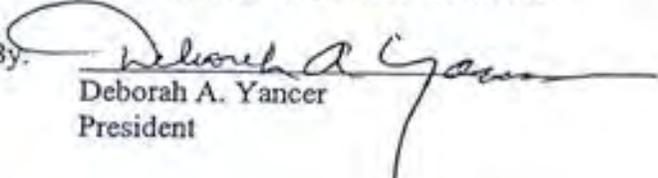
6. The Noticing Party's request for commencement of the Renegotiation Period (as defined below).

3. **Renegotiation Period; Termination.** In the event of notice under either Subparagraph 2.(3)(1) or 2.(3)(2) above, the parties shall have ten (10) days from the giving of such notice ("Renegotiation Period") within which to attempt to amend this Agreement in accordance with the Noticing Party's proposal (if any) or otherwise as the parties may agree. If this Agreement is not so amended within the Renegotiation Period, this Agreement shall terminate as of midnight on the 10th day after said notice was given. Except as otherwise required by applicable law, any amounts owing to either party hereunder shall be paid, on a pro rata basis, up to the date of such termination, and any obligation hereunder that is to continue beyond expiration or termination shall so continue pursuant to its terms. All opinions of counsel presented by the Noticing Party hereunder, and any corresponding opinions given by the other party in response, shall be deemed confidential and given

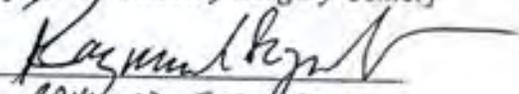
solely for purposes of renegotiation and settlement of a potential dispute, and shall not be deemed disclosed so as to waive any privileges otherwise applicable to said opinions.

THE PARTIES HERETO have executed this Agreement on September 12, 2005

ADVENTIST HEALTHCARE, INC.  
D/B/A SHADY GROVE ADVENTIST HOSPITAL

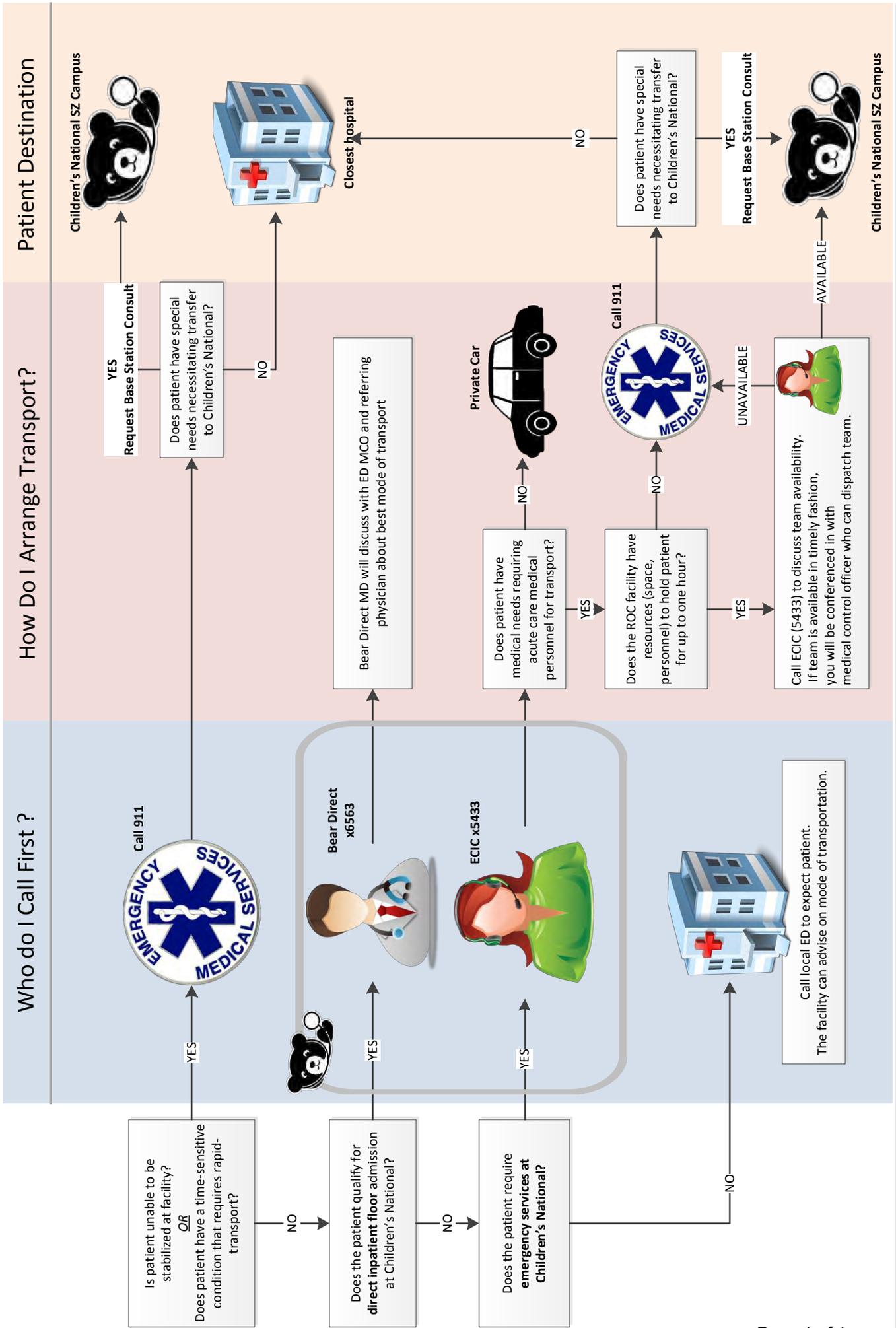
By:   
Deborah A. Yancer  
President

[Children's Hospital Ambulatory Surgery Center]

By:   
Name: RAYMOND SZABOLC  
Title: VP + CLO

**Exhibit 14**  
**Emergency Transfer Protocols**

# Patient Transport from Regional Outpatient Centers (ROCs)



\*Non-EMS Transport Services (such as inter-facility ALS teams) are preferred for most ambulance transports to Children's National to help preserve EMS use for true scene emergencies.  
 \*\*Children's Specialty Care Transport (SCT) services are preferred especially if patient has complex disease, is dependent on specialized monitoring, or has special needs requiring multiple personnel or advanced medications.

**Exhibit 15**  
**Service Area Definition**

Primary Service Area		
County, State	Zip Code	City
Anne Arundel, MD	20701	Annapolis Junction
Anne Arundel, MD	20711	Lothian
Anne Arundel, MD	20724	Laurel
Anne Arundel, MD	20733	Churchton
Anne Arundel, MD	20751	Deale
Anne Arundel, MD	20755	Fort George G Meade
Anne Arundel, MD	20758	Friendship
Anne Arundel, MD	20764	Shady Side
Anne Arundel, MD	20765	Galesville
Anne Arundel, MD	20776	Harwood
Anne Arundel, MD	20778	West River
Anne Arundel, MD	20779	Tracys Landing
Anne Arundel, MD	20820	Lothian
Anne Arundel, MD	20867	Shady Side
Anne Arundel, MD	20869	Friendship
Anne Arundel, MD	20881	West River
Anne Arundel, MD	21012	Arnold
Anne Arundel, MD	21032	Crownsville
Anne Arundel, MD	21035	Davidsonville
Anne Arundel, MD	21037	Edgewater
Anne Arundel, MD	21054	Gambrills
Anne Arundel, MD	21056	Gibson Island
Anne Arundel, MD	21060	Glen Burnie
Anne Arundel, MD	21061	Glen Burnie
Anne Arundel, MD	21062	Glen Burnie
Anne Arundel, MD	21076	Hanover
Anne Arundel, MD	21077	Harmans
Anne Arundel, MD	21090	Linthicum Heights
Anne Arundel, MD	21098	Hanover
Anne Arundel, MD	21106	Mayo
Anne Arundel, MD	21108	Millersville
Anne Arundel, MD	21113	Odenton
Anne Arundel, MD	21114	Crofton
Anne Arundel, MD	21122	Pasadena
Anne Arundel, MD	21123	Pasadena
Anne Arundel, MD	21140	Riva
Anne Arundel, MD	21144	Severn
Anne Arundel, MD	21146	Severna Park
Anne Arundel, MD	21226	Curtis Bay
Anne Arundel, MD	21232	Baltimore
Anne Arundel, MD	21240	Baltimore
Anne Arundel, MD	21260	Baltimore
Anne Arundel, MD	21267	Baltimore
Anne Arundel, MD	21276	Baltimore
Anne Arundel, MD	21299	Baltimore

Primary Service Area		
County, State	Zip Code	City
Anne Arundel, MD	21401	Annapolis
Anne Arundel, MD	21402	Annapolis
Anne Arundel, MD	21403	Annapolis
Anne Arundel, MD	21404	Annapolis
Anne Arundel, MD	21405	Annapolis
Anne Arundel, MD	21406	Annapolis
Anne Arundel, MD	21407	Annapolis
Anne Arundel, MD	21408	Annapolis
Anne Arundel, MD	21409	Annapolis
Anne Arundel, MD	21411	Annapolis
Anne Arundel, MD	21412	Annapolis
Calvert, MD	20610	Barstow
Calvert, MD	20615	Broomes Island
Calvert, MD	20629	Dowell
Calvert, MD	20639	Huntingtown
Calvert, MD	20657	Lusby
Calvert, MD	20676	Port Republic
Calvert, MD	20678	Prince Frederick
Calvert, MD	20685	Saint Leonard
Calvert, MD	20688	Solomons
Calvert, MD	20689	Sunderland
Calvert, MD	20714	North Beach
Calvert, MD	20732	Chesapeake Beach
Calvert, MD	20736	Owings
Calvert, MD	20754	Dunkirk
Calvert, MD	20831	North Beach
Calvert, MD	20836	Owings
Charles, MD	20601	Waldorf
Charles, MD	20602	Waldorf
Charles, MD	20603	Waldorf
Charles, MD	20604	Waldorf
Charles, MD	20611	Bel Alton
Charles, MD	20612	Benedict
Charles, MD	20616	Bryans Road
Charles, MD	20617	Bryantown
Charles, MD	20622	Charlotte Hall
Charles, MD	20625	Cobb Island
Charles, MD	20632	Faulkner
Charles, MD	20637	Hughesville
Charles, MD	20640	Indian Head
Charles, MD	20643	Ironsides
Charles, MD	20645	Issue
Charles, MD	20646	La Plata
Charles, MD	20658	Marbury
Charles, MD	20661	Mount Victoria

Primary Service Area		
County, State	Zip Code	City
Charles, MD	20662	Nanjemoy
Charles, MD	20664	Newburg
Charles, MD	20675	Pomfret
Charles, MD	20677	Port Tobacco
Charles, MD	20681	Marbury
Charles, MD	20682	Rock Point
Charles, MD	20693	Welcome
Charles, MD	20695	White Plains
Prince George's, MD	20028	District Heights
Prince George's, MD	20331	Andrews Air Force Base
Prince George's, MD	20335	Andrews Air Force Base
Prince George's, MD	20396	Suitland
Prince George's, MD	20397	Suitland
Prince George's, MD	20588	Cheltenham
Prince George's, MD	20607	Accokeek
Prince George's, MD	20608	Aquasco
Prince George's, MD	20613	Brandywine
Prince George's, MD	20623	Cheltenham
Prince George's, MD	20694	Aquasco
Prince George's, MD	20697	Southern MD Facility
Prince George's, MD	20703	Lanham
Prince George's, MD	20704	Beltsville
Prince George's, MD	20705	Beltsville
Prince George's, MD	20706	Lanham
Prince George's, MD	20707	Laurel
Prince George's, MD	20708	Laurel
Prince George's, MD	20709	Laurel
Prince George's, MD	20710	Bladensburg
Prince George's, MD	20712	Mount Rainier
Prince George's, MD	20715	Bowie
Prince George's, MD	20716	Bowie
Prince George's, MD	20717	Bowie
Prince George's, MD	20718	Bowie
Prince George's, MD	20719	Bowie
Prince George's, MD	20720	Bowie
Prince George's, MD	20721	Bowie
Prince George's, MD	20722	Brentwood
Prince George's, MD	20725	Laurel
Prince George's, MD	20726	Laurel
Prince George's, MD	20731	Capitol Heights
Prince George's, MD	20735	Clinton
Prince George's, MD	20737	Riverdale
Prince George's, MD	20738	Riverdale
Prince George's, MD	20740	College Park
Prince George's, MD	20741	College Park

Primary Service Area		
County, State	Zip Code	City
Prince George's, MD	20742	College Park
Prince George's, MD	20743	Capitol Heights
Prince George's, MD	20744	Fort Washington
Prince George's, MD	20745	Oxon Hill
Prince George's, MD	20746	Suitland
Prince George's, MD	20747	District Heights
Prince George's, MD	20748	Temple Hills
Prince George's, MD	20749	Fort Washington
Prince George's, MD	20750	Oxon Hill
Prince George's, MD	20752	Suitland
Prince George's, MD	20753	District Heights
Prince George's, MD	20757	Temple Hills
Prince George's, MD	20762	Andrews Air Force Base
Prince George's, MD	20768	Greenbelt
Prince George's, MD	20769	Glenn Dale
Prince George's, MD	20770	Greenbelt
Prince George's, MD	20771	Greenbelt
Prince George's, MD	20772	Upper Marlboro
Prince George's, MD	20773	Upper Marlboro
Prince George's, MD	20774	Upper Marlboro
Prince George's, MD	20775	Upper Marlboro
Prince George's, MD	20780	Hyattsville
Prince George's, MD	20781	Hyattsville
Prince George's, MD	20782	Hyattsville
Prince George's, MD	20783	Hyattsville
Prince George's, MD	20784	Hyattsville
Prince George's, MD	20785	Hyattsville
Prince George's, MD	20786	Hyattsville
Prince George's, MD	20787	Hyattsville
Prince George's, MD	20788	Hyattsville
Prince George's, MD	20789	Hyattsville
Prince George's, MD	20790	Capitol Heights
Prince George's, MD	20791	Capitol Heights
Prince George's, MD	20792	Upper Marlboro
Prince George's, MD	20797	Southern MD Facility
Prince George's, MD	20799	Capitol Heights
Prince George's, MD	20801	Lanham
Prince George's, MD	20822	Mount Rainier
Prince George's, MD	20840	Riverdale
Prince George's, MD	20870	Upper Marlboro
St. Mary's, MD	20606	Abell
St. Mary's, MD	20609	Avenue
St. Mary's, MD	20618	Bushwood
St. Mary's, MD	20619	California
St. Mary's, MD	20620	Callaway

Primary Service Area		
County, State	Zip Code	City
St. Mary's, MD	20621	Chaptico
St. Mary's, MD	20624	Clements
St. Mary's, MD	20626	Coltons Point
St. Mary's, MD	20627	Compton
St. Mary's, MD	20628	Dameron
St. Mary's, MD	20630	Drayden
St. Mary's, MD	20634	Great Mills
St. Mary's, MD	20635	Helen
St. Mary's, MD	20636	Hollywood
St. Mary's, MD	20650	Leonardtown
St. Mary's, MD	20653	Lexington Park
St. Mary's, MD	20656	Loveville
St. Mary's, MD	20659	Mechanicsville
St. Mary's, MD	20660	Morganza
St. Mary's, MD	20667	Park Hall
St. Mary's, MD	20670	Patuxent River
St. Mary's, MD	20674	Piney Point
St. Mary's, MD	20680	Ridge
St. Mary's, MD	20683	Piney Point
St. Mary's, MD	20684	Saint Inigoes
St. Mary's, MD	20686	Saint Marys City
St. Mary's, MD	20687	Scotland
St. Mary's, MD	20690	Tall Timbers
St. Mary's, MD	20692	Valley Lee

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20001	Washington
District of Columbia, DC	20002	Washington
District of Columbia, DC	20003	Washington
District of Columbia, DC	20004	Washington
District of Columbia, DC	20005	Washington
District of Columbia, DC	20006	Washington
District of Columbia, DC	20007	Washington
District of Columbia, DC	20008	Washington
District of Columbia, DC	20009	Washington
District of Columbia, DC	20010	Washington
District of Columbia, DC	20011	Washington
District of Columbia, DC	20012	Washington
District of Columbia, DC	20013	Washington
District of Columbia, DC	20014	Washington
District of Columbia, DC	20015	Washington
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District of Columbia, DC	20023	Washington
District of Columbia, DC	20024	Washington
District of Columbia, DC	20026	Washington
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District of Columbia, DC	20039	Washington
District of Columbia, DC	20040	Washington
District of Columbia, DC	20041	Washington
District of Columbia, DC	20042	Washington
District of Columbia, DC	20043	Washington
District of Columbia, DC	20044	Washington
District of Columbia, DC	20045	Washington
District of Columbia, DC	20046	Washington
District of Columbia, DC	20047	Washington

<b>Secondary Service Area</b>		
<b>County, State</b>	<b>Zip Code</b>	<b>City</b>
District of Columbia, DC	20048	Washington
District of Columbia, DC	20049	Washington
District of Columbia, DC	20050	Washington
District of Columbia, DC	20051	Washington
District of Columbia, DC	20052	Washington
District of Columbia, DC	20053	Washington
District of Columbia, DC	20055	Washington
District of Columbia, DC	20056	Washington
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District of Columbia, DC	20097	Washington
District of Columbia, DC	20098	Washington
District of Columbia, DC	20099	Washington
District of Columbia, DC	20201	Washington
District of Columbia, DC	20202	Washington
District of Columbia, DC	20203	Washington
District of Columbia, DC	20204	Washington
District of Columbia, DC	20205	Washington
District of Columbia, DC	20206	Washington

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20207	Washington
District of Columbia, DC	20208	Washington
District of Columbia, DC	20209	Washington
District of Columbia, DC	20210	Washington
District of Columbia, DC	20211	Washington
District of Columbia, DC	20212	Washington
District of Columbia, DC	20213	Washington
District of Columbia, DC	20214	Washington
District of Columbia, DC	20215	Washington
District of Columbia, DC	20216	Washington
District of Columbia, DC	20217	Washington
District of Columbia, DC	20218	Washington
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District of Columbia, DC	20224	Washington
District of Columbia, DC	20225	Washington
District of Columbia, DC	20226	Washington
District of Columbia, DC	20227	Washington
District of Columbia, DC	20228	Washington
District of Columbia, DC	20229	Washington
District of Columbia, DC	20230	Washington
District of Columbia, DC	20232	Washington
District of Columbia, DC	20233	Washington
District of Columbia, DC	20234	Washington
District of Columbia, DC	20235	Washington
District of Columbia, DC	20237	Washington
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District of Columbia, DC	20242	Washington
District of Columbia, DC	20243	Washington
District of Columbia, DC	20244	Washington
District of Columbia, DC	20245	Washington
District of Columbia, DC	20250	Washington
District of Columbia, DC	20251	Washington
District of Columbia, DC	20252	Washington
District of Columbia, DC	20254	Washington
District of Columbia, DC	20260	Washington
District of Columbia, DC	20261	Washington
District of Columbia, DC	20262	Washington
District of Columbia, DC	20265	Washington

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20266	Washington
District of Columbia, DC	20268	Washington
District of Columbia, DC	20269	Washington
District of Columbia, DC	20270	Washington
District of Columbia, DC	20276	Washington
District of Columbia, DC	20277	Washington
District of Columbia, DC	20289	Washington
District of Columbia, DC	20292	Washington
District of Columbia, DC	20299	Washington
District of Columbia, DC	20301	Washington
District of Columbia, DC	20303	Washington
District of Columbia, DC	20305	Washington
District of Columbia, DC	20306	Washington
District of Columbia, DC	20307	Washington
District of Columbia, DC	20310	Washington
District of Columbia, DC	20314	Washington
District of Columbia, DC	20315	Washington
District of Columbia, DC	20317	Washington
District of Columbia, DC	20318	Washington
District of Columbia, DC	20319	Washington
District of Columbia, DC	20324	Washington
District of Columbia, DC	20325	Washington
District of Columbia, DC	20330	Washington
District of Columbia, DC	20333	Washington
District of Columbia, DC	20340	Washington
District of Columbia, DC	20350	Washington
District of Columbia, DC	20355	Washington
District of Columbia, DC	20360	Washington
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District of Columbia, DC	20362	Washington
District of Columbia, DC	20363	Washington
District of Columbia, DC	20370	Washington
District of Columbia, DC	20371	Washington
District of Columbia, DC	20372	Washington
District of Columbia, DC	20373	Anacostia Annex
District of Columbia, DC	20374	Washington Navy Yard
District of Columbia, DC	20375	Washington
District of Columbia, DC	20376	Washington Navy Yard
District of Columbia, DC	20380	Washington
District of Columbia, DC	20388	Washington Navy Yard
District of Columbia, DC	20389	Washington Navy Yard
District of Columbia, DC	20390	Washington
District of Columbia, DC	20391	Washington Navy Yard
District of Columbia, DC	20392	Washington
District of Columbia, DC	20393	Washington

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20394	Washington
District of Columbia, DC	20395	Washington
District of Columbia, DC	20398	Washington Navy Yard
District of Columbia, DC	20401	Washington
District of Columbia, DC	20402	Washington
District of Columbia, DC	20403	Washington
District of Columbia, DC	20404	Washington
District of Columbia, DC	20405	Washington
District of Columbia, DC	20406	Washington
District of Columbia, DC	20407	Washington
District of Columbia, DC	20408	Washington
District of Columbia, DC	20409	Washington
District of Columbia, DC	20410	Washington
District of Columbia, DC	20411	Washington
District of Columbia, DC	20412	Washington
District of Columbia, DC	20413	Washington
District of Columbia, DC	20414	Washington
District of Columbia, DC	20415	Washington
District of Columbia, DC	20416	Washington
District of Columbia, DC	20417	Washington
District of Columbia, DC	20418	Washington
District of Columbia, DC	20419	Washington
District of Columbia, DC	20420	Washington
District of Columbia, DC	20421	Washington
District of Columbia, DC	20422	Washington
District of Columbia, DC	20423	Washington
District of Columbia, DC	20424	Washington
District of Columbia, DC	20425	Washington
District of Columbia, DC	20426	Washington
District of Columbia, DC	20427	Washington
District of Columbia, DC	20428	Washington
District of Columbia, DC	20429	Washington
District of Columbia, DC	20430	Washington
District of Columbia, DC	20431	Washington
District of Columbia, DC	20432	Washington
District of Columbia, DC	20433	Washington
District of Columbia, DC	20434	Washington
District of Columbia, DC	20435	Washington
District of Columbia, DC	20436	Washington
District of Columbia, DC	20437	Washington
District of Columbia, DC	20438	Washington
District of Columbia, DC	20439	Washington
District of Columbia, DC	20440	Washington
District of Columbia, DC	20441	Washington
District of Columbia, DC	20442	Washington

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20443	Washington
District of Columbia, DC	20444	Washington
District of Columbia, DC	20445	Washington
District of Columbia, DC	20446	Washington
District of Columbia, DC	20447	Washington
District of Columbia, DC	20448	Washington
District of Columbia, DC	20449	Washington
District of Columbia, DC	20450	Washington
District of Columbia, DC	20451	Washington
District of Columbia, DC	20452	Washington
District of Columbia, DC	20453	Washington
District of Columbia, DC	20454	Washington
District of Columbia, DC	20456	Washington
District of Columbia, DC	20460	Washington
District of Columbia, DC	20461	Washington
District of Columbia, DC	20462	Washington
District of Columbia, DC	20463	Washington
District of Columbia, DC	20468	Washington
District of Columbia, DC	20469	Washington
District of Columbia, DC	20470	Washington
District of Columbia, DC	20472	Washington
District of Columbia, DC	20500	Washington
District of Columbia, DC	20501	Washington
District of Columbia, DC	20502	Washington
District of Columbia, DC	20503	Washington
District of Columbia, DC	20504	Washington
District of Columbia, DC	20505	Washington
District of Columbia, DC	20506	Washington
District of Columbia, DC	20507	Washington
District of Columbia, DC	20508	Washington
District of Columbia, DC	20509	Washington
District of Columbia, DC	20510	Washington
District of Columbia, DC	20511	Washington
District of Columbia, DC	20515	Washington
District of Columbia, DC	20520	Washington
District of Columbia, DC	20521	Washington
District of Columbia, DC	20522	Washington
District of Columbia, DC	20523	Washington
District of Columbia, DC	20524	Washington
District of Columbia, DC	20525	Washington
District of Columbia, DC	20526	Washington
District of Columbia, DC	20527	Washington
District of Columbia, DC	20528	Washington
District of Columbia, DC	20529	Washington
District of Columbia, DC	20530	Washington

Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20531	Washington
District of Columbia, DC	20532	Washington
District of Columbia, DC	20533	Washington
District of Columbia, DC	20534	Washington
District of Columbia, DC	20535	Washington
District of Columbia, DC	20536	Washington
District of Columbia, DC	20537	Washington
District of Columbia, DC	20538	Washington
District of Columbia, DC	20539	Washington
District of Columbia, DC	20540	Washington
District of Columbia, DC	20541	Washington
District of Columbia, DC	20542	Washington
District of Columbia, DC	20543	Washington
District of Columbia, DC	20544	Washington
District of Columbia, DC	20545	Washington
District of Columbia, DC	20546	Washington
District of Columbia, DC	20547	Washington
District of Columbia, DC	20548	Washington
District of Columbia, DC	20549	Washington
District of Columbia, DC	20550	Washington
District of Columbia, DC	20551	Washington
District of Columbia, DC	20552	Washington
District of Columbia, DC	20553	Washington
District of Columbia, DC	20554	Washington
District of Columbia, DC	20555	Washington
District of Columbia, DC	20557	Washington
District of Columbia, DC	20558	Washington
District of Columbia, DC	20559	Washington
District of Columbia, DC	20560	Washington
District of Columbia, DC	20565	Washington
District of Columbia, DC	20566	Washington
District of Columbia, DC	20570	Washington
District of Columbia, DC	20571	Washington
District of Columbia, DC	20572	Washington
District of Columbia, DC	20573	Washington
District of Columbia, DC	20575	Washington
District of Columbia, DC	20576	Washington
District of Columbia, DC	20577	Washington
District of Columbia, DC	20578	Washington
District of Columbia, DC	20579	Washington
District of Columbia, DC	20580	Washington
District of Columbia, DC	20581	Washington
District of Columbia, DC	20582	Washington
District of Columbia, DC	20585	Washington
District of Columbia, DC	20586	Washington

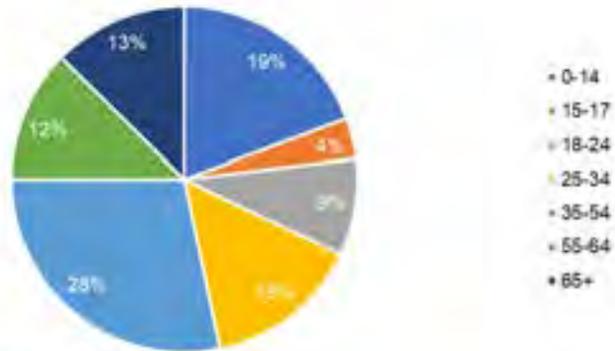
Secondary Service Area		
County, State	Zip Code	City
District of Columbia, DC	20590	Washington
District of Columbia, DC	20591	Washington
District of Columbia, DC	20593	Washington
District of Columbia, DC	20594	Washington
District of Columbia, DC	20595	Washington
District of Columbia, DC	20597	Washington
District of Columbia, DC	20599	Washington
District of Columbia, DC	56901	Washington
District of Columbia, DC	56902	Washington
District of Columbia, DC	56904	Washington
District of Columbia, DC	56915	Washington
District of Columbia, DC	56920	Washington
District of Columbia, DC	56933	Washington
District of Columbia, DC	56944	Washington
District of Columbia, DC	56972	Washington
Howard, MD	20723	Laurel
Howard, MD	20729	Glenelg
Howard, MD	20759	Fulton
Howard, MD	20763	Savage
Howard, MD	20777	Highland
Howard, MD	20794	Jessup
Howard, MD	20863	Savage
Howard, MD	21029	Clarksville
Howard, MD	21033	Ellicott City
Howard, MD	21036	Dayton
Howard, MD	21041	Ellicott City
Howard, MD	21042	Ellicott City
Howard, MD	21043	Ellicott City
Howard, MD	21044	Columbia
Howard, MD	21045	Columbia
Howard, MD	21046	Columbia
Howard, MD	21075	Elkridge
Howard, MD	21150	Simpsonville
Howard, MD	21723	Cooksville
Howard, MD	21737	Glenelg
Howard, MD	21738	Glenwood
Howard, MD	21765	Lisbon
Howard, MD	21794	West Friendship
Howard, MD	21797	Woodbine
Montgomery, MD	20702	Sandy Spring
Montgomery, MD	20727	Sandy Spring
Montgomery, MD	20730	Spencerville
Montgomery, MD	20734	Clarksburg
Montgomery, MD	20760	Gaithersburg
Montgomery, MD	20766	Kensington

Secondary Service Area		
County, State	Zip Code	City
Montgomery, MD	20767	Germantown
Montgomery, MD	20795	Kensington
Montgomery, MD	20810	Bethesda
Montgomery, MD	20811	Bethesda
Montgomery, MD	20812	Glen Echo
Montgomery, MD	20813	Bethesda
Montgomery, MD	20814	Bethesda
Montgomery, MD	20815	Chevy Chase
Montgomery, MD	20816	Bethesda
Montgomery, MD	20817	Bethesda
Montgomery, MD	20818	Cabin John
Montgomery, MD	20824	Bethesda
Montgomery, MD	20825	Chevy Chase
Montgomery, MD	20827	Bethesda
Montgomery, MD	20830	Olney
Montgomery, MD	20832	Olney
Montgomery, MD	20833	Brookeville
Montgomery, MD	20837	Poolesville
Montgomery, MD	20838	Barnesville
Montgomery, MD	20839	Beallsville
Montgomery, MD	20841	Boyds
Montgomery, MD	20842	Dickerson
Montgomery, MD	20847	Rockville
Montgomery, MD	20848	Rockville
Montgomery, MD	20849	Rockville
Montgomery, MD	20850	Rockville
Montgomery, MD	20851	Rockville
Montgomery, MD	20852	Rockville
Montgomery, MD	20853	Rockville
Montgomery, MD	20854	Potomac
Montgomery, MD	20855	Derwood
Montgomery, MD	20856	Rockville
Montgomery, MD	20857	Rockville
Montgomery, MD	20858	Potomac
Montgomery, MD	20859	Potomac
Montgomery, MD	20860	Sandy Spring
Montgomery, MD	20861	Ashton
Montgomery, MD	20862	Brinklow
Montgomery, MD	20866	Burtonsville
Montgomery, MD	20868	Spencerville
Montgomery, MD	20871	Clarksburg
Montgomery, MD	20872	Damascus
Montgomery, MD	20874	Germantown
Montgomery, MD	20875	Germantown
Montgomery, MD	20876	Germantown

Secondary Service Area		
County, State	Zip Code	City
Montgomery, MD	20877	Gaithersburg
Montgomery, MD	20878	Gaithersburg
Montgomery, MD	20879	Gaithersburg
Montgomery, MD	20880	Washington Grove
Montgomery, MD	20882	Gaithersburg
Montgomery, MD	20883	Gaithersburg
Montgomery, MD	20884	Gaithersburg
Montgomery, MD	20885	Gaithersburg
Montgomery, MD	20886	Montgomery Village
Montgomery, MD	20889	Bethesda
Montgomery, MD	20890	Gaithersburg
Montgomery, MD	20891	Kensington
Montgomery, MD	20892	Bethesda
Montgomery, MD	20894	Bethesda
Montgomery, MD	20895	Kensington
Montgomery, MD	20896	Garrett Park
Montgomery, MD	20897	Suburb Maryland Fac
Montgomery, MD	20898	Gaithersburg
Montgomery, MD	20899	Gaithersburg
Montgomery, MD	20900	Silver Spring
Montgomery, MD	20901	Silver Spring
Montgomery, MD	20902	Silver Spring
Montgomery, MD	20903	Silver Spring
Montgomery, MD	20904	Silver Spring
Montgomery, MD	20905	Silver Spring
Montgomery, MD	20906	Silver Spring
Montgomery, MD	20907	Silver Spring
Montgomery, MD	20908	Silver Spring
Montgomery, MD	20910	Silver Spring
Montgomery, MD	20911	Silver Spring
Montgomery, MD	20912	Takoma Park
Montgomery, MD	20913	Takoma Park
Montgomery, MD	20914	Silver Spring
Montgomery, MD	20915	Silver Spring
Montgomery, MD	20916	Silver Spring
Montgomery, MD	20918	Silver Spring
Montgomery, MD	20990	Silver Spring
Montgomery, MD	20993	Silver Spring
Montgomery, MD	20997	Silver Spring

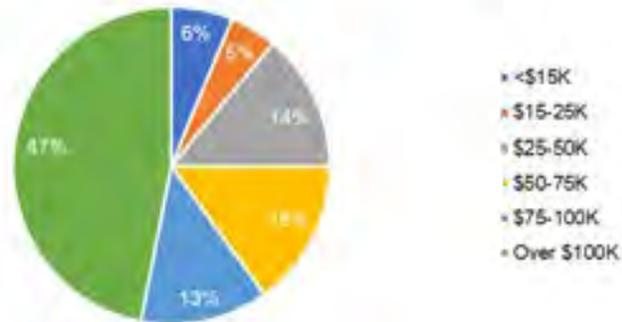
**Exhibit 16**  
**Service Area Demographic Summary**

### Service Area Age Distribution



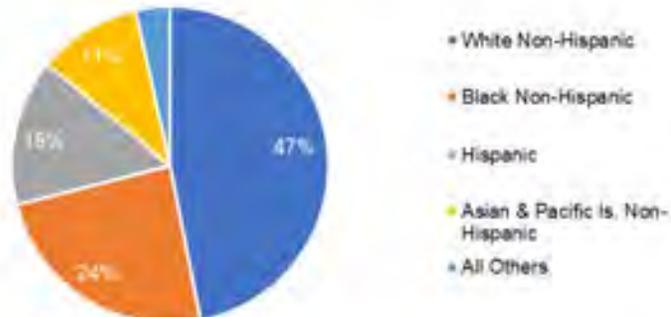
Source: Truven Health Analytics, Inc. 2017.

### Service Area Income Distribution



Source: Truven Health Analytics, Inc. 2017.

### Service Area Race/Ethnicity Distribution



Source: Truven Health Analytics, Inc. 2017.

**Exhibit 17**  
**Certification of FGI Compliance**

12/18/2017

Ben Tudor  
Veralon  
1628 John F. Kennedy Blvd  
Suite 500  
Philadelphia, PA 19103

RE Name Children's National @ Prince George's County  
Regional Outpatient Center  
Ambulatory Surgery Center – 3<sup>rd</sup> Floor  
Location 2900 North Campus Way  
Lanham, MD 20706

Perkins Eastman  
Architects DPC  
115 Fifth Avenue  
New York, NY 10003  
+1.212.353.7200

[PERKINSEASTMAN.COM](http://PERKINSEASTMAN.COM)

Dear Mr. Tudor:

This is to certify that to the best of my knowledge, information and belief, the above-named facility has been designed in substantial compliance with the provisions of the 2014 FGI Guidelines for the Design and Construction of Hospitals and Outpatient Facilities, Chapter 3.7 Specific Requirements for Outpatient Surgical Facilities.

Sincerely,



Jeffrey Brand  
Architect

cc: File

Boston  
Charlotte  
Chicago  
Dallas  
Dubai  
Guayaquil  
Los Angeles  
Mumbai  
New York  
Pittsburgh  
San Francisco  
Shanghai  
Stamford  
Toronto  
Washington DC

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[Eastman CON - Architect Letter.docx](#)

**Exhibit 18**

**Marshall & Swift Valuation Service Benchmark Report**

## CoreLogic - SwiftEstimator Commercial Estimator - Summary Report

### General Information

<b>Estimate ID:</b>	CN PG ROC ASC	<b>Date Created:</b>	12-15-2017
<b>Property Owner:</b>		<b>Date Updated:</b>	
<b>Property Address:</b>	2900 North Campus Way Glenarden, MD 20706	<b>Date Calculated:</b>	12-15-2017
<b>Local Multiplier:</b>		<b>Cost Data As Of:</b>	12-2017
<b>Architects Fee:</b>		<b>Report Date:</b>	using default

### Section 1

<b>Area</b>	10700	<b>Overall Depreciation %</b>	
<b>Stories in Section</b>	1	<b>Physical Depreciation %</b>	
<b>Stories in Building</b>	3	<b>Functional Depreciation %</b>	
<b>Shape</b>	manual perimeter	<b>External Depreciation %</b>	
<b>Perimeter</b>	492		
<b>Effective Age</b>			

### Occupancy Details

Occupancy	%	Class	Height	Quality
431 Outpatient Surgical Center	100	A	16.6	3.0
<b>Occupancy Total Percentage</b>	<b>100</b>			

#### System : HVAC (Heating)

	%/Units	Quality	Depr %	Other
617 HVAC (Heating) : Complete HVAC	100	Occ.		
<b>Total Percent for HVAC (Heating):</b>	<b>100</b>			

#### System : Sprinklers

	%/Units	Quality	Depr %	Other
683 Sprinklers : Wet Sprinklers	100	Occ.		
<b>Total Percent for Sprinklers:</b>	<b>100</b>			

### Remark / Note Details

<b>Remark Date :</b>	12-15-2017	<b>Reference Date :</b>	12-15-2017
<b>Note:</b>			

### Calculation Information (All Sections)

	Units	Unit Cost	Total Cost New	Less Depreciation	Total Cost Depreciated
<b>Basic Structure</b>					
Base Cost	10,700	\$351.69	\$3,763,083		\$3,763,083
Exterior Walls	10,700	\$38.66	\$413,662		\$413,662
Heating & Cooling	10,700	\$46.72	\$499,904		\$499,904
Sprinklers	10,700	\$4.50	\$48,150		\$48,150
<b>Basic Structure Cost</b>	<b>10,700</b>	<b>\$441.57</b>	<b>\$4,724,799</b>	<b>\$0</b>	<b>\$4,724,799</b>

Cost data by CoreLogic, Inc.

**Exhibit 19**  
**Hospital CON Application, Table L**

**TABLE L. WORKFORCE INFORMATION**

**INSTRUCTION:** List the facility's existing staffing and changes required by this project. Include all major job categories under each heading provided in the table. The number of Full Time Equivalents (FTEs) should be calculated on the basis of 2,080 paid hours per year equals one FTE. In an attachment to the application, explain any factor used in converting paid hours to worked hours. Please ensure that the projections in this table are consistent with expenses provided in uninflated projections in Tables F and G.

Job Category	CURRENT ENTIRE FACILITY			PROJECTED CHANGES AS A RESULT OF THE PROPOSED PROJECT THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS)			OTHER EXPECTED CHANGES IN OPERATIONS THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS)			PROJECTED ENTIRE FACILITY THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS) *	
	Current Year FTEs	Average Salary per FTE	Current Year Total Cost	FTEs	Average Salary per FTE	Total Cost (should be consistent with projections in Table G, if submitted)	FTEs	Average Salary per FTE	Total Cost	FTEs	Total Cost (should be consistent with projections in Table G)
<b>1. Regular Employees</b>											
Administration (List general categories, add rows if needed)											
Nurse Manager				1.0	\$107,087	\$107,087				1.0	\$107,087
Nurse Lead				1.0	\$100,531	\$100,531				1.0	\$100,531
<b>Total Administration</b>				<b>2.0</b>	<b>\$207,618</b>	<b>\$207,618</b>				<b>2.0</b>	<b>\$207,618</b>
Direct Care Staff (List general categories, add rows if needed)											
Physicians/Surgeon				0.8	\$382,454	\$286,841				0.8	\$286,841
Physicians/Surgeon				0.8	\$327,818	\$245,864				0.8	\$245,864
Physicians/Proceduralists				0.7	\$174,836	\$122,385				0.7	\$122,385
Physicians/Surgeon				1.0	\$355,136	\$355,136				1.0	\$355,136
Physicians/Surgeon				0.2	\$272,745	\$54,549				0.2	\$54,549
Physicians/Surgeon				0.3	\$470,485	\$141,145				0.3	\$141,145
Physicians/Surgeon				0.3	\$382,454	\$95,614				0.3	\$95,614
Physicians/Anesthesia				2.5	\$382,454	\$956,136				2.5	\$956,136
Nurses				9.0	\$96,160	\$865,440				9.0	\$865,440
Technicians				2.3	\$76,016	\$174,836				2.3	\$174,836
<b>Total Direct Care</b>				<b>17.8</b>	<b>2,920,559</b>	<b>\$3,297,946</b>				<b>17.8</b>	<b>\$3,297,946</b>
Support Staff (List general categories, add rows if needed)											
Anes tech/Technicians				1.0	\$69,424	\$69,424				1.0	\$69,424
Supply Assistants				1.0	\$52,451	\$52,451				1.0	\$52,451
Sterile Processing Technicians				1.0	\$56,822	\$56,822				1.0	\$56,822
Administrative Assistants				2.0	\$41,524	\$83,047				2.0	\$83,047
Coders				1.0	\$65,564	\$65,564				1.0	\$65,564
Scheduling Coordinators				1.5	\$57,915	\$86,872				1.5	\$86,872
						\$0				0.0	\$0
<b>Total Support</b>				<b>7.5</b>	<b>343,698</b>	<b>\$414,179</b>				<b>7.5</b>	<b>414,179</b>
<b>REGULAR EMPLOYEES TOTAL</b>				<b>27.3</b>	<b>3,471,875.2</b>	<b>3,919,743.0</b>				<b>27.3</b>	<b>3,919,743.0</b>
<b>2. Contractual Employees</b>											
Administration (List general categories, add rows if needed)											
N/A											
<b>Total Administration</b>											
Direct Care Staff (List general categories, add rows if needed)											
N/A											
<b>Total Direct Care Staff</b>											
Support Staff (List general categories, add rows if needed)											
N/A											
<b>Total Support Staff</b>											
<b>CONTRACTUAL EMPLOYEES TOTAL</b>											
Benefits (State method of calculating benefits below):											
<b>TOTAL COST</b>	<b>0.0</b>		<b>\$0</b>	<b>27.3</b>		<b>\$3,919,743</b>	<b>0.0</b>		<b>\$0</b>		<b>\$3,919,743</b>

**Exhibit 20**  
**Audited Financial Statements**

# **Children's National Medical Center and Subsidiaries**

**Combined Financial Statements and  
Supplementary Combining Information  
June 30, 2016 and 2015**

	<b>Page(s)</b>
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<b>Combined Financial Statements</b>	
Combined Balance Sheets.....	2–3
Combined Statements of Operations .....	4
Combined Statements of Changes in Net Assets.....	5
Combined Statements of Cash Flows.....	6
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<b>Supplementary Combining Information</b>	
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Supplementary Combining Information.....	33–35

## Report of Independent Auditors

To the Board of Trustees of  
Children's National Medical Center and Subsidiaries

We have audited the accompanying combined financial statements of Children's National Medical Center and Subsidiaries ("Children's National"), which comprise the combined balance sheets as of June 30, 2016 and 2015, and the related combined statements of operations and changes in net assets and cash flows for the years then ended.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

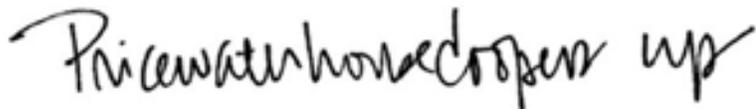
### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Children's National's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's National's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Children's National at June 30, 2016 and 2015, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



October 25, 2016

(in thousands)

	2016	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 128,301	\$ 116,582
Accounts receivable for patient services, net of allowance for uncollectible accounts of \$10,469 and \$8,323 as of June 30, 2016 and 2015, respectively	144,806	155,612
Settlements due from third-party payors	6,508	7,394
Contributions receivable, net	43,591	27,660
Grant receivable	26,783	21,072
Inventories of supplies	9,332	9,092
Prepaid expenses and other	25,772	31,090
Total current assets	<u>385,093</u>	<u>368,502</u>
Noncurrent assets		
Property and equipment, net	<u>507,433</u>	<u>499,958</u>
Assets whose use is limited		
By terms of debt agreements	-	29,949
Professional liability claims	21,860	30,248
	<u>21,860</u>	<u>60,197</u>
Investments	614,143	588,156
Contributions receivable, net	35,813	39,800
Interest in beneficial trusts	7,777	13,937
Other	21,519	23,010
Total other noncurrent assets	<u>701,112</u>	<u>725,100</u>
Total assets	<u>\$ 1,593,638</u>	<u>\$ 1,593,560</u>

(in thousands)

	2016	2015
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 36,129	\$ 36,723
Accrued salaries and other expenses	117,765	111,028
Current portion of reserve for claims	21,936	23,575
Settlements due to third-party payors	843	7,015
Deferred revenue	25,212	22,193
Current portion of long-term debt	9,294	2,526
Current portion of capital lease obligations	1,228	3,055
Total current liabilities	<u>212,407</u>	<u>206,115</u>
Noncurrent liabilities		
Long-term debt	472,292	435,447
Long-term capital lease obligations	5,301	1,689
Reserve for claims	53,387	54,361
Interest rate swaps	39,968	29,468
Other long-term liabilities	36,161	36,965
Total noncurrent liabilities	<u>607,109</u>	<u>557,930</u>
Total liabilities	<u>819,516</u>	<u>764,045</u>
<b>Net assets</b>		
Unrestricted	506,289	550,537
Temporarily restricted	134,685	150,434
Permanently restricted	133,148	128,544
Total net assets	<u>774,122</u>	<u>829,515</u>
Total liabilities and net assets	<u>\$ 1,593,638</u>	<u>\$ 1,593,560</u>

(in thousands)

	2016	2015
<b>Unrestricted revenues, gains, and other support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 981,543	\$ 939,338
Provision for uncollectible accounts	<u>(31,918)</u>	<u>(25,408)</u>
Net patient service revenue less provision for uncollectible accounts	949,625	913,930
Grant revenue	58,216	57,553
Other operating revenue	64,828	61,930
Unrestricted contributions	34,457	26,692
Net assets released from restrictions used for operations	<u>36,608</u>	<u>30,249</u>
Total unrestricted revenues, gains, and other support	<u>1,143,734</u>	<u>1,090,354</u>
<b>Expenses</b>		
Salaries, wages, and benefits	679,263	639,407
Supplies and other	300,002	273,350
Depreciation and amortization	54,125	60,107
Provision for insurance	18,009	9,168
Interest and amortization	17,640	21,130
Development expense	<u>25,239</u>	<u>25,195</u>
Total expenses	<u>1,094,278</u>	<u>1,028,357</u>
Operating income	<u>49,456</u>	<u>61,997</u>
<b>Non-operating revenues and expenses</b>		
Investment income (loss)	(3,572)	11,373
Loss on extinguishment of debt	(74,723)	-
Realized and change in unrealized fair value of interest rate swaps	(15,559)	(7,089)
Other	<u>(152)</u>	<u>(4,057)</u>
Total non-operating revenues and expenses	<u>(94,006)</u>	<u>227</u>
Excess of revenues (under) over expenses	(44,550)	62,224
Unrealized loss on investments	(2,494)	(5,992)
Property contribution	-	371
Released from restriction for property and equipment	<u>2,796</u>	<u>3,541</u>
(Decrease) increase in unrestricted net assets	<u>\$ (44,248)</u>	<u>\$ 60,144</u>

(in thousands)

	2016	2015
<b>Unrestricted net assets</b>		
Excess of revenues (under) over expenses	\$ (44,550)	\$ 62,224
Unrealized loss on investments	(2,494)	(5,992)
Property contribution	-	371
Released from restrictions for property and equipment	2,796	3,541
(Decrease) increase in unrestricted net assets	<u>(44,248)</u>	<u>60,144</u>
<b>Temporarily restricted net assets</b>		
Contributions	21,606	32,853
Investment gain	935	3,719
Released from restrictions	(39,404)	(33,774)
Change in value of split interest agreements	1,114	1,668
(Decrease) increase in temporarily restricted net assets	<u>(15,749)</u>	<u>4,466</u>
<b>Permanently restricted net assets</b>		
Contributions	5,067	3,894
Investment gain	184	113
Change in value of split interest agreements	(647)	(55)
Increase in permanently restricted net assets	<u>4,604</u>	<u>3,952</u>
Change in net assets	(55,393)	68,562
<b>Net assets</b>		
Beginning of year	<u>829,515</u>	<u>760,953</u>
End of year	<u>\$ 774,122</u>	<u>\$ 829,515</u>

(in thousands)

	2016	2015
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (55,393)	\$ 68,562
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	54,125	60,107
Provision for uncollectible accounts	31,918	25,408
Provision for uncollectible contributions	(48)	(3,761)
Gain on sale of assets	(3)	(856)
Amortization of bond discount	-	228
Amortization of deferred financing costs	237	828
Loss on extinguishment of debt	74,723	-
Loss in PSV equity investment	15,892	5,570
Net realized and change in unrealized fair value of investments	1,718	(1,927)
Change in fair market value of interest rate swaps	10,500	1,719
Proceeds from restricted contributions	(8,234)	(7,043)
Change in assets and liabilities		
Accounts receivable for patient services	(21,112)	(15,162)
Settlements due from third-party payors	886	(3,330)
Other current assets and inventory of supplies	5,078	(3,507)
Contributions and grants receivable	(17,607)	(8,729)
Interest in beneficial trusts	6,160	(1,613)
Other noncurrent assets	1,491	939
Accounts payable	(782)	(14,919)
Accrued salaries and other expenses	10,430	2,850
Reserve for claims	(2,613)	(5,940)
Deferred revenue	3,019	11,041
Settlements due to third-party payors	(6,172)	(1,329)
Other noncurrent liabilities	(804)	(523)
Net cash and cash equivalents provided by operating activities	<u>103,409</u>	<u>108,613</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(56,302)	(33,835)
Purchases of investments	(182,876)	(261,487)
Sales of investments	187,733	192,006
Contribution to equity investment	(10,117)	(8,042)
Net cash and cash equivalents used in investing activities	<u>(61,562)</u>	<u>(111,358)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	413,728	475
Payments of long-term debt	(2,831)	(2,871)
Repayments of long-term debt	(438,641)	-
Payments of debt issuance costs	(4,997)	-
Amortization of bond premium	(2,299)	-
Proceeds from restricted contributions	8,234	7,043
Payments on capital lease obligations	(3,322)	(4,583)
Net cash and cash equivalents provided by financing activities	<u>(30,128)</u>	<u>64</u>
Increase (decrease) in cash and cash equivalents	11,719	(2,681)
<b>Cash and cash equivalents</b>		
Beginning of year	116,582	119,263
End of year	<u>\$ 128,301</u>	<u>\$ 116,582</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 21,493	\$ 27,209
Capital lease obligations for new equipment	5,110	97
Property, plant and equipment in accounts payable	3,364	3,176

## 1. Organization

The Children's National Medical Center's ("Children's National" or the "Medical Center") combined financial statements include the accounts of Children's Hospital (the "Hospital"); Children's Hospital Foundation (the "Foundation"); Children's Research Institute ("CRI"); Safe Kids Worldwide (formally known as National Safe Kids Campaign) ("Safe Kids"); Children's Pediatricians and Associates ("CP&A"); Children's National Health Network ("CNHN"); Safe Kids Worldwide, Ltd. ("SKWW, LTD"); Children's National Advocacy and Public Policy, Inc. ("CNAPPI"); and Bearacuda Reinsurance Company, Ltd. (the "Captive"); all referred to as the "Subsidiaries."

Children's National is a tax-exempt, nonstock corporation, which controls its subsidiary corporations through its authority to appoint the governing boards of the tax-exempt, nonstock subsidiaries or its stock ownership. Children's National and its subsidiaries provide health care services to infants, children, and youth in Washington, D.C., and the surrounding metropolitan area. The Hospital operates an acute care pediatric and teaching facility.

The Foundation supports and maintains the programs, services, and facilities of Children's National in part through solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt subsidiaries.

CRI is a research organization involved in providing services and support in connection with the delivery of health care services on behalf of the community.

Safe Kids is an organization involved in nonhospital pediatric health and safety activities.

CP&A is a limited liability corporation that operates for-profit physician practices. CP&A is owned 50% by Children's National and 50% by the Hospital.

CNHN is a for-profit physician hospital organization, of which Children's National is the sole shareholder.

SKWW, LTD is an international organization whose mission is to administer programs aimed at preventing unintentional injury of children. SKWW, LTD was dissolved by resolution in the first quarter of fiscal year 2016.

CNAPPI is an organization involved in addressing the advocacy mission and community benefit activities of Children's National.

The Captive is a wholly owned captive insurance company established to assume general liability and malpractice risk for Children's National entities, effective August 1, 1997.

Children's National, Hospital, Foundation, CRI, Safe Kids, and CNAPPI are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore, not subject to tax under current income tax regulations.

## **2. Risk Factors**

The Medical Center's ability to maintain or increase future revenues could be adversely impacted by: (1) future legislation, regulation, or other actions by federal, state, or District of Columbia agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for hospital services; (2) future legislation or adverse trends affecting the costs related to professional liability coverage; (3) changes in general and local economic conditions including the financial condition of the District of Columbia, the State of Maryland and the State of Virginia; and (4) a potential shortage of qualified doctors and other skilled healthcare professionals in the local employment market.

## **3. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accompanying combined financial statements and supplementary combining information have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### **Principles of Combination**

The combined financial statements include the accounts of Children's National and all its subsidiaries after elimination of all significant intercompany accounts and transactions.

### **Cash and Cash Equivalents**

Cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. Children's National has not experienced such losses on these funds.

### **Investments and Assets Whose Use is Limited**

Children's National classifies investments as available for sale. Investments consist primarily of money market funds, government securities, equity securities (including common trust funds), and mutual funds that are considered other than trading securities and are reported at fair value. Investments that management does not consider necessary for current operations are classified as long-term.

Investments in companies in which Children's National does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method of accounting and operating results are recorded within investment income on the Combined Statements of Operations. Dividends received are recorded as a reduction of the carrying amount of the investment.

Assets whose use is limited include resources restricted under the terms of bond indenture agreements and professional liability arrangements.

### **Investment Income**

Investment income or loss (including interest and dividends, net of investment management fees; realized gains and losses on investments; and any provision for other-than-temporary losses on impairment of investments) is reported as non-operating revenue and is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over expenses, unless the losses are deemed to be other-than-temporary.

The Medical Center periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including, but not limited to: length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future earnings potential, the near-term prospects for recovery of the market value of a security, and the intent and ability of the Medical Center to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary losses are included in non-operating revenues and expenses in the accompanying Combined Statements of Operations. Investments are principally uninsured and subject to normal credit risk.

### **Income Taxes**

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

The Financial Accounting Standards Board's ("FASB") guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. The guidance defines the threshold for recognizing tax return positions in the combined financial statements as "more likely than not" that the position is sustainable, based on technical merits.

The Medical Center evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. There was no impact on the Medical Center's financial statements during the years ended June 30, 2016 and 2015 as the Medical Center has no uncertain tax positions.

### **Accounts Receivable**

Accounts receivable for patient services consist of amounts due directly from patients or patients' third-party payors such as insurance companies, managed care programs, and Medicaid programs for services rendered. Provision for uncollectible accounts in the accompanying Combined Statements of Operations is shown net of recoveries on amounts previously written off. The allowance for uncollectible accounts is estimated based on prior experience and management's judgment and is, therefore, susceptible to change.

### **Inventories of Supplies**

Inventories generally consist of medical and nonmedical supplies, and are stated at the lower of cost or market, using the first-in, first-out method. The total inventory balance was \$9.3 million and \$9.1 million at June 30, 2016 and 2015, respectively.

### **Contributions Receivable**

Unconditional promises to give cash and other assets are reported at fair value as contributions receivable at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts Children's National will ultimately realize could differ from the amounts assumed in arriving at the present value and allowance for doubtful accounts.

The gifts are reported as temporarily and permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the Combined Statements of Operations as net assets released from restrictions used for operations or used for construction and purchase of property and equipment.

### **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Children’s National is evaluating the impact this will have on the combined financial statements beginning in fiscal year 2019.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 was effective for Children’s National for Fiscal Year 2016. The adoption of this standard required restatement of the Combined Balance Sheet as of June 30, 2015. As a result, other noncurrent assets and long-term debt each decreased by \$21.4 million versus the amounts previously reported.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Non-public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. Children’s National adopted this guidance for the fiscal year ended June 30, 2016. The adoption of this guidance did not have a material impact upon Children’s National’s combined financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Children’s National is evaluating the impact this standard will have on the combined financial statements and disclosures beginning in Fiscal Year 2020 and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantor, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. Children's National is evaluating the impact of this standard on the combined financial statements beginning in fiscal year 2019.

### **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation expense on the Medical Center's property and equipment is recorded using the straight-line method, which allocates the cost of the tangible property equally over the estimated useful lives, beginning with the date the asset is placed in service:

Buildings	30 - 40 years
Building improvements	9 - 20 years
Fixed equipment	10 - 15 years
Movable equipment	3 - 20 years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the Combined Statements of Operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any income earned. Repairs and maintenance are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

### **Deferred Financing Costs**

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized using the straight line method, which approximates the effective interest rate method, over the period of time the debt is outstanding. Deferred financing costs are recorded in long-term debt on the Combined Balance Sheets. The amortization expense was approximately \$237.4 thousand and \$828.0 thousand for the years ended June 30, 2016 and 2015, respectively.

### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. Children's National's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment of long-lived assets for the years ended June 30, 2016 and 2015.

### **Interest in Beneficial Trusts**

The Medical Center also receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts, charitable gift annuities and perpetual trusts. In all of these agreements, the Medical Center has an interest in the trust but is not the trustee. When the trust's obligations to all beneficiaries expire, the remaining assets revert to the Medical Center to be used according to the donor's wishes.

**Other Long-Term Liabilities**

The Medical Center entered into a favorable cash deferral contact with Cerner, Inc. ("Cerner") related to expenses associated with the Bear Institute in September 2013. The Bear Institute is a purchased services information technology agreement where Cerner manages IT functionality for operational services and capital equipment acquisitions. As an incentive, the cash flows for the agreement are significantly deferred towards the latter portion of the seven-year agreement. The deferred Cerner amount was \$15.3 million and \$15.2 million as of June 30, 2016 and 2015, respectively and is recorded in other long-term liabilities.

**Grants**

Children's National and its subsidiaries receive various grants from Federal agencies and District of Columbia agencies for the purpose of furthering its mission of providing acute pediatric care, research and education. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Cash received where related costs have not been incurred are shown as deferred grant revenue and is included within deferred revenue on the Combined Balance Sheets.

**Interest Rate Swaps**

The value of the interest rate swap agreement entered into by Children's National is adjusted to fair value monthly at the close of each accounting period based upon quotations from market makers. The change in fair value, if any, is recorded in the Combined Statements of Operations. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Combined Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose, including federal appropriations restricted for capital improvements. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

**Net Patient Service Revenue**

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Hospital physicians are paid principally on a contracted fee schedule. Contractual adjustments to patient service revenue were \$1.3 billion and \$1.2 billion for the years ended June 30, 2016 and 2015, respectively.

(in thousands)

	<b>June 30, 2016</b>		
	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 938,944</u>	<u>\$ 42,599</u>	<u>\$ 981,543</u>

(in thousands)

	<b>June 30, 2015</b>		
	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 906,700</u>	<u>\$ 32,638</u>	<u>\$ 939,338</u>

Approximately 53% of fiscal year 2016 and 2015 gross patient service revenues were from Medicaid and Medicaid managed care programs. Total reimbursements received for Graduate Medical Education (GME) were \$11.3 million in 2016 and \$10.8 million in 2015. Federal GME is subject to appropriation each year.

Inpatient and outpatient services, defined capital and medical education costs related to beneficiaries are paid using a cost reimbursement methodology for Medicare and the Fee-for-Service Medicaid programs. These services are paid prospectively for DC Medicaid and Maryland Medicaid and are not settled. For cost reimbursable items, Children's National is reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports by Children's National and audits thereof by the fiscal intermediary. Children's National cost reports have been audited and settled by the Medicare intermediary through 2013 for all facilities. The Virginia Medicaid cost report is settled annually and is settled through 2015.

### **Charity Care**

The Medical Center, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate the Medical Center for their treatment either through third party coverage or their own resources. Accordingly, the Medical Center extends charity or free care to those patients who do not have the ability to meet their obligations. The Medical Center provides free care or sliding fee scales based on federal poverty income guidelines or when it is determined that the patients are unable to fulfill their obligations to the Medical Center. The Medical Center also provides assistance in helping patients obtain third party coverage through state Medicaid programs. Because the Medical Center does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to \$6.2 million and \$6.9 million for the years ended June 30, 2016 and 2015, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charge is calculated based on Medical Center's total operating expenses divided by gross patient service revenue.

In addition to direct charity care, the Medical Center is committed to improving the health and well-being of children in the Washington, D.C., metropolitan area. Through programs of clinical intervention, community awareness, education and advocacy, the Medical Center strives to address the many challenges facing children and families today. Examples of programs addressing these challenges are the Community Pediatric Health Care Centers, school nursing

services for District of Columbia Public Schools and District of Columbia Public Chartered Schools, Division of Child Protection, Children's Healthy Schools/President's Challenge Program, and services provided to children with AIDS.

**Excess of Revenues (under) over Expenses**

The Combined Statements of Operations include excess of revenues (under) over expenses. Changes in unrestricted net assets which are excluded from excess of revenues (under) over expenses, consistent with industry practice, include, among other items, the change in unrealized gains and losses on investments on other than trading securities and contributions released from restrictions for property and equipment.

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting period. Actual results could differ from these estimates. These significant estimates include, among others, the accounts receivable allowance for doubtful accounts, contractual allowances, estimated third-party payor settlements, investments, and accrued insurance costs.

**Accrued Vacation**

The Medical Center records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior period.

**Estimated Malpractice Costs**

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Medical Claims Reserve**

The Medical Center's medical claims reserve is an estimate of payments to be made for reported claims losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors. The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

**Reclassifications**

Certain amounts from the prior year have been reclassified in order to conform to current year presentation.

**4. Fair Value Measurements**

The Medical Center follows the FASB's guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

The guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date.

The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1      Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2      Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3      Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions. There were no financial instruments requiring Level 3 classification at June 30, 2016 or June 30, 2015.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the financial instruments carried at fair value grouped by hierarchy level (in thousands):

	<b>June 30, 2016</b>		
	<b>Quoted In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Assets</b>			
Investments			
Money market and short-term investments	\$ -	\$ 50,699	\$ 50,699
Fixed income securities	-	251,417	251,417
Equity index funds	330,039	440	330,479
Total investments	330,039	302,556	632,595
Beneficial interests held by 3rd party	-	965	965
Perpetual trusts held by 3rd party	-	6,812	6,812
Total assets at fair value	<u>\$ 330,039</u>	<u>\$ 310,333</u>	<u>\$ 640,372</u>
<b>Liabilities</b>			
Interest rate swaps	\$ -	\$ 39,968	\$ 39,968
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 39,968</u>	<u>\$ 39,968</u>

	<b>June 30, 2015</b>		
	<b>Quoted In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Assets</b>			
Investments			
Money market and short-term investments	\$ -	\$ 47,333	\$ 47,333
Fixed income securities	-	288,790	288,790
Equity index funds	303,001	46	303,047
Total investments	303,001	336,169	639,170
Beneficial interests held by 3rd party	-	6,476	6,476
Perpetual trusts held by 3rd party	-	7,460	7,460
Total assets at fair value	<u>\$ 303,001</u>	<u>\$ 350,105</u>	<u>\$ 653,106</u>
<b>Liabilities</b>			
Interest rate swaps	\$ -	\$ 29,468	\$ 29,468
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 29,468</u>	<u>\$ 29,468</u>

During 2016 and 2015, there were no transfers between Levels 1 and 2.

Following is a description of the Children's National valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that Children's National has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. Children's National does not adjust the quoted price for such assets and liabilities. Level 1 investments include investments in equity index funds valued based on the closing price on the primary market.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 2 investments include money market funds, certificate of deposits, corporate bond funds, US government obligations, and federal agency obligations.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Children's National believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

## 5. Property and Equipment

The components of property and equipment as of June 30 are summarized below:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Land	\$ 1,441	\$ 1,441
Buildings and building improvements	868,854	836,337
Fixed and movable equipment	204,264	186,662
	<u>1,074,559</u>	<u>1,024,440</u>
Less: Accumulated depreciation	<u>(625,083)</u>	<u>(570,979)</u>
	449,476	453,461
Construction in progress	57,957	46,497
Property and equipment, net	<u>\$ 507,433</u>	<u>\$ 499,958</u>

Depreciation expense for the years ended June 30, 2016 and 2015 amounted to \$54.1 million and \$60.1 million, respectively.

The Hospital's facility is on land owned by the Washington Hospital Center. This land is being leased through the year 2070 for a nominal amount. Major construction projects in process include the renovations of the inpatient psychiatry unit, the parking garage, and the west wing elevators.

## 6. Contributions Receivable

Unconditional promises to give as of June 30 were as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Less than one year	\$ 44,030	\$ 28,072
One to five years	28,137	30,219
More than five years	13,360	16,347
	<u>85,527</u>	<u>74,638</u>
Less: Discount	(5,074)	(6,081)
Allowance for uncollectible contributions	<u>(1,049)</u>	<u>(1,097)</u>
Contribution receivable, net	<u>\$ 79,404</u>	<u>\$ 67,460</u>

Contributions receivable greater than one year in time are discounted using a rate of return that a market participant would expect to receive over the period at the date the pledge is received. The discount rate used is commensurate with the risk involved and ranges from 0.875% and 5.75% based on the date the pledge is made.

## 7. Investments and Assets Whose Use is Limited

The composition and fair values of investments and assets whose use is limited, as reported on the accompanying Combined Balance Sheets, at June 30 is as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Limited by terms of debt agreements		
Money market and short term investments	\$ -	\$ 15,103
Fixed income securities	-	14,846
Total assets whose use is limited by terms of debt agreements	<u>\$ -</u>	<u>\$ 29,949</u>
Limited for professional liability claims		
Fixed income securities	\$ 15,071	\$ 21,295
Equity securities	6,789	8,953
Total funded professional liability	<u>\$ 21,860</u>	<u>\$ 30,248</u>
Investments		
Money Market and short term Investments	\$ 50,699	\$ 32,230
Fixed income securities	236,346	252,584
Equity securities (including common trust funds)	323,690	294,159
Equity method investments	3,408	9,183
Total Investments	<u>\$ 614,143</u>	<u>\$ 588,156</u>
Interest in Beneficial Trusts		
Beneficial interests held by 3rd party	\$ 965	\$ 6,477
Perpetual trusts held by 3rd party	6,812	7,460
Total interest and beneficial trusts	<u>\$ 7,777</u>	<u>\$ 13,937</u>

Investment returns consisted of the following:

(in thousands)

	June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest income	\$ 9,839	\$ 2,680	\$ 144	\$ 12,663
Loss on equity method investments	(15,892)	-	-	(15,892)
Realized gains (losses)	2,481	(149)	149	2,481
Investment income (loss)	(3,572)	2,531	293	(748)
Change in net unrealized loss on investments	(2,494)	(1,596)	(109)	(4,199)
Total investment returns	<u>\$ (6,066)</u>	<u>\$ 935</u>	<u>\$ 184</u>	<u>\$ (4,947)</u>

(in thousands)

	June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest income	\$ 10,221	\$ 2,638	\$ 16	\$ 12,875
Loss on equity method investments	(5,570)	-	-	(5,570)
Realized gains	6,722	2,730	24	9,476
Investment income	11,373	5,368	40	16,781
Change in net unrealized gains/(loss) on investments	(5,992)	(1,649)	73	(7,568)
Total investment returns	<u>\$ 5,381</u>	<u>\$ 3,719</u>	<u>\$ 113</u>	<u>\$ 9,213</u>

Realized gains and losses are calculated by comparing proceeds upon sale of an investment to its original cost, or its cost less any adjustment recorded for other-than-temporary loss on investments where applicable. The change in unrealized gains or losses on investments reflects the increase or decrease during the period in the difference between the fair value and the carrying amount of securities.

The following tables show the gross unrealized losses and fair values of Children's National's investments and assets whose use is limited with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(in thousands)

As of June 30, 2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income	\$ -	\$ -	\$ 120,435	\$ (2,921)	\$ 120,435	\$ (2,921)
Equities	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,435</u>	<u>\$ (2,921)</u>	<u>\$ 120,435</u>	<u>\$ (2,921)</u>

(in thousands)

As of June 30, 2015	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income	\$ 196,129	\$ (2,507)	\$ 54,449	\$ (1,742)	\$ 250,578	\$ (4,249)
Equities	-	-	23	(1)	23	(1)
	<u>\$ 196,129</u>	<u>\$ (2,507)</u>	<u>\$ 54,472</u>	<u>\$ (1,743)</u>	<u>\$ 250,601</u>	<u>\$ (4,250)</u>

There were 9 and 18 investment positions in an unrealized loss position as of June 30, 2016 and 2015, respectively. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For the debt securities in an unrealized loss position, Children's National does not consider these investments to be other-than-temporarily impaired as of June 30, 2016 and 2015. The equities are invested in broad based index funds and have fluctuated from an unrealized gain and loss position since the acquisition and based on management's impairment policy, Children's National does not consider these investments to be other-than-temporarily impaired as of June 30, 2016 and 2015.

In October of 2013, Children's National and Inova Health Care Services ("Inova") partnered in a joint venture to create Pediatric Specialists of Virginia ("PSV"). PSV is a Virginia limited liability company which provides high-quality pediatric specialty care to the children of Northern Virginia through clinical excellence, innovation, education, research, and family-centered care. Children's National has a 50% investment in PSV, and it is accounted for under the equity method. Inova owns the remaining 50% of PSV.

PSV is governed by an eight-member Management Committee of which Children's National has four members. Any action by the Management Committee must be approved by a majority of the members, provided that it includes an affirmative vote by both one Inova representative and one Children's National representative.

Children's National's investment in PSV was \$3.4 million and \$9.2 million as of June 30, 2016 and 2015, respectively. Children's National's contributions to PSV during fiscal year 2016 included \$10.1 million of cash contributions while fiscal year 2015 included \$5.2 million of capital and \$8.0 million of cash contributions. Children's National's share of losses from PSV as of June 30, 2016 and 2015, were \$15.9 million and \$5.6 million, respectively, and are included within investment income in the Combined Statements of Operations.

## 8. Derivative Instruments

In October 2002, the Hospital entered into interest rate swap agreements in conjunction with the restructuring of its Series A tax-exempt bonds. The swaps were intended to protect the Hospital from increased debt service costs resulting from anticipated future increases in market interest rates.

The Medical Center recognizes their derivatives instruments as either assets or liabilities in the Combined Balance Sheets at fair value in accordance with relevant accounting guidance. The total notional amount of 2002 interest rate swap agreement was \$14.4 million and \$17.4 million, respectively, as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the fair value of the 2002 swap was \$0.6 million and \$0.8 million, respectively, and is included with other noncurrent liabilities in the accompanying Combined Balance Sheets. In 2016 and 2015, the change in fair value of the 2002 swap was \$0.3 million and 0.4 million, respectively, and is recorded as part of non-operating revenues and expense in the accompanying Combined Statements of Operations.

In October 2005, the Hospital entered into an interest rate swap agreement (the 2005 swap) in conjunction with the issuance of \$150 million in Series 2005-1, 2005-2 and 2005-3 tax-exempt bonds. The swap agreement hedged the variability of cash flows related to changes in market interest rates on the underlying variable-rate debt, effectively converting the variable-rate debt to a fixed rate issuance for the life of the debt outstanding. On April 9, 2008, the Hospital exercised its option to convert the interest rate on the Series 2005 bonds from the auction rate to a fixed rate of 5.45%. The Hospital continues to hold the 2005 swap. The total notional amount of the 2005 interest rate swap agreement was \$139.5 million and \$141.3 million as of June 30, 2016 and 2015. As of June 30, 2016 and 2015, the fair value of the 2005 swap was \$39.4 million and \$28.6 million, respectively, and is included in other noncurrent liabilities in the accompanying Combined Balance Sheets. The change in fair value of the 2005 swap was \$10.7 million and \$2.1 million for the years ended June 30, 2016 and 2015 respectively, and is recorded as part of non-operating revenues and expenses in the accompanying Combined Statements of Operations.

## 9. Debt

As of June 30, long-term debt consisted of the following:

(in thousands)	2016	2015
Series 2008 bonds maturing between July 15, 2018 and July 15, 2045, interest rates ranging from 4.75% to 5.25%	\$ -	\$ 249,360
Series 2005 bonds maturing in July 2035, interest rate at 5.45%	-	141,350
Series 2015 bonds maturing between July 15, 2016 and July 15, 2044, interest rates ranging from 4.00% to 5.00%	373,960	-
Loan payable to Bank of America	75,000	75,000
Loan payable to Cerner	170	281
Loan payable to Morrison Management Specialists, Inc.; nominal interest; payable at annual installments of \$86 per year; due July 2017	86	171
Total debt	<u>449,216</u>	<u>466,162</u>
Less: Current portion of debt	<u>(9,294)</u>	<u>(2,526)</u>
Long-term debt, less current portion	439,922	463,636
Add/Less: Unamortized premiums (discounts) and debt issuance costs	<u>32,370</u>	<u>(28,189)</u>
Total Long-Term Debt	<u>\$ 472,292</u>	<u>\$ 435,447</u>

### Series 2015 Bonds

In September 2015, the Children's National Obligated Group ("Obligated Group") borrowed from the District of Columbia (the District) the proceeds of a series of tax exempt revenue refunding bonds (Series 2015 Bonds) issued by the District in the principal amount of \$374.0 million. The Obligated Group consists of Children's Hospital and the Foundation. The Series 2015 Bonds were sold at a premium of \$39.8 million which is being amortized using the effective interest method. The proceeds were used to advance refund the outstanding Series 2008 and Series 2005 Bonds and pay the cost of issuance associated with the Series 2015 Bonds. The Series 2005 Bonds and the Series 2008 Bonds (\$139.5 million and \$248.6 million outstanding as of the advance refunding

date, respectively) were issued or refinanced as tax-exempt revenue bonds with fixed interest rates and a final maturity date of July 2035 and July 2044, respectively. The Series 2005 Bonds and the Series 2008 Bonds each had a call provision where the bonds could not be redeemed until July 2018. Therefore, all future interest costs plus principal were placed in an escrow account with a trustee that will make the required principal and interest payments until which time the bonds can be called and redeemed in July 2018. Children's National recognized a loss on extinguishment of debt of approximately \$74.7 million during the year ended June 30, 2016 in connection with this transaction.

The Series 2015 Bonds are comprised of four tranches:

- \$195,030,000 5.00% Serial Bonds due July 15, 2016 through July 15, 2035
- \$40,315,000 4.00% Term Bonds due July 15, 2040
- \$50,000,000 5.00% Term Bonds due July 15, 2040
- \$88,615,000 5.00% Term Bonds due July 15, 2044

The most restrictive covenants for the Series 2015 Bonds require the Obligated Group to maintain a minimum debt service coverage ratio of 1.5, an operating margin of at least 2%, days cash on hand of at least 90 days, and a debt to capitalization ratio of less than 60% at June 30, 2016.

#### **Series 2008 Bonds**

In April 2008, the District of Columbia issued \$250 million of Hospital Revenue bonds (the Series 2008 Bonds).

The proceeds of the sale of the Series 2008 Bonds were loaned by the District of Columbia to the Obligated Group pursuant to a loan agreement dated as of April 1, 2008. The proceeds, together with other available money, are being used in the aggregate to: (1) finance the cost of construction, renovation, equipping and furnishing certain health facilities owned by the Hospital, including, but not limited to (i) the completion of the East Wing Inpatient Tower; (ii) the expansion of Surgical Services into newly constructed space above the emergency and ambulance drive; (iii) the expansion, redesign and upgrade of the Diagnostic Imaging and Radiology Services Departments (iv) expansion of the Cardiology Outpatient Services, Gastroenterology Clinic and the Otolaryngology Clinic; (v) certain infrastructure upgrades at the Hospital, including parking enhancements; and (vi) certain related improvements to the Hospital; (2) funding, if necessary of any working capital costs, (3) funding any required debt service reserve fund or capitalized interest, and (4) paying certain costs of issuance, including any bond insurance or credit enhancement.

The Series 2008 Bonds were comprised of five tranches:

- \$3,680,000 5.25% Term Bonds due July 15, 2018
- \$3,990,000 4.75% Term Bonds due July 15, 2022
- \$11,315,000 5.00% Term Bonds due July 15, 2028
- \$76,250,000 5.25% Term Bonds due July 15, 2038
- \$154,765,000 5.25% Term Bonds due July 15, 2045

The Series 2008 Bonds were secured pursuant to an indenture of trust (the Indenture) between the District of Columbia and the Bank of New York. The bondholder held the security interest in gross receipts of the Obligated Group.

The Series 2008 Bonds were insured by Assured Guaranty Municipal Corporation. In September of 2015, the Series 2008 Bonds were advance refunded with the proceeds from the Series 2015 Bonds.

The most restrictive covenants for the Series 2008 Bonds required the Obligated Group to maintain a minimum debt service coverage ratio of 1.5, an operating margin of at least 2%, days cash on hand of at least 90 days, and a debt to capitalization ratio of less than 60% at June 30, 2015.

### **Series 2005 Bonds**

In October 2005, the District of Columbia issued \$150 million of Hospital Revenue bonds in three Sub-Series 2005-1, 2005-2 and 2005-3 Bonds (collectively, the Series 2005 Bonds). The Obligated Group under the Series 2005 bonds included the Hospital and the Foundation.

The proceeds of the sale of the Series 2005 Bonds were loaned by the District of Columbia to the Obligated Group pursuant to a loan agreement dated as of October 1, 2005. The proceeds, together with other available money, were being used in the aggregate to: (1) finance the cost of construction, renovation and equipping of improvements to the Hospital's facilities, (2) pay a portion of the interest accruing on the Series 2005 Bonds during construction, renovation and equipping of the project, (3) fund a debt service reserve fund for the Series 2005 Bonds, and (4) pay costs of issuing the Series 2005 Bonds, including the payment of the premium for the bond insurance policy.

The Series 2005 Bonds were comprised of three tranches:

- \$50,000,000 5.45% Bonds due July 15, 2035
- \$50,000,000 5.45% Bonds due July 15, 2035
- \$50,000,000 5.45% Bonds due July 15, 2035

The project consisted of financing and reimbursing the costs of the construction, renovation, and equipping of improvements to the Hospital's facilities including the completion of the East Addition Patient Care Tower and Main Hospital renovations (including renovation of the perioperative suite), erecting steel and shell for the sixth floor research addition, updating clinical information systems and information systems infrastructure, replacing and improving diagnostic imaging equipment, and purchasing other miscellaneous equipment.

The Obligated Group initially entered into an interest rate swap related to the variable rate Series 2005 Bonds, which effectively resulted in fixing the interest rate on the debt at 3.68%.

On April 9, 2008, the Obligated Group exercised its option to convert the interest rate on Series 2005 bonds from the auction rate to a fixed rate of 5.45%.

The Series 2005 Bonds were secured pursuant to an indenture of trust (the Indenture) between the District of Columbia and the Bank of New York. The bondholder held the security interest in gross receipts of the Obligated Group. The most restrictive covenants for the Series 2008 Bonds

required the Obligated Group to maintain a minimum debt service coverage ratio of 1.5, an operating margin of at least 2%, days cash on hand of at least 90 days, and a debt to capitalization ratio of less than 60% at June 30, 2015.

The Series 2005 Bonds were insured by Assured Guaranty Municipal Corporation. In September of 2015, the Series 2005 Bonds were advance refunded with the proceeds from the Series 2015 Bonds.

**Series 1992 Bonds**

In 2008, Children’s National purchased \$28.1 million of the bonds at par and sold the bonds to the Captive at par. On June 29, 2015, the Obligated Group redeemed the outstanding principal amount of the Series 1992 with a payment of \$18.0 million from its cash reserves. The 1992 Bonds were owned by Bearacuda RE, one of the entities comprising Children’s National. On June 30, 2015, Bearacuda RE transferred \$20.0 million back to Children’s National in the form of additional paid in capital.

**Bank of America Loan**

On March 15, 2013, the Hospital entered into a loan agreement with Bank of America (“BoA”) to borrow \$75 million. Interest payments of Libor plus 68 basis points are due on the first of each month and the principle must be repaid in full on March 15, 2018. The Medical Center paid debt issuance cost of \$50 thousand in connection with the borrowing, which will be amortized to interest expense over the term of the loan. The proceeds from the borrowing will be used for general business purposes including increasing its cash reserve. In conjunction with the master borrowing agreement, BoA requires compliance with predetermined debt coverage ratios and minimum cash balance.

Maturities and sinking fund requirements of long-term debt outstanding for the next 5 years and thereafter as of June 30, 2016 were as follows:

*(in thousands)*

2017	\$ 6,566
2018	78,370
2019	3,250
2020	3,295
2021	7,505
Thereafter	350,230
	<u>\$ 449,216</u>

A summary of interest cost and investment income on borrowed funds during the years ended June 30 were as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Interest cost		
Capitalized	\$ -	\$ 1,063
Charged to operations and non-operating expenses	<u>19,899</u>	<u>25,436</u>
	<u>\$ 19,899</u>	<u>\$ 26,499</u>

## **10. Endowments**

Children’s National endowment consists of 120 individual donor restricted endowment funds and one board-designated endowment fund for a variety of purposes. In addition, contributions receivables, split interest agreements, and other net assets have been designated for Children’s National endowment.

The Board of Trustees of the Children’s National has interpreted the “Uniform Prudent Management of Institutional Funds Act” (“UPMIFA”) as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children’s National classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children’s National in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children’s National considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Children’s National and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Children’s National
- (7) The investment policies of Children’s National

Endowment net asset composition by type of fund as of June 30 were as follows:

(in thousands)

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 133,148	\$ 133,148
Board-designated endowment funds	4	-	4
Total endowment funds	<u>\$ 4</u>	<u>\$ 133,148</u>	<u>\$ 133,152</u>

(in thousands)

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 128,544	\$ 128,544
Board-designated endowment funds	4	-	4
Total endowment funds	<u>\$ 4</u>	<u>\$ 128,544</u>	<u>\$ 128,548</u>

Changes in endowment net assets for the years ended June 30 (in thousands) were as follows:

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	<u>\$ 4</u>	<u>\$ 128,544</u>	<u>\$ 128,548</u>
Investment income	-	144	144
Net appreciation (realized and unrealized)	-	(607)	(607)
Total investment return	-	(463)	(463)
Gifts	-	5,067	5,067
<b>Endowment net assets, end of year</b>	<u>\$ 4</u>	<u>\$ 133,148</u>	<u>\$ 133,152</u>

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ 4	\$ 124,592	\$ 124,596
Investment income	-	16	16
Net appreciation (realized and unrealized)	-	152	152
Total investment return	-	168	168
Gifts	-	3,784	3,784
<b>Endowment net assets, end of year</b>	<b>\$ 4</b>	<b>\$ 128,544</b>	<b>\$ 128,548</b>

#### **Permanently Restricted Net Assets (Endowments Only)**

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
Patient care	\$ 62,698	\$ 59,813
Building expansion and equipment	-	37
Health-related education	5,265	5,172
Research	65,185	63,522
	<b>\$ 133,148</b>	<b>\$ 128,544</b>

#### **Endowment Funds With Deficits**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no deficits in donor gift amounts as of June 30, 2016 and 2015.

#### **Return Objectives and Risk Parameters**

Children's National has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Children's National expects its endowment funds over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

### Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Children's National relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Children's National targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

### Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of Children's National determines the method to be used to appropriate endowment funds for expenditure. Calculations were performed for individual endowment funds at a rate of 5% of the rolling three calendar year average market value on a unitized basis one year subsequent to the calculation. The corresponding calculated spending allocations were distributed annually on the first day of the fiscal year from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, Children's National expects the current spending policy to allow its endowment to grow at between 3-8% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

## 11. Temporarily Restricted Net Assets

Temporarily restricted net assets, consisting of cash, investments, and contributions receivable, were available for the following purposes at June 30:

<i>(in thousands)</i>	2016	2015
Patient care	\$ 91,146	\$ 101,459
Building expansion and equipment	10,797	9,457
Health-related education	7,320	10,032
Research	24,457	23,010
Charitable remainder trusts	965	6,476
	<u>\$ 134,685</u>	<u>\$ 150,434</u>

## 12. Insurance

The Medical Center self-insures for malpractice and general liability claims up to a retention limit and carries excess coverage above that limit. On August 1, 1997, the Medical Center established the Captive as a wholly owned captive insurance company to assume the retained portion of medical malpractice, employment, and general liability claims of the Medical Center arising on or after August 1, 1997. Cash transfers to the Captive are based on premium levels established by the Captive's management, as well as Cayman Islands statutory capital requirements.

The reserve for claims shown in the accompanying Combined Balance Sheets represent the reserve for asserted and unasserted malpractice and comprehensive general liability claims against the Medical Center and its affiliated physicians. The reserve for claims is estimated by management using information supplied by legal counsel and an independent actuarial firm.

Malpractice and other claims in excess of the reserve for claims have been asserted against the Medical Center, and it is possible that actual claim liabilities could differ from estimated amounts in the near term. However, management and legal counsel do not believe that the ultimate cost of resolving asserted and unasserted claims related to events having occurred through June 30, 2016 are materially in excess of the reserve for claims and malpractice insurance coverage.

The Medical Center also self-insures for employee health claims. In addition, the Medical Center has a deductible of \$500 thousand per occurrence for workers' compensation. Amounts accrued in the accompanying Combined Balance Sheets for the estimated cost of health care claims incurred, including estimates for incurred but not reported amounts, was approximately \$4.0 million and \$3.9 million as of June 30, 2016 and 2015, respectively. Amounts accrued for workers compensation claims were approximately \$1.9 million and \$2.1 million as of June 30, 2016 and 2015, respectively.

### **13. Benefit Plans**

The Medical Center sponsors a defined contribution retirement plan that is available to substantially all employees. The Medical Center makes contributions to the plan on behalf of each participant based on the employee's level of contribution. The cost of the plan to the Medical Center was approximately \$19.5 million and \$17.0 million as of June 30, 2016 and 2015, respectively.

The Medical Center also has incentive compensation plans, based on achievement of organizational and individual goals, and deferred compensation arrangements. Assets and liabilities related to the deferred compensation arrangements are included in other noncurrent assets and other noncurrent liabilities in the accompanying Combined Balance Sheets in the amount of approximately \$21.3 million and \$22.9 million as of June 30, 2016 and 2015, respectively.

### **14. Leases**

The Medical Center operates certain property and equipment under capital leases and is obligated under several operating leases. The operating leases are primarily for the rental of space at auxiliary locations and for the use of certain office and lab equipment. Several of these leases contain escalation clauses, with fixed-rate increases ranging from 2% – 4%. The Medical Center has recorded a deferred rent liability of approximately \$4.6 million and \$4.7 million as of June 30, 2016 and 2015, respectively, which is included in accrued salaries and other expenses in the accompanying Combined Balance Sheets.

Future minimum payments for the years ending June 30 are as follows:

<i>(in thousands)</i>	<b>Operating Leases</b>	<b>Capital Leases</b>
2017	\$ 14,182	\$ 1,425
2018	15,028	1,114
2019	14,464	730
2020	13,383	581
2021 and thereafter	42,661	7,058
Total future minimum payments	99,718	10,908
Less: Amount representing interest	-	(5,046)
Present value of net minimum lease payments	\$ 99,718	\$ 5,862

As of June 30, 2016, the amount representing short term and long term interest is \$.5 million and \$4.5 million, respectively.

Rent expense was \$15.9 million and 15.8 million for the years ended June 30, 2016 and 2015, respectively.

Fixed assets under capital leases as of June 30 are as follows:

<i>(in thousands)</i>	<b>2016</b>	<b>2015</b>
<b>Moveable equipment</b>	\$ 29,838	\$ 24,731
Less: Accumulated depreciation	(23,370)	(19,926)
Property and equipment under capital leases, net	\$ 6,468	\$ 4,805

## 15. Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. The mix of receivables as of June 30 was as follows:

	<b>2016</b>	<b>2015</b>
Managed Care/Commercial	52 %	57 %
Maryland Medicaid	24	21
District of Columbia Medicaid	14	15
Virginia Medicaid and other	8	6
Self-pay	2	1
	100 %	100 %

## 16. Functional Expenses

The Medical Center provides health care services to children both within and outside its geographical service area. Expenses related to providing these services for the years ending June 30 were as follows:

<i>(in thousands)</i>	2016	2015
Patient care	\$ 699,679	\$ 647,958
Research	55,947	58,009
Management and general	311,618	298,053
Fundraising	24,234	24,337
	<u>\$ 1,091,478</u>	<u>\$ 1,028,357</u>

## 17. Commitments and Contingencies

The Medical Center is involved in litigation and regulatory investigations arising in the ordinary course of business. After consulting with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations.

In the fourth quarter of fiscal year 2015, Children's National reached a settlement with the United States, the District of Columbia and the Commonwealth of Virginia relating to the impact that past calculations and allocations of certain costs and metrics had on the Hospital's reimbursement under the Medicare, Medicaid and graduate medical education programs. The claim resulting in the settlement was focused on financial, reimbursement matters only; the quality of patient care was never questioned or raised. The settlement amount of \$12.9 million was paid from the organization's reserves.

## 18. Subsequent Events

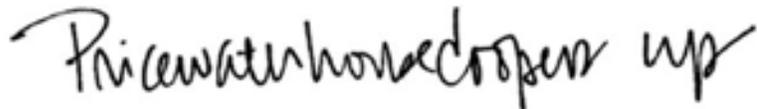
Subsequent events have been evaluated by management through October 25, 2016 which is the date the financial statements were issued.

## **Supplementary Combining Information**

## Report of Independent Auditors on Supplementary Combining Information

To the Board of Trustees of  
Children's National Medical Center and Subsidiaries:

We have audited the combined financial statements of Children's National Medical Center and Subsidiaries ("Children's National") as of June 30, 2016 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combining financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations and changes in unrestricted net assets of the individual entities and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual entities.

A handwritten signature in black ink that reads "PricewaterhouseCoopers up". The signature is written in a cursive, flowing style.

October 25, 2016

	Obligated group										Combined Total	
	Hospital	Foundation	Eliminations	Obligated Group Total	CRI	SafeKids	CP&A	CNHN	CNAPPI	Captive		Eliminations
<b>Assets</b>												
Current assets												
Cash and cash equivalents	\$ 125,404	\$ 1,164	\$ -	\$ 126,568	\$ -	\$ (34)	\$ (371)	\$ -	\$ -	\$ 2,138	\$ -	\$ 128,301
Accounts receivable for patient services, net	143,540	-	-	143,540	-	-	1,286	-	-	-	-	144,806
Settlements due from third-party payors	6,508	-	-	6,508	-	-	-	-	-	-	-	6,508
Contributions receivable, net	-	42,041	-	42,041	-	1,550	-	-	-	-	-	43,591
Grant receivables	8,941	-	-	8,941	17,808	34	-	-	-	-	-	26,783
Inventory of supplies	8,867	-	-	8,867	-	-	465	-	-	-	-	9,332
Prepaid expenses and other	40,885	-	-	40,885	78	131	921	-	-	392	(17,546)	25,772
Total current assets	334,145	43,205	-	377,350	17,886	1,681	2,281	911	-	2,530	(17,546)	385,093
Property and equipment, net	485,219	-	-	485,219	19,101	2	3,111	-	-	-	-	507,433
Assets whose use limited	-	-	-	-	-	-	-	-	-	-	-	-
By terms of debt agreements	143	-	-	143	-	-	-	-	-	21,717	-	21,860
Funded professional liability	485,362	-	-	485,362	19,101	2	3,111	-	-	21,717	-	529,293
Investments	617,135	401,068	(408,925)	609,278	39,469	3,245	-	-	-	37,160	(75,009)	614,143
Contributions receivable, net	-	35,813	-	35,813	-	-	-	-	-	-	-	35,813
Interest in beneficial trusts	-	7,777	-	7,777	-	-	-	-	-	-	-	7,777
Other	24,393	-	-	24,393	-	9	1,288	-	-	-	(4,171)	21,519
Total other noncurrent assets	1,126,890	444,658	(408,925)	1,162,623	56,570	3,256	4,399	-	-	58,877	(79,180)	1,208,545
Total assets	\$ 1,461,035	\$ 487,863	\$ (408,925)	\$ 1,539,973	\$ 76,456	\$ 4,937	\$ 6,680	\$ 911	\$ -	\$ 61,407	\$ (96,726)	\$ 1,593,638



	Obligated Group										Combined Total	
	Hospital	Foundation	Eliminations	Obligated Group Total	CRI	SafeKids	CP&A	CNHN	CNAPPI	Captive		Eliminations
<b>Unrestricted revenues, gains, and other support</b>												
Patient service revenue (net of contractual allowances and discounts)	\$ 957,865	\$ -	\$ -	\$ 957,865	\$ -	\$ -	\$ 23,678	\$ -	\$ -	\$ -	\$ -	\$ 981,543
Provision for uncollectable accounts	(31,898)	-	-	(31,898)	-	(20)	-	-	-	-	-	(31,918)
Net patient service revenue	925,967	-	-	925,967	-	-	23,678	-	-	-	-	949,625
Grant revenue	12,691	-	-	12,691	45,289	236	-	-	-	-	-	58,216
Other operating revenue	90,084	42	(6,788)	83,338	616	1,539	1,119	1,419	-	10,174	(33,377)	64,828
Unrestricted contributions	656	31,806	-	32,462	(75)	2,070	-	-	-	-	-	34,457
Net assets released from restrictions used for operations	11,846	6,975	-	18,821	9,778	7,997	-	12	-	-	-	36,608
Total unrestricted revenues, gains, and other support	1,041,244	38,823	(6,788)	1,073,279	55,608	11,822	24,797	1,431	-	10,174	(33,377)	1,143,734
<b>Expenses</b>												
Salaries, wages, and benefits	615,260	-	-	615,260	43,353	4,569	15,258	823	-	-	-	679,263
Supplies and other	271,067	-	(6,788)	264,279	39,307	7,224	10,634	354	-	1,406	(23,202)	300,002
Depreciation and amortization	52,590	-	-	52,590	1,325	29	181	-	-	-	-	54,125
Provision for insurance	18,973	-	-	18,973	78	-	419	-	-	8,714	(10,175)	18,009
Interest and amortization	17,640	-	-	17,640	-	-	-	-	-	-	-	17,640
Development expense	-	25,239	-	25,239	-	-	-	-	-	-	-	25,239
Total expenses	975,530	25,239	(6,788)	993,981	84,063	11,822	26,492	1,177	-	10,120	(33,377)	1,094,278
Operating income (loss)	65,714	13,584	-	79,298	(28,455)	-	(1,695)	254	-	54	-	48,456
<b>Non-operating revenues and expenses</b>												
Investment income (loss)	(13,831)	9,795	-	(4,036)	-	-	-	-	-	464	-	(3,572)
Loss on extinguishment of debt	(74,723)	-	-	(74,723)	-	-	-	-	-	-	-	(74,723)
Realized and change in unrealized fair value of interest rate swaps	(15,589)	-	-	(15,589)	-	-	-	-	-	-	-	(15,589)
Other	(104,265)	9,795	-	(94,470)	(152)	-	-	-	-	464	-	(94,006)
Total non-operating revenues and expenses	(38,551)	23,379	-	(15,172)	(28,455)	-	(1,695)	254	-	518	-	(44,550)
Excess (deficiency) of revenues over expenses												

# **Children's National Medical Center and Subsidiaries**

**Consolidated Financial Statements and  
Supplementary Consolidating Information  
June 30, 2017 and 2016**

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## Report of Independent Auditors

To the Board of Trustees of  
Children's National Medical Center and Subsidiaries

We have audited the accompanying consolidated financial statements of Children's National Medical Center and Subsidiaries ("Children's National"), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

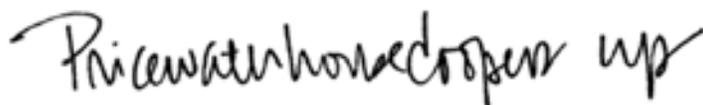
### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to Children's National's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Children's National's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's National as of June 30, 2017 and 2016, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



October 24, 2017

(in thousands)

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 138,850	\$ 128,301
Accounts receivable for patient services, net of allowance for uncollectible accounts of \$11,228 and \$10,469 as of June 30, 2017 and 2016, respectively	179,394	144,806
Settlements due from third-party payors	7,302	6,508
Contributions receivable, net	33,480	43,591
Grant receivable	21,170	26,783
Inventories of supplies	9,424	9,332
Prepaid expenses and other	26,489	25,772
Total current assets	<u>416,109</u>	<u>385,093</u>
Noncurrent assets		
Property and equipment, net	554,137	507,433
Assets whose use is limited by professional liability claims	26,226	21,860
Investments	676,729	614,143
Contributions receivable, net	33,754	35,813
Interest in beneficial trusts	8,184	7,777
Other	26,790	21,519
Total other noncurrent assets	<u>1,325,820</u>	<u>1,208,545</u>
Total assets	<u>\$ 1,741,929</u>	<u>\$ 1,593,638</u>

(in thousands)

	2017	2016
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 37,630	\$ 36,129
Accrued salaries and other expenses	113,495	117,765
Current portion of reserve for claims	22,634	21,936
Settlements due to third-party payors	2,928	843
Deferred revenue	26,291	25,212
Current portion of long-term debt	5,866	9,294
Current portion of capital lease obligations	882	1,228
Total current liabilities	<u>209,726</u>	<u>212,407</u>
Noncurrent liabilities		
Long-term debt	466,444	472,292
Long-term capital lease obligations	5,201	5,301
Reserve for claims	67,025	53,387
Interest rate swaps	27,209	39,968
Other long-term liabilities	43,647	36,161
Total noncurrent liabilities	<u>609,526</u>	<u>607,109</u>
Total liabilities	<u>819,252</u>	<u>819,516</u>
<b>Net assets</b>		
Unrestricted	629,774	506,289
Temporarily restricted	155,115	134,685
Permanently restricted	137,788	133,148
Total net assets	<u>922,677</u>	<u>774,122</u>
Total liabilities and net assets	<u>\$ 1,741,929</u>	<u>\$ 1,593,638</u>

(in thousands)

	2017	2016
<b>Unrestricted revenues, gains, and other support</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,039,697	\$ 981,543
Provision for uncollectible accounts	<u>(34,533)</u>	<u>(31,918)</u>
Net patient service revenue less provision for uncollectible accounts	1,005,164	949,625
Grant revenue	69,254	58,216
Other operating revenue	56,618	64,828
Unrestricted contributions	26,461	34,457
Net assets released from restrictions used for operations	<u>34,497</u>	<u>36,608</u>
Total unrestricted revenues, gains, and other support	<u>1,191,994</u>	<u>1,143,734</u>
<b>Expenses</b>		
Salaries, wages, and benefits	698,500	679,263
Supplies and other	321,293	300,002
Depreciation and amortization	62,187	54,125
Provision for insurance	21,749	18,009
Interest and amortization	17,572	17,640
Development expense	<u>25,200</u>	<u>25,239</u>
Total expenses	<u>1,146,501</u>	<u>1,094,278</u>
Operating income	<u>45,493</u>	<u>49,456</u>
<b>Non-operating revenues and expenses</b>		
Investment income (loss)	2,960	(3,572)
Loss on extinguishment of debt	-	(74,723)
Realized and change in unrealized fair value of interest rate swaps	8,255	(15,559)
Other	<u>-</u>	<u>(152)</u>
Total non-operating revenues and expenses	<u>11,215</u>	<u>(94,006)</u>
Excess of revenues over (under) expenses	56,708	(44,550)
Unrealized gain (loss) on investments	27,502	(2,494)
Conveyance of property	45,400	-
Released from restriction for property and equipment and other changes in net assets	<u>(6,125)</u>	<u>2,796</u>
Increase (decrease) in unrestricted net assets	<u>\$ 123,485</u>	<u>\$ (44,248)</u>

(in thousands)

	2017	2016
<b>Unrestricted net assets</b>		
Excess of revenues over (under) expenses	\$ 56,708	\$ (44,550)
Unrealized gain (loss) on investments	27,502	(2,494)
Property contribution	45,400	-
Released from restrictions for property and equipment and other changes in net assets	(6,125)	2,796
Increase (decrease) in unrestricted net assets	<u>123,485</u>	<u>(44,248)</u>
<b>Temporarily restricted net assets</b>		
Contributions	32,651	21,606
Investment gain	18,229	935
Released from restrictions and other changes in temporarily restricted net assets	(30,401)	(39,404)
Change in value of split interest agreements	(49)	1,114
Increase (decrease) in temporarily restricted net assets	<u>20,430</u>	<u>(15,749)</u>
<b>Permanently restricted net assets</b>		
Contributions	1,973	5,067
Investment gain	182	184
Change in value of split interest agreements	455	(647)
Other changes in permanently restricted net assets	2,030	-
Increase in permanently restricted net assets	<u>4,640</u>	<u>4,604</u>
Change in net assets	148,555	(55,393)
<b>Net assets</b>		
Beginning of year	<u>774,122</u>	<u>829,515</u>
End of year	<u>\$ 922,677</u>	<u>\$ 774,122</u>

(in thousands)

	2017	2016
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 148,555	\$ (55,393)
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	62,187	54,125
Provision for uncollectible accounts	34,533	31,918
Provision for uncollectible contributions	1,407	(48)
Gain on sale of assets	-	(3)
Amortization of deferred financing costs	197	237
Loss on extinguishment of debt	-	74,723
Conveyance of land and buildings	(45,400)	-
Loss in PSV equity investment	10,535	15,892
Net realized and change in unrealized (gains) losses on investments	(44,293)	1,718
Change in fair market value of interest rate swaps	(12,759)	10,500
Proceeds from restricted contributions	(8,346)	(8,234)
Change in assets and liabilities		
Accounts receivable for patient services	(69,121)	(21,112)
Settlements due from third-party payors	(794)	886
Other current assets and inventory of supplies	(809)	5,078
Contributions and grants receivable	9,535	(17,607)
Interest in beneficial trusts	(407)	6,160
Other noncurrent assets	(5,293)	1,491
Accounts payable	1,501	(782)
Accrued salaries and other expenses	(5,522)	10,430
Reserve for claims	14,336	(2,613)
Deferred revenue	1,079	3,019
Settlements due to third-party payors	2,085	(6,172)
Other noncurrent liabilities	7,486	(804)
Net cash and cash equivalents provided by operating activities	<u>100,692</u>	<u>103,409</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(61,696)	(56,302)
Purchases of investments	(108,386)	(182,876)
Sales of investments	95,314	187,733
Contribution to equity investment	(13,281)	(10,117)
Net cash and cash equivalents used in investing activities	<u>(88,049)</u>	<u>(61,562)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of long-term debt	-	413,728
Payments of long-term debt	(6,631)	(2,831)
Repayments of long-term debt	-	(438,641)
Payments of debt issuance costs	-	(4,997)
Amortization of bond premium	(2,842)	(2,299)
Proceeds from restricted contributions	8,346	8,234
Payments on capital lease obligations	(967)	(3,322)
Net cash and cash equivalents used in financing activities	<u>(2,094)</u>	<u>(30,128)</u>
Increase in cash and cash equivalents	10,549	11,719
<b>Cash and cash equivalents</b>		
Beginning of year	128,301	116,582
End of year	<u>\$ 138,850</u>	<u>\$ 128,301</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	\$ 24,868	\$ 21,493
Capital lease obligations for new equipment	521	5,110
Conveyance of land and buildings	45,400	-
Property, plant and equipment in accounts payable	4,616	3,364

## 1. Organization

The Children's National Medical Center's ("Children's National" or the "Medical Center") consolidated financial statements include the accounts of Children's Hospital (the "Hospital"); Children's Hospital Foundation (the "Foundation"); Children's National at Walter Reed, LLC. ("CNWR"); Children's Research Institute ("CRI"); Safe Kids Worldwide ("Safe Kids"); Children's Pediatricians and Associates ("CP&A"); Children's National Health Network ("CNHN"); Safe Kids Worldwide, Ltd. ("SKWW, LTD"); Children's National Advocacy and Public Policy, Inc. ("CNAPPI"); and Bearacuda Reinsurance Company, Ltd. (the "Captive"); all referred to as the "Subsidiaries."

Children's National is a tax-exempt, nonstock corporation, which controls its subsidiary corporations through its authority to appoint the governing boards of the tax-exempt, nonstock subsidiaries or its stock ownership. Children's National and its subsidiaries provide health care services to infants, children, and youth in Washington, D.C., and the surrounding metropolitan area. The Hospital operates an acute care pediatric and teaching facility.

The Foundation supports and maintains the programs, services, and facilities of Children's National in part through solicitation, receipt, administration, and distribution of philanthropic gifts on behalf of its tax-exempt subsidiaries.

CNWR is a limited liability company organized for the purpose of holding certain real property conveyed by the United States Department of Defense to be used for public health purposes.

CRI is a research organization involved in providing services and support in connection with the delivery of health care services on behalf of the community.

Safe Kids is an organization involved in nonhospital pediatric health and safety activities.

CP&A is a limited liability corporation that operates for-profit physician practices. CP&A is owned 50% by Children's National and 50% by the Hospital.

CNHN is a for-profit physician hospital organization, of which Children's National is the sole shareholder.

SKWW, LTD is an international organization whose mission is to administer programs aimed at preventing unintentional injury of children. SKWW, LTD was dissolved by resolution in the first quarter of fiscal year 2016.

CNAPPI is an organization involved in addressing the advocacy mission and community benefit activities of Children's National.

The Captive is a wholly owned captive insurance company established to assume general liability and malpractice risk for Children's National entities, effective August 1, 1997.

Children's National, Hospital, Foundation, CRI, Safe Kids, and CNAPPI are not-for-profit organizations that qualify under Section 501(c)(3) of the Internal Revenue Code, and are therefore, not subject to tax under current income tax regulations.

## **2. Risk Factors**

The Medical Center's ability to maintain or increase future revenues could be adversely impacted by: (1) future legislation, regulation, or other actions by federal, state, or District of Columbia agencies, which may impose requirements or continue the trend toward more restrictive limitations on reimbursement for hospital services; (2) future legislation or adverse trends affecting the costs related to professional liability coverage; (3) changes in general and local economic conditions including the financial condition of the District of Columbia, the State of Maryland and the State of Virginia; and (4) a potential shortage of qualified doctors and other skilled healthcare professionals in the local employment market.

## **3. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Children's National and all its subsidiaries after elimination of all significant intercompany accounts and transactions.

### **Cash and Cash Equivalents**

Cash equivalents include amounts invested in accounts with depository institutions which are readily convertible to cash, with original maturities of three months or less. Total deposits maintained at these institutions at times exceed the amount insured by federal agencies and therefore, bear a risk of loss. Children's National has not experienced such losses on these funds.

### **Investments and Assets Whose Use is Limited**

Children's National classifies investments as available for sale. Investments consist primarily of money market funds, government securities, equity securities (including common trust funds), and mutual funds that are considered other than trading securities and are reported at fair value. Investments that management does not consider necessary for current operations are classified as long-term.

Investments in companies in which Children's National does not have control, but has the ability to exercise significant influence over operating and financial policies are accounted for under the equity method of accounting and operating results are recorded within investment income on the Consolidated Statements of Operations. Dividends received are recorded as a reduction of the carrying amount of the investment.

Assets whose use is limited include resources restricted under the terms of bond indenture agreements and professional liability arrangements.

### **Investment Income**

Investment income or loss (including interest and dividends, net of investment management fees; realized gains and losses on investments; and any provision for other-than-temporary losses on impairment of investments) is reported as non-operating revenue and is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments, if any, are excluded from excess of revenues over expenses, unless the losses are deemed to be other-than-temporary.

The Medical Center periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation consists of a review of several factors, including, but not limited to: length of time and extent that a security has been in an unrealized loss position, the existence of an event that would impair the issuer's future earnings potential, the near-term prospects for recovery of the market value of a security, and the intent and ability of the Medical Center to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary losses are included in non-operating revenues and expenses in the accompanying Consolidated Statements of Operations. Investments are principally uninsured and subject to normal credit risk.

### **Income Taxes**

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such basis, the exempt entities will not incur any liability for federal income taxes, except for possible unrelated business income.

The Financial Accounting Standards Board's ("FASB") guidance on accounting for uncertainty in income taxes clarifies the accounting for uncertainty of income tax positions. The guidance defines the threshold for recognizing tax return positions in the consolidated financial statements as "more likely than not" that the position is sustainable, based on technical merits.

The Medical Center evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. There was no impact on the Medical Center's consolidated financial statements during the years ended June 30, 2017 and 2016 as the Medical Center has no uncertain tax positions.

### **Accounts Receivable**

Accounts receivable for patient services consist of amounts due directly from patients or patients' third-party payors such as insurance companies, managed care programs, and Medicaid programs for services rendered. Provision for uncollectible accounts in the accompanying Consolidated Statements of Operations is shown net of recoveries on amounts previously written off. The allowance for uncollectible accounts is estimated based on prior experience and management's judgment and is, therefore, susceptible to change.

### **Inventories of Supplies**

Inventories generally consist of medical and nonmedical supplies, and are stated at the lower of cost or market, using the first-in, first-out method. The total inventory balance was \$9.4 million and \$9.3 million at June 30, 2017 and 2016, respectively.

### **Contributions Receivable**

Unconditional promises to give cash and other assets are reported at fair value as contributions receivable at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the promise becomes unconditional. Amounts due are recorded at the net realizable value discounted using a rate of return that a market participant would expect to receive over the payment period at the date the pledge is received. An allowance for uncollectible pledges is recorded for pledges which may become uncollectible in future periods. Amounts deemed to be uncollectible have been written off. The contributions receivable balance is based on management's best estimate of the amounts expected to be collected. The amounts Children's National will ultimately realize could differ from the amounts assumed in arriving at the present value and allowance for doubtful accounts.

The gifts are reported as temporarily and permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the Consolidated Statements of Operations as net assets released from restrictions used for operations or used for construction and purchase of property and equipment.

### **New Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09—*Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Children’s National is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, which requires management of an entity to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued. This update is effective for annual periods ending after December 15, 2016. No conditions or events were noted that raise substantial doubt about Children’s National’s ability to continue as a going concern. Accordingly, the adoption of this standard did not have a material impact on the consolidated financial statements for the year ended June 30, 2017.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 addresses accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Non-public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The amendments in ASU 2016-01 are effective for years beginning after December 15, 2018, and early adoption is permitted. Children’s National early adopted the provisions of this standard for the fiscal year ended June 30, 2016 that no longer requires disclosure of the fair value of financial instruments. Children’s National is evaluating the impact the remaining guidance will have on the consolidated financial statements beginning in fiscal year 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Children’s National is evaluating the impact this standard will have on the consolidated financial statements and disclosures beginning in fiscal year 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources to donors, grantor, creditors and other users. The standard is effective for fiscal years beginning after December 15, 2017. Children's National is evaluating the impact of this standard on the consolidated financial statements beginning in fiscal year 2019.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent to alleviate diversity in practice. The update is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Children's National is currently evaluating the impact of this update on the Consolidated Statements of Cash Flows beginning in fiscal year 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which clarifies the classification and presentation of changes in restricted cash in the statement of cash flows. The guidance requires reporting entities to explain the changes in the consolidated total of restricted and unrestricted cash and cash equivalent balances in the statement of cash flows. The update is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Children's National is currently evaluating the impact of this update on the Consolidated Statements of Cash Flows beginning in fiscal year 2020.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation expense on the Medical Center's property and equipment is recorded using the straight-line method, which allocates the cost of the tangible property equally over the estimated useful lives, beginning with the date the asset is placed in service:

Buildings	30 - 40 years
Building improvements	9 - 20 years
Fixed equipment	10 - 15 years
Movable equipment	3 - 20 years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the Consolidated Statements of Operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of any income earned. Repairs and maintenance are expensed as incurred. When property, plant and equipment are retired, sold or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

**Deferred Financing Costs**

Financing costs incurred in connection with the issuance of long-term debt are deferred and amortized using the straight line method, which approximates the effective interest rate method, over the period of time the debt is outstanding. Deferred financing costs are recorded in long-term debt on the Consolidated Balance Sheets. The amortization expense was approximately \$202.0 thousand and \$237.4 thousand for the years ended June 30, 2017 and 2016, respectively.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. Children's National's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. There were no impairment of long-lived assets for the years ended June 30, 2017 and 2016.

**Interest in Beneficial Trusts**

The Medical Center also receives contributions in the form of irrevocable split-interest agreements. These agreements include charitable remainder trusts, charitable gift annuities and perpetual trusts. In all of these agreements, the Medical Center has an interest in the trust but is not the trustee. When the trust's obligations to all beneficiaries expire, the remaining assets revert to the Medical Center to be used according to the donor's wishes.

**Other Long-Term Liabilities**

The Medical Center entered into a favorable cash deferral contract with Cerner, Inc. ("Cerner") related to expenses associated with the Bear Institute in September 2013. The Bear Institute is a purchased services information technology agreement where Cerner manages IT functionality for operational services and capital equipment acquisitions. As an incentive, the cash flows for the agreement are significantly deferred towards the latter portion of the seven-year agreement. The deferred Cerner amount was \$15.0 million and \$15.3 million as of June 30, 2017 and 2016, respectively and is recorded in other long-term liabilities.

**Grants**

Children's National and its subsidiaries receive various grants from Federal agencies and District of Columbia agencies for the purpose of furthering its mission of providing acute pediatric care, research and education. Grants are recognized as support and the related project costs are recorded as expenses when services related to grants are incurred. Cash received where related costs have not been incurred are shown as deferred grant revenue and is included within deferred revenue on the Consolidated Balance Sheets.

**Interest Rate Swaps**

The value of the interest rate swap agreements entered into by Children's National is adjusted to fair value monthly at the close of each accounting period based upon quotations from market makers. The change in fair value, if any, is recorded in the Consolidated Statements of Operations. Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayment, market and documentation risk in excess of the amounts recognized on the Consolidated Balance Sheets. Such risks involve the possibility that there will be no liquid market for these agreements, the counterparty to these agreements may default on its obligation to perform and there may be unfavorable changes in interest rates.

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose, including federal appropriations restricted for capital improvements. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

**Net Patient Service Revenue**

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed cost, discounted charges, and per diem payments. Hospital physicians are paid principally on a contracted fee schedule. Contractual adjustments to patient service revenue were \$1.33 billion and \$1.32 billion for the years ended June 30, 2017 and 2016, respectively.

(in thousands)

	<b>June 30, 2017</b>		
	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 1,000,649</u>	<u>\$ 39,048</u>	<u>\$ 1,039,697</u>

(in thousands)

	<b>June 30, 2016</b>		
	<b>Third-Party Payors</b>	<b>Self-Pay</b>	<b>Total All Payors</b>
Patient service revenue (net of contractual allowances and discounts)	<u>\$ 938,944</u>	<u>\$ 42,599</u>	<u>\$ 981,543</u>

Approximately 54% and 53% of gross patient service revenues were from Medicaid and Medicaid managed care program in 2017 and 2016, respectively. Total reimbursements received for Graduate Medical Education ("GME") were \$11.7 million in 2017 and \$11.3 million in 2016. Federal GME is subject to appropriation each year.

Inpatient and outpatient services, defined capital and medical education costs related to beneficiaries are paid using a cost reimbursement methodology for Medicare and the Fee-for-Service Medicaid programs. These services are paid prospectively for DC Medicaid and Maryland Medicaid and are not settled. For cost reimbursable items, Children's National is reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports by Children's National and audits thereof by the fiscal intermediary. Children's National cost reports have been audited and settled by the Medicare intermediary through 2015 for all facilities. The Virginia Medicaid cost report is settled annually and is settled through 2016.

**Charity Care**

The Medical Center, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate the Medical Center for their treatment either through third party coverage or their own resources. Accordingly, the Medical Center extends charity or free care to those patients who do not have the ability to meet their obligations. The Medical Center provides free care or sliding fee scales based on federal poverty income guidelines or when it is determined that the patients are unable to fulfill their obligations to the Medical Center. The Medical Center also provides assistance in helping patients obtain third party coverage through state Medicaid programs. Because the Medical Center does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue. Direct and indirect costs for these services amounted to \$8.7 million and \$6.2 million for the years ended June 30, 2017 and 2016, respectively. The costs of providing charity care services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charge is calculated based on Medical Center's total operating expenses divided by gross patient service revenue.

In addition to direct charity care, the Medical Center is committed to improving the health and well-being of children in the Washington, D.C., metropolitan area. Through programs of clinical intervention, community awareness, education and advocacy, the Medical Center strives to address the many challenges facing children and families today. Examples of programs addressing these challenges are the Community Pediatric Health Care Centers, school nursing services for District of Columbia Public Schools and District of Columbia Public Chartered Schools, Division of Child Protection, Children's Healthy Schools/President's Challenge Program, and services provided to children with AIDS.

**Excess of Revenues Over (Under) Expenses**

The Consolidated Statements of Operations include excess of revenues over (under) expenses. Changes in unrestricted net assets which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include, among other items, the change in unrealized gains and losses on investments on other than trading securities and contributions released from restrictions for property and equipment.

**Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during reporting period. Actual results could differ from these estimates. These significant estimates include, among others, the accounts receivable allowance for doubtful accounts, contractual allowances, estimated third-party payor settlements, investments, and accrued insurance costs.

**Accrued Vacation**

The Medical Center records a liability for amounts due to employees for future absences which are attributable to services performed in the current and prior period.

**Estimated Malpractice Costs**

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Medical Claims Reserve**

The Medical Center's medical claims reserve is an estimate of payments to be made for reported claims losses incurred but not reported. The estimate was developed using actuarial methods based upon historical data for payment patterns, cost trends, and other relevant factors.

The estimate is continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

**4. Fair Value Measurements**

The Medical Center follows the FASB's guidance on fair value measurements, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

The guidance discusses valuation techniques such as the market approach, cost approach and income approach. This guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date.

The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1      Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2      Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3      Unobservable inputs in which there is little or no market data that require the reporting entity to develop its own assumptions.

The financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the financial instruments carried at fair value grouped by hierarchy level (in thousands):

	<b>June 30, 2017</b>		
	<b>Prices In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Assets</b>			
Investments			
Money market and short-term investments	\$ -	\$ 85,822	\$ 85,822
Fixed income securities	-	249,098	249,098
Equity index funds	355,714	41	355,755
Real estate investments	-	6,125	6,125
Total investments	<u>355,714</u>	<u>341,086</u>	<u>696,800</u>
Beneficial interests held by 3rd party	-	916	916
Perpetual trusts held by 3rd party	-	7,268	7,268
Total assets at fair value	<u>\$ 355,714</u>	<u>\$ 349,270</u>	<u>\$ 704,984</u>
<b>Liabilities</b>			
Interest rate swaps	\$ -	\$ 27,209	\$ 27,209
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 27,209</u>	<u>\$ 27,209</u>
	<b>June 30, 2016</b>		
	<b>Prices In Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Total Fair Value</b>
<b>Assets</b>			
Investments			
Money market and short-term investments	\$ -	\$ 50,699	\$ 50,699
Fixed income securities	-	251,417	251,417
Equity index funds	330,039	440	330,479
Total investments	<u>330,039</u>	<u>302,556</u>	<u>632,595</u>
Beneficial interests held by 3rd party	-	965	965
Perpetual trusts held by 3rd party	-	6,812	6,812
Total assets at fair value	<u>\$ 330,039</u>	<u>\$ 310,333</u>	<u>\$ 640,372</u>
<b>Liabilities</b>			
Interest rate swaps	\$ -	\$ 39,968	\$ 39,968
Total liabilities at fair value	<u>\$ -</u>	<u>\$ 39,968</u>	<u>\$ 39,968</u>

During 2017 and 2016, there were no transfers between Levels 1 and 2.

Following is a description of the Children's National valuation methodologies for assets and liabilities measured at fair value.

Fair value for Level 1 is based upon quoted prices in active markets that Children's National has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. Children's National does not adjust the quoted price for such assets and liabilities. Level 1 investments include investments in equity index funds valued based on the closing price on the primary market.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 2 investments include money market funds, certificate of deposits, real estate investments, corporate bond funds, US government obligations, and federal agency obligations.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Children's National believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

## 5. Property and Equipment

The components of property and equipment as of June 30 are summarized below:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Land	\$ 13,341	\$ 1,441
Buildings and building improvements	901,690	868,854
Fixed and movable equipment	226,212	204,264
	<u>1,141,243</u>	<u>1,074,559</u>
Less: Accumulated depreciation	<u>(687,248)</u>	<u>(625,083)</u>
	453,995	449,476
Construction in progress	<u>100,142</u>	<u>57,957</u>
Property and equipment, net	<u>\$ 554,137</u>	<u>\$ 507,433</u>

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to \$62.2 million and \$54.1 million, respectively.

In November 2016, the federal government conveyed through quitclaim deed, certain land and buildings to CNWR to be used for the protection of public health, including research. The property, which was recorded as Conveyance of Property within the Consolidated Statement of Changes in Net Assets at fair market value during the year ended June 30, 2017, consisted of land and buildings valued at \$11.9 million and \$33.5 million, respectively. The buildings are recorded in construction in progress at June 30, 2017. In connection with this transaction, CNWR recorded an environmental retirement obligation of \$4.8 million.

The Hospital's facility is on land owned by the Washington Hospital Center. This land is being leased through the year 2070 for a nominal amount.

## 6. Contributions Receivable

Unconditional promises to give as of June 30 were as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Less than one year	\$ 33,959	\$ 44,030
One to five years	27,319	28,137
More than five years	11,280	13,360
	<u>72,558</u>	<u>85,527</u>
Less: Discount	(4,277)	(5,074)
Allowance for uncollectible contributions	(1,047)	(1,049)
Contribution receivable, net	<u>\$ 67,234</u>	<u>\$ 79,404</u>

Contributions receivable greater than one year in time are discounted using a rate of return that a market participant would expect to receive over the period at the date the pledge is received. The discount rate used is commensurate with the risk involved and ranges from 0.5% and 6.75% based on the date the pledge is made.

## 7. Investments and Assets Whose Use is Limited

The composition and fair values of investments and assets whose use is limited, as reported on the accompanying Consolidated Balance Sheets, at June 30 is as follows:

<i>(in thousands)</i>	2017		2016	
	Cost	Carrying Value	Cost	Carrying Value
Limited for professional liability claims				
Fixed income securities	\$ 16,135	\$ 17,035	\$ 14,184	\$ 15,071
Equity securities	7,733	9,191	6,682	6,789
Total funded professional liability	<u>\$ 23,868</u>	<u>\$ 26,226</u>	<u>\$ 20,866</u>	<u>\$ 21,860</u>
Investments				
Money Market and short term Investments	\$ 85,823	\$ 85,822	\$ 50,699	\$ 50,699
Fixed income securities	229,986	232,063	230,043	236,346
Equity securities (including common trust funds)	227,279	346,564	247,286	323,690
Equity method investments	42,768	6,155	29,487	3,408
Real Estate Investments	-	6,125	-	-
Total Investments	<u>\$ 585,856</u>	<u>\$ 676,729</u>	<u>\$ 557,515</u>	<u>\$ 614,143</u>
Interest in Beneficial Trusts				
Beneficial interests held by 3rd party	\$ -	\$ 916	\$ -	\$ 965
Perpetual trusts held by 3rd party	-	7,268	-	6,812
Total interest and beneficial trusts	<u>\$ -</u>	<u>\$ 8,184</u>	<u>\$ -</u>	<u>\$ 7,777</u>

Investments included approximately \$222.3 million and \$207.0 million at June 30, 2017 and 2016, respectively, which is restricted by donors for specific programs or for capital improvements.

Investment returns consisted of the following:

(in thousands)

	<b>June 30, 2017</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Dividends and interest income	\$ 11,200	\$ 3,347	\$ 506	\$ 15,053
Loss on equity method investments	(10,535)	-	-	(10,535)
Realized gains (losses)	2,295	28	(28)	2,295
Investment income	2,960	3,375	478	6,813
Change in net unrealized gains/(loss) on investments	27,503	14,854	(296)	42,061
Total investment returns	<u>\$ 30,463</u>	<u>\$ 18,229</u>	<u>\$ 182</u>	<u>\$ 48,874</u>

(in thousands)

	<b>June 30, 2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Dividends and interest income	\$ 9,839	\$ 2,680	\$ 144	\$ 12,663
Loss on equity method investments	(15,892)	-	-	(15,892)
Realized gains (losses)	2,481	(149)	149	2,481
Investment (loss) income	(3,572)	2,531	293	(748)
Change in net unrealized gains/(loss) on investments	(2,494)	(1,596)	(109)	(4,199)
Total investment returns	<u>\$ (6,066)</u>	<u>\$ 935</u>	<u>\$ 184</u>	<u>\$ (4,947)</u>

Realized gains and losses are calculated by comparing proceeds upon sale of an investment to its original cost, or its cost less any adjustment recorded for other-than-temporary loss on investments where applicable. The change in unrealized gains or losses on investments reflects the increase or decrease during the period in the difference between the fair value and the carrying amount of securities.

The following tables show the gross unrealized losses and fair values of Children's National's investments and assets whose use is limited with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

(in thousands)

As of June 30, 2017	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
Fixed Income	\$ 208,830	\$ (1,676)	\$ 97	\$ (1)	\$ 208,927	\$ (1,677)
Equities	-	-	-	-	-	-
	<u>\$ 208,830</u>	<u>\$ (1,676)</u>	<u>\$ 97</u>	<u>\$ (1)</u>	<u>\$ 208,927</u>	<u>\$ (1,677)</u>

(in thousands)

As of June 30, 2016	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income	\$ -	\$ -	\$ 120,435	\$ (2,921)	\$ 120,435	\$ (2,921)
Equities	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,435</u>	<u>\$ (2,921)</u>	<u>\$ 120,435</u>	<u>\$ (2,921)</u>

There were 7 and 9 investment positions in an unrealized loss position as of June 30, 2017 and 2016, respectively. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. For the debt securities in an unrealized loss position, Children's National does not consider these investments to be other-than-temporarily impaired as of June 30, 2017 and 2016. The equities are invested in broad based index funds and have fluctuated from an unrealized gain and loss position since the acquisition and based on management's impairment policy, Children's National does not consider these investments to be other-than-temporarily impaired as of June 30, 2017 and 2016.

In October of 2013, Children's National and Inova Health Care Services ("Inova") partnered in a joint venture to create Pediatric Specialists of Virginia ("PSV"). PSV is a Virginia limited liability company which provides high-quality pediatric specialty care to the children of Northern Virginia through clinical excellence, innovation, education, research, and family-centered care. Children's National has a 50% investment in PSV, and it is accounted for under the equity method. Inova owns the remaining 50% of PSV.

PSV is governed by an eight-member Management Committee of which Children's National has four members. Any action by the Management Committee must be approved by a majority of the members, provided that it includes an affirmative vote by both one Inova representative and one Children's National representative.

Children's National's investment in PSV was \$6.2 million and \$3.4 million as of June 30, 2017 and 2016, respectively. Children's National's contributions to PSV during fiscal year 2017 included \$13.3 million of cash contributions while fiscal year 2016 included \$10.1 million of cash contributions. Children's National's share of losses from PSV as of June 30, 2017 and 2016, were \$10.5 million and \$15.9 million, respectively, and are included within investment income in the Consolidated Statements of Operations.

The total assets, liabilities, and members' equity as of June 30, 2017 and 2016 and the total revenue, total expenses and net loss for the years then ended for PSV are as follows:

(in thousands)	2017	2016
Total assets	\$ 21,117	\$ 16,798
Total liabilities	8,809	7,127
Members' equity	12,308	9,671
Total revenue	26,027	23,284
Total expenses	47,661	46,466
Net loss	(21,634)	(23,182)

## 8. Derivative Instruments

In October 2002, the Hospital entered into interest rate swap agreements in conjunction with the restructuring of its Series A tax-exempt bonds. The swaps were intended to protect the Hospital from increased debt service costs resulting from anticipated future increases in market interest rates.

The Medical Center recognizes their derivatives instruments as either assets or liabilities in the Consolidated Balance Sheets at fair value in accordance with relevant accounting guidance. The total notional amount of the 2002 interest rate swap agreement was \$11.1 million and \$14.4 million, respectively, as of June 30, 2017 and 2016. As of June 30, 2017 and 2016, the fair value of the 2002 swap was \$0.2 million and \$0.6 million, respectively, and is included with other noncurrent liabilities in the accompanying Consolidated Balance Sheets. In 2017 and 2016, the change in fair value of the 2002 swap was \$0.4 million and \$0.3 million, respectively, and is recorded as part of non-operating revenues and expenses in the accompanying Consolidated Statements of Operations.

In October 2005, the Hospital entered into an interest rate swap agreement (the 2005 swap) in conjunction with the issuance of \$150 million in Series 2005-1, 2005-2 and 2005-3 tax-exempt bonds. The swap agreement hedged the variability of cash flows related to changes in market interest rates on the underlying variable-rate debt, effectively converting the variable-rate debt to a fixed rate issuance for the life of the debt outstanding. On April 9, 2008, the Hospital exercised its option to convert the interest rate on the Series 2005 bonds from the auction rate to a fixed rate of 5.45%. The Hospital continues to hold the 2005 swap. The total notional amount of the 2005 interest rate swap agreement was \$137.5 million and \$139.5 million as of June 30, 2017 and 2016. As of June 30, 2017 and 2016, the fair value of the 2005 swap was \$27.0 million and \$39.4 million, respectively, and is included in other noncurrent liabilities in the accompanying Consolidated Balance Sheets. The unrealized gain on the 2005 swap was \$12.4 million and the unrealized loss was \$10.7 million for the years ended June 30, 2017 and 2016 respectively, and is recorded as part of non-operating revenues and expenses in the accompanying Consolidated Statements of Operations.

The total derivative interest expense was \$4.5 million and \$5.1 million for the years ended June 30, 2017 and 2016, respectively.

## 9. Debt

As of June 30, long-term debt consisted of the following:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Series 2015 bonds maturity between July 15, 2016 and July 15, 2044, interest rates ranging from 4.00% to 5.00%	\$ 367,480	\$ 373,960
Loan payable to Bank of America	75,000	75,000
Loan payable to Cerner	105	170
Loan payable to Morrison Management Specialists, Inc.; nominal interest; payable at annual installments of \$86 per year; due July 2017	-	86
Total debt	<u>442,585</u>	<u>449,216</u>
Add/Less: Unamortized premiums and debt issuance costs	<u>29,725</u>	<u>32,370</u>
	472,310	481,586
Less: Current portion	<u>(5,866)</u>	<u>(9,294)</u>
Total long-term debt	<u>\$ 466,444</u>	<u>\$ 472,292</u>

### Series 2015 Bonds

In September 2015, the Children's National Obligated Group ("Obligated Group") borrowed from the District of Columbia (the "District") the proceeds of a series of tax exempt revenue refunding bonds ("Series 2015 Bonds") issued by the District in the principal amount of \$374.0 million. The Obligated Group consists of Children's Hospital, CNWR (joined September 2016), and the Foundation. The Series 2015 Bonds were sold at a premium of \$39.8 million which is being amortized using the effective interest method. The proceeds were used to advance refund the outstanding Series 2008 and Series 2005 Bonds and pay the cost of issuance associated with the Series 2015 Bonds. The Series 2005 Bonds and the Series 2008 Bonds (\$139.5 million and \$248.6 million outstanding as of the advance refunding date, respectively) were issued or refinanced as tax-exempt revenue bonds with fixed interest rates and a final maturity date of July 2035 and July 2044, respectively. The Series 2005 Bonds and the Series 2008 Bonds each had a call provision where the bonds could not be redeemed until July 2018. Therefore, all future interest costs plus principal were placed in an escrow account with a trustee that will make the required principal and interest payments until which time the bonds can be called and redeemed in July 2018. Children's National recognized a loss on extinguishment of debt of approximately \$74.7 million during the year ended June 30, 2016 in connection with this transaction.

The Series 2015 Bonds are comprised of four tranches:

- \$195,030,000 5.00% Serial Bonds due July 15, 2016 through July 15, 2035
- \$40,315,000 4.00% Term Bonds due July 15, 2040
- \$50,000,000 5.00% Term Bonds due July 15, 2040
- \$88,615,000 5.00% Term Bonds due July 15, 2044

The most restrictive covenants for the Series 2015 Bonds require the Obligated Group to maintain a minimum debt service coverage ratio of 1.5, days cash on hand of at least 90 days, and a debt to capitalization ratio of less than 60% at June 30, 2017.

### **Series 2008 Bonds**

In April 2008, the District of Columbia issued \$250 million of Hospital Revenue bonds ("the Series 2008 Bonds"). The Obligated Group under the Series 2008 Bonds included the Hospital and the Foundation.

The proceeds of the sale of the Series 2008 Bonds were loaned by the District of Columbia to the Obligated Group pursuant to a loan agreement dated as of April 1, 2008. The proceeds, together with other available money, are being used in the aggregate to: (1) finance the cost of construction, renovation, equipping and furnishing certain health facilities owned by the Hospital, including, but not limited to (i) the completion of the East Wing Inpatient Tower; (ii) the expansion of Surgical Services into newly constructed space above the emergency and ambulance drive; (iii) the expansion, redesign and upgrade of the Diagnostic Imaging and Radiology Services Departments (iv) expansion of the Cardiology Outpatient Services, Gastroenterology Clinic and the Otolaryngology Clinic; (v) certain infrastructure upgrades at the Hospital, including parking enhancements; and (vi) certain related improvements to the Hospital; (2) funding, if necessary of any working capital costs, (3) funding any required debt service reserve fund or capitalized interest, and (4) paying certain costs of issuance, including any bond insurance or credit enhancement.

The Series 2008 Bonds were comprised of five tranches:

- \$3,680,000 5.25% Term Bonds due July 15, 2018
- \$3,990,000 4.75% Term Bonds due July 15, 2022
- \$11,315,000 5.00% Term Bonds due July 15, 2028
- \$76,250,000 5.25% Term Bonds due July 15, 2038
- \$154,765,000 5.25% Term Bonds due July 15, 2045

The Series 2008 Bonds were secured pursuant to an indenture of trust (the Indenture) between the District of Columbia and the Bank of New York. The bondholder held the security interest in gross receipts of the Obligated Group.

The Series 2008 Bonds were insured by Assured Guaranty Municipal Corporation. In September of 2015, the Series 2008 Bonds were advance refunded with the proceeds from the Series 2015 Bonds.

### **Series 2005 Bonds**

In October 2005, the District of Columbia issued \$150 million of Hospital Revenue bonds in three Sub-Series 2005-1, 2005-2 and 2005-3 Bonds (collectively, "the Series 2005 Bonds"). The Obligated Group under the Series 2005 Bonds included the Hospital and the Foundation.

The proceeds of the sale of the Series 2005 Bonds were loaned by the District of Columbia to the Obligated Group pursuant to a loan agreement dated as of October 1, 2005. The proceeds, together with other available money, were being used in the aggregate to: (1) finance the cost of construction, renovation and equipping of improvements to the Hospital's facilities, (2) pay a portion of the interest accruing on the Series 2005 Bonds during construction, renovation and equipping of the project, (3) fund a debt service reserve fund for the Series 2005 Bonds, and (4) pay costs of issuing the Series 2005 Bonds, including the payment of the premium for the bond insurance policy.

The Series 2005 Bonds were comprised of three tranches:

- \$50,000,000 5.45% Bonds due July 15, 2035
- \$50,000,000 5.45% Bonds due July 15, 2035
- \$50,000,000 5.45% Bonds due July 15, 2035

The project consisted of financing and reimbursing the costs of the construction, renovation, and equipping of improvements to the Hospital's facilities including the completion of the East Addition Patient Care Tower and Main Hospital renovations (including renovation of the perioperative suite), erecting steel and shell for the sixth floor research addition, updating clinical information systems and information systems infrastructure, replacing and improving diagnostic imaging equipment, and purchasing other miscellaneous equipment.

The Series 2005 Bonds were secured pursuant to an indenture of trust (the Indenture) between the District of Columbia and the Bank of New York. The bondholder held the security interest in gross receipts of the Obligated Group.

The Series 2005 Bonds were insured by Assured Guaranty Municipal Corporation. In September of 2015, the Series 2005 Bonds were advance refunded with the proceeds from the Series 2015 Bonds.

#### **Bank of America Loan**

On March 15, 2013, the Hospital entered into a loan agreement with Bank of America ("BoA") to borrow \$75 million. Interest payments of Libor plus 68 basis points are due on the first of each month and the principle must be repaid in full on March 15, 2018. The Medical Center paid debt issuance cost of \$50 thousand in connection with the borrowing, which will be amortized to interest expense over the term of the loan. The proceeds from the borrowing will be used for general business purposes including increasing its cash reserve. In conjunction with the master borrowing agreement, BoA requires compliance with predetermined debt coverage ratios and minimum cash balance.

On June 26, 2017, the Hospital entered into an amended loan agreement with BoA and extended the maturity date of the loan to June 1, 2020. Interest payments of Libor plus 44 basis points are due on the first of each month and the principle must be repaid on the maturity date.

Maturities and sinking fund requirements of long-term debt outstanding for the next 5 years and thereafter as of June 30, 2017 were as follows:

*(in thousands)*

2018	\$	3,200
2019		3,355
2020		78,295
2021		7,505
2022		7,880
Thereafter		<u>342,350</u>
	\$	<u>442,585</u>

A summary of interest cost and investment income on borrowed funds during the years ended June 30 as follows:

*(in thousands)*

	2017	2016
Interest cost		
Charged to operations and non-operating expenses	<u>\$ 22,076</u>	<u>\$ 19,899</u>
	<u>\$ 22,076</u>	<u>\$ 19,899</u>

## 10. Endowments

Children's National endowment consists of 124 individual donor restricted endowment funds and one board-designated endowment fund for a variety of purposes. In addition, contributions receivables, split interest agreements, and other net assets have been designated for Children's National endowment.

The Board of Trustees of Children's National has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children's National classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children's National in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Children's National considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Children's National and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation

- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Children's National
- (7) The investment policies of Children's National

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

*(in thousands)*

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 137,788	\$ 137,788
Board-designated endowment funds	4	-	4
Total endowment funds	<u>\$ 4</u>	<u>\$ 137,788</u>	<u>\$ 137,792</u>

*(in thousands)*

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 133,148	\$ 133,148
Board-designated endowment funds	4	-	4
Total endowment funds	<u>\$ 4</u>	<u>\$ 133,148</u>	<u>\$ 133,152</u>

Changes in endowment net assets for the years ended June 30 (in thousands) were as follows:

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ 4	\$ 133,148	\$ 133,152
Investment income		506	506
Net appreciation (realized and unrealized)	-	(324)	(324)
Total investment return	-	182	182
Other changes in permanently restricted net assets	-	2,030	2,030
Gifts	-	2,428	2,428
<b>Endowment net assets, end of year</b>	<b>\$ 4</b>	<b>\$ 137,788</b>	<b>\$ 137,792</b>

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ 4	\$ 128,544	\$ 128,548
Investment income	-	144	144
Net appreciation (realized and unrealized)	-	(607)	(607)
Total investment return	-	(463)	(463)
Gifts	-	5,067	5,067
<b>Endowment net assets, end of year</b>	<b>\$ 4</b>	<b>\$ 133,148</b>	<b>\$ 133,152</b>

**Permanently Restricted Net Assets (Endowments Only)**

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA as of June 30:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Patient care	\$ 48,393	\$ 62,698
Health-related education	5,561	5,265
Research	83,834	65,185
	<b>\$ 137,788</b>	<b>\$ 133,148</b>

### Endowment Funds With Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. There were no deficits in donor gift amounts as of June 30, 2017 and 2016.

### Return Objectives and Risk Parameters

Children's National has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. Children's National expects its endowment funds over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

### Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, Children's National relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Children's National targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

### Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of Children's National determines the method to be used to appropriate endowment funds for expenditure. Calculations were performed for individual endowment funds at a rate of 5% of the three-year rolling average using a monthly average over the most recent 36 months ending June 30<sup>th</sup>. The corresponding calculated spending allocations were distributed annually on the first day of the fiscal year from the current net total or accumulated net total investment returns for individual endowment funds. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, Children's National expects the current spending policy to allow its endowment to grow at between 3-8% annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

## 11. Temporarily Restricted Net Assets

Temporarily restricted net assets, consisting of cash, investments, and contributions receivable, were available for the following purposes at June 30:

<i>(in thousands)</i>	2017	2016
Patient care	\$ 104,183	\$ 91,146
Building expansion and equipment	7,591	10,797
Health-related education	8,157	7,320
Research	34,268	24,457
Charitable remainder trusts	916	965
	<u>\$ 155,115</u>	<u>\$ 134,685</u>

## **12. Insurance**

The Medical Center self-insures for malpractice and general liability claims up to a retention limit and carries excess coverage above that limit. On August 1, 1997, the Medical Center established the Captive as a wholly owned captive insurance company to assume the retained portion of medical malpractice, employment, and general liability claims of the Medical Center arising on or after August 1, 1997. Cash transfers to the Captive are based on premium levels established by the Captive's management, as well as Cayman Islands statutory capital requirements.

The reserve for claims shown in the accompanying Consolidated Balance Sheets represent the reserve for asserted and unasserted malpractice and comprehensive general liability claims against the Medical Center and its affiliated physicians. The reserve for claims is estimated by management using information supplied by legal counsel and an independent actuarial firm. Malpractice and other claims in excess of the reserve for claims have been asserted against the Medical Center, and it is possible that actual claim liabilities could differ from estimated amounts in the near term. However, management and legal counsel do not believe that the ultimate cost of resolving asserted and unasserted claims related to events having occurred through June 30, 2017 are materially in excess of the reserve for claims and malpractice insurance coverage.

The Medical Center also self-insures for employee health and dental claims. In addition, the Medical Center has a deductible of \$500 thousand per occurrence for workers' compensation. Amounts accrued in the accompanying Consolidated Balance Sheets for the estimated cost of health and dental care claims incurred, including estimates for incurred but not reported amounts, was approximately \$4.3 million and \$4.0 million as of June 30, 2017 and 2016, respectively. Amounts accrued for workers compensation claims were approximately \$2.4 million and \$1.9 million as of June 30, 2017 and 2016, respectively.

## **13. Benefit Plans**

The Medical Center sponsors a defined contribution retirement plan that is available to substantially all employees. The Medical Center makes contributions to the plan on behalf of each participant based on the employee's level of contribution. The cost of the plan to the Medical Center was approximately \$20.3 million and \$19.5 million as of June 30, 2017 and 2016, respectively.

The Medical Center also has incentive compensation plans, based on achievement of organizational and individual goals, and deferred compensation arrangements. Assets and liabilities related to the deferred compensation arrangements are included in other noncurrent assets and other noncurrent liabilities in the accompanying Consolidated Balance Sheets in the amount of approximately \$25.9 million and \$21.3 million as of June 30, 2017 and 2016, respectively.

## **14. Leases**

The Medical Center operates certain property and equipment under capital leases and is obligated under several operating leases. The operating leases are primarily for the rental of space at auxiliary locations and for the use of certain office and lab equipment. Several of these leases contain escalation clauses, with fixed-rate increases ranging from 2% – 4%. The Medical Center has recorded a deferred rent liability of approximately \$5.5 million and \$4.6 million as of June 30, 2017 and 2016, respectively, which is included in accrued salaries and other expenses in the accompanying Consolidated Balance Sheets.

Future minimum payments for the years ending June 30 are as follows:

<i>(in thousands)</i>	<b>Operating Leases</b>	<b>Capital Leases</b>
2018	\$ 17,315	\$ 1,486
2019	17,601	874
2020	16,429	650
2021	14,995	677
2022 and thereafter	<u>73,251</u>	<u>6,912</u>
Total future minimum payments	139,591	10,599
Less: Amount representing interest	<u>-</u>	<u>(4,727)</u>
Present value of net minimum lease payments	<u>\$ 139,591</u>	<u>\$ 5,872</u>

As of June 30, 2017, the amount representing short term and long term interest is \$0.5 million and \$4.2 million, respectively.

Rent expense was \$17.8 million and \$15.9 million for the years ended June 30, 2017 and 2016, respectively.

Fixed assets under capital leases as of June 30 are as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Property and equipment under capital lease	\$ 30,361	\$ 29,838
Less: Accumulated depreciation	<u>(25,049)</u>	<u>(23,370)</u>
Property and equipment under capital leases, net	<u>\$ 5,312</u>	<u>\$ 6,468</u>

#### 15. Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents insured under third-party payor agreements. The mix of receivables was as follows:

	<b>2017</b>	<b>2016</b>
Managed Care/Commercial	51 %	52 %
Maryland Medicaid	28	24
District of Columbia Medicaid	13	14
Virginia Medicaid and other	7	8
Self-pay	<u>1</u>	<u>2</u>
	<u>100 %</u>	<u>100 %</u>

## 16. Functional Expenses

The Medical Center provides health care services to children both within and outside its geographical service area. Expenses related to providing these services for the years ending June 30 were as follows:

<i>(in thousands)</i>	<b>2017</b>	<b>2016</b>
Patient care	\$ 711,342	\$ 702,479
Research	56,323	55,947
Management and general	354,474	311,618
Fundraising	24,362	24,234
	<u>\$ 1,146,501</u>	<u>\$ 1,094,278</u>

## 17. Commitments and Contingencies

The Medical Center is involved in litigation and regulatory investigations arising in the ordinary course of business. After consulting with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations.

## 18. Subsequent Events

Subsequent events have been evaluated by management through October 24, 2017 which is the date the consolidated financial statements were issued.

## **Supplementary Consolidating Information**



## Report of Independent Auditors

To the Board of Trustees of  
Children's National Medical Center and Subsidiaries:

We have audited the consolidated financial statements of Children's National Medical Center and Subsidiaries ("Children's National") as of June 30, 2017 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations, changes in unrestricted net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

A handwritten signature in black ink that reads "PricewaterhouseCoopers up". The signature is written in a cursive, flowing style.

October 24, 2017

	Obligated group										Consolidated Total		
	Hospital	CNWR	Foundation	Eliminations	Obligated Group Total	CRI	Safekids	CP&A	CNHN	CNAPPI		Captive	Eliminations
<b>Assets</b>													
<b>Current assets</b>													
Cash and cash equivalents	\$ 132,603	\$ -	\$ 1,326	\$ -	\$ 133,929	\$ -	\$ (169)	\$ (268)	\$ -	\$ -	\$ 5,358	\$ -	\$ 138,850
Accounts receivable for patient services, net	178,606	-	-	-	178,606	-	-	788	-	-	-	-	179,394
Settlements due from third-party payors	7,302	-	-	-	7,302	-	-	-	-	-	-	-	7,302
Contributions receivable, net	-	-	29,592	-	29,592	-	3,888	-	-	-	-	-	33,480
Grant receivables	5,991	-	-	-	5,991	15,146	33	-	-	-	-	-	21,170
Inventory of supplies	8,815	-	-	-	8,815	-	-	609	-	-	-	-	9,424
Prepaid expenses and other	41,360	-	-	-	41,360	17	204	329	932	-	1,891	(18,244)	26,489
Total current assets	374,677	-	30,918	-	405,595	15,163	3,956	1,455	932	-	7,249	(18,244)	416,109
Property and equipment, net	480,153	50,520	-	-	530,673	19,019	1,199	3,246	-	-	-	-	554,137
Assets whose use is limited by professional liability claims	119	-	-	-	119	-	-	-	-	-	26,107	-	26,226
Investments	619,991	-	469,023	(449,272)	639,742	46,097	1,824	-	-	-	35,164	(46,098)	676,729
Contributions receivable, net	-	-	33,754	-	33,754	-	-	-	-	-	-	-	33,754
Interest in beneficial trusts	-	-	8,184	-	8,184	-	-	-	-	-	-	-	8,184
Other	33,552	-	-	-	33,552	-	3	1,098	-	-	-	(7,863)	26,790
Total noncurrent assets	1,133,815	50,520	510,961	(449,272)	1,246,024	65,116	3,026	4,344	-	-	61,271	(53,961)	1,325,820
Total assets	\$ 1,508,492	\$ 50,520	\$ 541,879	\$ (449,272)	\$ 1,651,619	\$ 80,279	\$ 6,982	\$ 5,802	\$ 932	\$ -	\$ 68,520	\$ (72,205)	\$ 1,741,929
<b>Liabilities and Net Assets</b>													
<b>Current liabilities</b>													
Accounts payable	\$ 35,506	\$ -	\$ -	\$ -	\$ 35,506	\$ 117	\$ 194	\$ 522	\$ -	\$ -	\$ 1,291	\$ -	\$ 37,630
Accrued salaries and other expenses	105,798	-	726	-	106,524	2,968	360	2,683	57	-	903	-	113,495
Current portion of reserve for claims	22,634	-	-	-	22,634	-	-	-	-	-	18,244	(18,244)	22,634
Settlements due to third-party payors	2,832	-	-	-	2,832	-	-	96	-	-	-	-	2,928
Deferred revenue	12,867	-	105	-	12,972	9,664	1,903	1,752	-	-	-	-	26,291
Current portion of long-term debt	5,866	-	-	-	5,866	-	-	-	-	-	-	-	5,866
Current portion of capital lease obligations	882	-	-	-	882	-	-	-	-	-	-	-	882
Total current liabilities	186,385	-	831	-	187,216	12,749	2,457	5,053	57	-	20,438	(18,244)	209,726
<b>Noncurrent liabilities</b>													
Long-term debt	466,444	-	-	-	466,444	-	-	-	-	-	-	-	466,444
Long-term capital lease obligations	4,665	-	-	-	4,665	-	-	536	-	-	-	-	5,201
Reserve for claims	67,025	-	-	-	67,025	-	-	-	-	-	7,863	(7,863)	67,025
Due to affiliates, net	(315,329)	3,144	45,332	-	(266,853)	252,180	(1,398)	16,576	(910)	405	-	-	-
Interest rate swaps	27,209	-	-	-	27,209	-	-	-	-	-	-	-	27,209
Other long-term liabilities	37,467	4,938	347	-	42,752	(171)	-	1,066	-	-	-	-	43,647
Total noncurrent liabilities	287,481	8,082	45,679	-	341,242	252,009	(1,398)	18,178	(910)	405	7,863	(7,863)	609,526
Total liabilities	473,866	8,082	46,510	-	528,458	264,758	1,059	23,231	(853)	405	28,301	(26,107)	819,252
<b>Net assets (deficit)</b>													
Unrestricted	793,531	42,438	208,177	(208,177)	835,969	(230,576)	212	(17,429)	1,785	(405)	40,219	(1)	629,774
Temporarily restricted	126,262	-	149,404	(126,262)	149,404	23,142	5,711	-	-	-	-	(23,142)	155,115
Permanently restricted	114,833	-	137,788	(114,833)	137,788	22,955	-	-	-	-	-	(22,955)	137,788
Total net assets (deficit)	1,034,626	42,438	495,369	(449,272)	1,123,161	(184,479)	5,923	(17,429)	1,785	(405)	40,219	(46,098)	922,677
Total liabilities and net assets	\$ 1,508,492	\$ 50,520	\$ 541,879	\$ (449,272)	\$ 1,651,619	\$ 80,279	\$ 6,982	\$ 5,802	\$ 932	\$ -	\$ 68,520	\$ (72,205)	\$ 1,741,929



**1. Basis of Presentation—Consolidating Supplementary Information**

The consolidating supplementary information (“consolidating information”) presented on pages 34-35 was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations, changes in net assets and cash flows of the individual companies within the Medical Center and is not a required part of the consolidated financial statements. The individual companies within the Medical Center as presented within the consolidating information are disclosed within Note 1 to the consolidated financial statements.

**Exhibit 21**  
**Letters of Support**

## Summary of Letters of Support

**Delegate Darryl Barnes**

*Delegate (District 25, Prince George's County) and Deputy Majority Whip*  
Maryland House of Delegates

**Senator Joanne C. Benson**

*Senator (District 24, Prince George's County)*  
The Senate of Maryland

**Hon. Eugene W. Grant**

*Mayor*  
Seat Pleasant, M.D.

**Martha Herrera**

*Parent*  
Bowie, M.D.

**Darcel T. Jackson**

*Parent*  
Temple Hills, M.D.

**Michelle D. Jiggetts, M.D., M.B.A.**

*Program Administrator, Parent Navigator Program*  
Children's National Medical Center

**Colenthia Malloy**

*Chief Executive Officer*  
Greater Baden Medical Services

**Kevin M. Maxwell, Ph.D.**

*Chief Executive Officer*  
Prince George's County Public Schools

**Pamela Mudd, M.D, M.B.A.**

*Assistant Professor of Pediatrics and Surgery*  
Children's National Medical Center

**Matthew E. Oetgen, M.D, M.B.A.**

*Chief, Division of Orthopaedic Surgery and Sports Medicine*  
Children's National Medical Center

**Maria Pena, M.D.**

*Associate Professor of Otolaryngology and Pediatrics*  
Children's National Medical Center

**Crystal Thomas**

*Parent*  
Hyattsville, M.D.

December 28, 2017

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

Whom it may concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County, including: orthopedics, ophthalmology, otolaryngology, pediatric development, cardiology, neurology, urology, endocrinology, obesity institute, rheumatology, reconstructive surgery, dermatology, nephrology, surgery, rehabilitation medicine, gastroenterology, nutrition, neuropsychology, speech, hematology, allergy, genetics, PT/OT, radiology with MRI, pulmonary, neurology, infectious disease, and infusions.

I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Regional Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me.

Sincerely,

*Darryl Barnes*

Delegate Dr. Darryl Barnes  
District 25, Prince George's County

JOANNE C. BENSON  
Legislative District 24  
Prince George's County

Finance Committee

Joint Committees

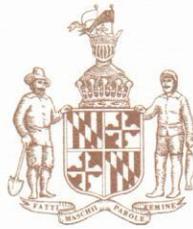
Children, Youth, and Families

Ending Homelessness

Fair Practices and State Personnel Oversight

Management of Public Funds

Protocol



James Senate Office Building  
11 Bladen Street, Room 214  
Annapolis, Maryland 21401  
301-858-3148 · 410-841-3148  
800-492-7122 Ext. 3148  
Fax 301-858-3149 · 410-841-3149  
Joanne.Benson@senate.state.md.us

THE SENATE OF MARYLAND  
ANNAPOLIS, MARYLAND 21401

December 20, 2017

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

To Whom It May Concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

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If there is anything I can do to further support the application of Children's National, please contact me.

Sincerely,

Handwritten signature of Joanne C. Benson in cursive script.  
Joanne C. Benson



# City of Seat Pleasant

*"A Smart City of Excellence"*

EUGENE W. GRANT  
MAYOR

December 28, 2017

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

To Whom It May Concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

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I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Regional Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me.

Yours in Excellent Service,

  
Eugene W. Grant  
Mayor

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

To whom it may concern:

I write today to convey my strongest support for Children's Hospital's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. As a Prince George's County resident, I'm relieved to know that my daughter, who has been receiving care from Children's National Health System since birth, will be able to utilize these services in her community. Having the regional center at Woodmore will allow Angelica to get care and return to school. When she needs surgery it will allow others in my family who live in the county to help me with her care. Personally, as a full-time employee and a part-time student, I can meet her needs and continue pursuing my goals without having to choose one over the other, because I will be able to access everything in my neighborhood and eliminate the time consuming and costly commute.

I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,



Martha Herrera  
795 Saint Michaels Drive  
Bowie, MD 20721

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

To whom it may concern:

I write today to convey my strongest support for Children's Hospital's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

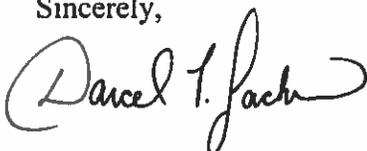
The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. As a Patient and Family Coordinator at Children's National; one of the key components of my job is to advance Patient and Family Centered Care throughout the organization. Patient and Family centered care is an approach to the planning, delivery, and evaluation of health care that is grounded in mutually beneficial partnerships among health care professionals, patients, and families. I believe that access to quality healthcare, in your own neighborhood, that is dedicated to provide the best care for our children is Patient and Family Centeredness at its best.

In addition, I am a parent of a wonderfully-made daughter with medical complexity who is seen by 23 different specialty departments within Children's National Health System. During our journey for the last eleven years, she has had many ambulatory appointments and surgeries. Each time we have had to travel to the main campus in Washington, DC or the Regional Outpatient Center in Montgomery County. This new clinic, inclusive of the ambulatory surgical facility, will increase access for families, including my own, making it more convenient to receive critical services closer to home. Quality service and care in a convenient location will help create a better quality of life.

I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,



Darcel T. Jackson  
2211 Afton Street  
Temple Hills, MD 20748

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

To Whom It May Concern:

I'm writing convey my strongest support for Children's Hospital's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. This facility will prove to be extremely beneficially for those children, particularly children with special health care needs and their families that reside in the Southern Maryland region, It will fill a current gap in pediatric services for counties that are in close proximity such as Charles, Calvert and St. Mary's counties, while still being centrally located to other Maryland counties.

I routinely receive inquiries, from families, inquiring about available services in this area and have not been able to provide an adequate resource. This new facility will definitely fill a substantial medical void.

I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,



Michelle D. Jiggetts, MD, MBA  
Program Administrator  
Parent Navigator Program



Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

Whom it may concern:

Greater Baden Medical Services, Inc. (GBMS) is pleased to offer our enthusiastic support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

We understand that the proposed new facility will offer comprehensive pediatric services to children in Prince George's County, including specialty outpatient services our pediatric patients need.

GBMS is the County's longest serving safety net health center serving over 17,000 unduplicated patients each year. In addition to presenting the opportunity for improved access to quality care, the families of Prince George's County will benefit from the opportunity for economic development and job growth that this Regional Outpatient Center will bring. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me.

Sincerely,

Colentia Malloy, CEO  
Greater Baden Medical Services



**Kevin M. Maxwell, Ph.D.**  
*Chief Executive Officer*

December 21, 2017

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Outpatient Center at Prince Georges County

Whom It May Concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

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If there is anything I can do to further support the application of Children's National, please contact me.

Sincerely,

Kevin M. Maxwell, Ph.D.  
Chief Executive Officer



Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Regional Outpatient Center at Prince Georges County

To whom it may concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. As an Otolaryngologist (ENT) I serve patients with some of the most common complaints including snoring, ear infections, and neck swellings. The ability to see children for clinical evaluation and management as well as to provide same site surgical care is invaluable to Prince George's County pediatric population.

I am excited to support the expanded quality care, the opportune economic development and job growth that this Regional Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,

*Pamela Mudd, MD*

Pamela Mudd, MD MBA  
Assistant professor of Pediatrics and Surgery  
George Washington University  
Pediatric Otolaryngology Attending Physician  
pmudd@childrensnational.org



Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Regional Outpatient Center at Prince Georges County

To whom it may concern:

I write today to convey my strongest support for Children's National Medical Center's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. Currently the Division of Orthopaedic Surgery, which I oversee, conducts about 2000 patient visits per year in the Laurel Lakes Outpatient Center of Children's National, with approximately 10% of these patients requiring surgery each year. These surgeries are typically performed at Children's National Health System in Washington, DC, which is certainly an inconvenience for many families from the Prince George's County area. A local ambulatory surgery center in PG County would be much needed and provide a much more convenient option for treatment for these patients.

I am excited to support the expanded quality care, the opportune economic development and job growth that this Regional Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,

A handwritten signature in black ink, appearing to read "Matthew E. Oetgen". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Matthew E. Oetgen, MD, MBA  
Chief, Division of Orthopaedic Surgery and Sports Medicine  
Children's National Health System



111 Michigan Avenue, N.W.  
Washington, DC 20010  
(202) 476-5000

**Division of  
Pediatric Otolaryngology  
Head and Neck Surgery**

**Clinic Office:** (202) 476-2159  
**Appointments:** (202) 476-2159  
**Surgical Scheduling:** (202) 476-3283  
**Nurse:** (202) 476-3363  
**Emergency:** (202) 476-5000  
**Office Fax:** (202) 476-5038  
**TDD:** (202) 476-5045

**George H. Zalzal, M.D., F.A.C.S., F.A.A.P.**  
*Professor and Chief of Division*

**Diego A. Preciado, M.D., Ph.D., F.A.A.P.**  
*Associate Professor and Vice Chief of Division*  
**Nancy M. Bauman, M.D., F.A.C.S., F.A.A.P.**  
*Professor*

**Maria T. Peña, M.D., F.A.C.S., F.A.A.P.**  
*Professor*

**Rahul K. Shah, M.D., F.A.C.S., F.A.A.P.**  
*Associate Professor*

**Brian K. Reilly, M.D., F.A.C.S., F.A.A.P.**  
*Associate Professor*

**Pamela Mudd M.D.**  
*Assistant Professor*

**Alexandra Espinel, MD**  
*Assistant Professor*

**Lyuba Gitman, MD**  
*Fellow*

**Lori Gullot, MD**  
*Fellow*

**Jonathan Lively, P.A.-C**  
*Physician Assistant*

**Sherwood Holloway, P.A.-C**  
*Physician Assistant*

**Michelle Levy, P.A.-C**  
*Physician Assistant*

**Roshnee Pennington, P.A.-C**  
*Physician Assistant*

**Leslie Prado, P.A.-C, NPH**  
*Physician Assistant*

**Marie Simmons, R.N., MSN, CPN**  
*Clinical Supervisor*

**Elyse Gabay, R.N.**  
*Nurse*

**Gina M. Krakovsky MSN, CPNP-PC**  
*Pediatric Nurse Practitioner*

**Denise Borchert, R.N.**  
*Nurse*

**Eric Baker**  
*Program Manager*

**Division of Otolaryngology  
The George Washington University  
School of Medicine (GWUSM)**

Maryland Health Care Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Re: Children's National Health System Regional Outpatient Center at Prince Georges County

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The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. Currently, I practice both at Children's National Medical Center's campus in Washington D.C., and at the Upper Marlboro ROC in Upper Marlboro, Maryland, as a pediatric otolaryngologist. While I see the majority of my patients at the Upper Marlboro ROC, I perform any surgical procedures needed to treat my patients and their families at either Children's National Medical Center's DC campus or at the Montgomery County Ambulatory Surgical Facility, which can be a hardship for some families. Having an Ambulatory Surgical Facility as part of new Lanham Maryland ROC will tremendously beneficial to my patients and their families, as many of the children will be able to have surgery at the new center, eliminating the need to travel to another facility for surgery.

I am excited to support the expanded quality care, the opportune economic development and job growth that this Regional Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely

Maria Peña, MD  
Associate Professor of Otolaryngology and Pediatrics  
The George Washington University Medical Center  
Children's National Medical Center  
Associate, Division of Otolaryngology

Crystal Thomas  
630 Reading Terrace  
Hyattsville, MD 20785

Re: Children's National Health System Outpatient Center at Prince Georges County

To whom it may concern:

I write today to convey my strongest support for Children's Hospital's application for a certificate of need to establish an Ambulatory Surgical Facility as part of a new 60,000 sq. ft. Regional Outpatient Center (ROC) that will be built in Prince George's County, Maryland. The proposed new facility will be located at 2900 North Campus Way, Lanham, MD 20706, and will address the growing needs of pediatric patients in Prince George's County.

The proposed new facility will offer comprehensive pediatric services to children in Prince George's County. As a resident of Prince Georges County and parent of an ex 23 week premature son with complex medical needs, this facility would help our family a great deal. My son is followed by multiple specialists at Children's National. We currently travel from our home in Prince Georges County to Children's main campus in Washington, DC multiple times per month and some times per week to his appointments. Because of the distance and time it takes to get to and from his appointments in DC, we often have to keep him home from school the entire day. Depending on the time of the appointment, my 9 year old daughter usually has to miss part of her school day as well and his dad and I have to take off work for the entire day. Having a Children's National Medical Outpatient Center close to our home would mean that Dwight could get high quality medical care in our community and still attend school on appointment days, thus decreasing time out of school for him and his sister and time lost at work for us as parents. Additionally Dwight has required outpatient surgical procedures, including regularly scheduled Botox injections under anesthesia, several times per year since birth. The strain of transporting Dwight home from the main campus in DC after surgical procedures would be alleviated with the establishment of the new Prince Georges County facility. Dwight is 5 years old, non-ambulatory, wheelchair and technology dependent. Decreasing his travel time after medical procedures is ideal given his fragile medical status. Again, this new state of the art pediatric facility would be beneficial to our family and countless other families similar to ours.

I am excited to support the expanded quality care, as well as the opportunity for economic development and job growth that this Outpatient Center will bring to the children and families of Prince George's County. The level of skilled health care professionals this center will attract will expand the frontline of health professionals and resources that make up the infrastructure of prevention and care in Prince George's County which help our children grow up stronger.

If there is anything I can do to further support the application of Children's National, please contact me anytime.

Sincerely,

A handwritten signature in black ink that reads "Crystal Thomas". The signature is written in a cursive, flowing style.

Crystal Thomas