

October 23, 2013

Daughters of Charity Health System  
c/o Kaufman Hall  
2101 Rosecrans Avenue, Suite 6200  
El Segundo, California 90245

Attention: Mr. Steve Hollis

Ladies and Gentlemen:

This letter of intent sets forth a non-binding agreement in principle between Far West Division, Inc. ("HCA") and Daughters of Charity Health System ("Seller") covering some of the major terms and conditions of the proposed purchase by one or more affiliates of HCA (collectively "Buyer") of all of the assets of Seller (or its affiliates) which are associated with or used in the operation of O'Connor Hospital, a 358 bed acute-care hospital located in San Jose, California and Saint Louise Regional Hospital, a 93 bed acute-care hospital located in Gilroy, California and other businesses and services related to those hospitals (collectively, the "Hospitals") including, without limitation, the assets listed on Exhibit A-1 (collectively, the "Assets"), but specifically excluding the assets listed on Exhibit A-2 (the "Excluded Assets").

1. Type of Transaction. Pursuant to a definitive agreement or agreements to be prepared by Buyer (the "Definitive Agreement"), the transaction shall be structured as a sale by Seller (and its affiliates) to Buyer of good and marketable title to the Assets.

2. Purchase Price. Based on the unaudited financial statements of Seller as of and for the period ended August 31, 2013, and audited financial statements of Seller for Seller's fiscal year ended June 30, 2012, Buyer intends to pay Seller as full consideration for the Assets Two Hundred Million Dollars (\$200,000,000), which amount shall be increased or decreased by the amount by which the Net Working Capital (as hereinafter defined) of Seller as of the Closing (as hereinafter defined) exceeds or is less than the Target Net Working Capital (as hereinafter defined) (the "Purchase Price").

"Net Working Capital" shall mean the difference between those current assets of Seller to be purchased by Buyer and those current liabilities of Seller to be assumed by Buyer, in each case as identified on Exhibit B. Such Purchase Price shall be further subject to adjustment pursuant to Buyer's due diligence review of the books and records of the Seller.

"Target Net Working Capital" shall mean \$\_\_\_\_\_. **[Note: This amount will be based upon normalized working capital for the Hospitals and related operations, which shall include the current assets and current liabilities described on Exhibit B, as well as accounts**

**receivable and accounts payable. Further, any adjustment for accrued payroll obligations would be addressed separate from the Net Working Capital adjustment.]**

3. Payment of Purchase Price; Credits. Buyer shall pay the Purchase Price to Seller at the closing date of the Definitive Agreement (“Closing”) by wire transfer of federal funds to an account of Seller's designation less (a) the amount of Seller employee vacation and sick time benefits assumed by Buyer, to the extent such amounts are not included in the calculation of Net Working Capital and (b) the amount of any long-term debt or capitalized leases of Seller assumed or refinanced by Buyer.

4. Encumbrances. Seller will convey good and marketable title to the Assets to Buyer, free and clear of all liens, liabilities, encumbrances and defects in title, except for the lien of any indebtedness expressly assumed by Buyer. Seller shall pay the premium for an owner's title insurance policy from an insurer acceptable to Buyer.

5. Liabilities. Buyer will assume the current liabilities of Seller included in the Net Working Capital as of Closing and the contracts and leases of Seller as described below. Except for the foregoing and except as Buyer may otherwise agree in the Definitive Agreement, Buyer will not assume and Seller will remain responsible for, and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever, which relate to the sale of the Assets or the operation thereof prior to the Closing. The Seller's indemnity obligations shall be guaranteed by Seller's parent entity as well as any foundation that receives the proceeds from the sale of the contemplated transaction. Buyer intends to assume prospectively all of the normal and customary contracts and leases of Seller related to the operations of the Hospitals and the Assets, subject to HCA's review and approval thereof, including legal review; provided, however, that except as Buyer may otherwise agree, Buyer will not assume (i) any of Seller's employment agreements with senior management personnel, (ii) any contracts or leases associated with the Excluded Assets, (iii) any contracts associated with Seller's employee benefit plans, (iv) management agreements for Seller's current operation of the Hospitals (or any portion thereof), (v) billing and collection agreements, (vi) supply agreements which are inconsistent with HPG vendor agreements and cannot be terminated without penalty on 90 days or less notice, (vii) any management contracts or other contracts between Seller and any entity or individual affiliated with Seller, and (viii) managed care contracts.

Further, Buyer will not assume Seller's collective bargaining agreements associated with the Hospitals. Buyer will establish the initial terms and conditions of employment for all employees (as set forth in Exhibit C). However, Buyer will recognize the appropriate unions as the collective bargaining representatives for the applicable groups of employees. Buyer is prepared to enter into a new collective bargaining agreement (“CBA”) with each of the unions representing employees at the Hospitals on terms and conditions that are the same as those in the

applicable CBAs for the hospitals owned by Buyer's affiliates in San Jose. The execution and delivery of such new CBAs would be a condition to Buyer's obligation to close the contemplated transaction. Following execution of this letter of intent, HCA would need to receive the unions' written commitment to replace existing CBAs with the HCA agreements prior to moving forward with the other steps in the contemplated transaction. If the transaction does not close because one or more of the applicable unions do not execute the respective CBA as described above, Seller shall pay to Buyer a fee in an amount to be set forth in the Definitive Agreement, which fee shall be equal to the reasonably projected third party costs estimated to be incurred by Buyer in connection with the contemplated transaction through the Closing.

At the appropriate time prior to the execution of the Definitive Agreement, Buyer will have the opportunity to review Seller's payor contracts in order to evaluate whether Buyer will take assignment and assumption of those agreements. Further, as a part of Buyer's due diligence, Buyer will evaluate whether Buyer will accept the medical staff bylaws for each Hospital.

6. Additional Terms and Conditions. The additional terms set forth in Exhibit C are incorporated by reference into this letter of intent.

7. Access to Information.

(a) Pending the execution of the Definitive Agreement, Seller will permit Buyer and its representatives full and complete access to inspect and appraise Seller, the Assets, the Hospitals and its business prospects, and will disclose and make available to representatives of Buyer all books, agreements, papers and records relating to the ownership and operation of the Assets. In this regard, HCA agrees that such inspection shall not interfere with the operations of Seller. Promptly after the date hereof Buyer shall cause to be prepared (at Seller's expense) (i) a survey of the real property portion of the Assets and (ii) a preliminary environmental site assessment, each in a form acceptable to Buyer.

(b) If required by law, each of HCA and Seller shall file a notification and report form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as soon as possible after the execution of the Definitive Agreement. Each of Seller and HCA shall obtain as soon as practicable all other applicable governmental approvals (or exemptions therefrom) relating to the transactions described herein.

(c) Seller recognizes Buyer's commitment to complying with federal and state statutes and regulations governing physician relationships, including the federal Stark law and Anti-Kickback Statute, and will work diligently to provide Buyer on a priority basis access to all documents and information relevant to ensuring that all aspects of Seller's operations and all elements of the transaction contemplated herein comply with said statutes and regulations. Seller

will also make available to Buyer the individual primarily responsible for Seller's ethics and compliance policies, practices, procedures, and related matters. The parties agree to schedule a preliminary introductory call with such individual(s) and Buyer representatives within 10 days of the date this letter of intent has been executed by both parties.

8. No Violation. Seller represents and warrants to HCA and Buyer that (i) Seller is not currently bound under any binding or enforceable contract or agreement with any third party concerning a transaction with respect to the Assets, (ii) this letter of intent and the transactions contemplated thereby, will not violate any contract, agreement or commitment currently binding on Seller, and (iii) Seller is fully authorized to enter into this letter of intent. HCA has prepared and delivered this letter of intent in reliance on such representations and warranties.

9. Confidentiality; Disclosure; Expenses.

(a) Except as otherwise required by law, HCA and Seller agree to keep this letter of intent and its contents confidential and not disclose the same to any third party (except attorneys or accountants hired by them and except to the applicable governmental agencies in connection with any required notification or application for approval or exemption therefrom) without the written consent of the other party. The Confidentiality Agreement between HCA and Seller dated as of March 11, 2013, shall remain in effect.

(b) Except as required by law, any release to the public of information with respect to the matters set forth herein will be made only in the form and manner approved by the parties and their respective counsel.

(c) Each party shall bear its own expenses in connection with the implementation of this letter of intent, regardless of whether the Definitive Agreement is executed. The cost of documentary stamps, transfer taxes, recording fees and similar Closing costs shall be paid by Seller.

10. No-Shop Clause. From the date of execution of this letter until one hundred twenty (120) days thereafter, Seller will not, without the approval of Buyer, (a) offer for sale the Assets (or any material portion thereof) or any ownership interest in any entity owning any of the Assets, (b) solicit offers to buy all or any material portion of the Assets or any ownership interest in any entity owning any of the Assets, (c) hold discussions with any party (other than Buyer) looking toward such an offer or solicitation or looking toward a merger or consolidation of any entity owning any of the Assets or (d) enter into any agreement with any party (other than Buyer) with respect to the sale or other disposition of the Assets (or any material portion thereof) or any ownership interest in any entity owning any of the Assets or with respect to any merger, consolidation, or similar transaction involving any entity owning any of the Assets. Seller will

promptly communicate to HCA the substance of any inquiry or proposal concerning any such transaction.

11. Continuation of Seller's Operations. From the date hereof until the Closing, Seller shall continue to operate the Assets in the ordinary course of Seller's business, including, without limitation, making all normal and planned capital expenditures. Without HCA's prior written consent, Seller shall not (i) remove or transfer any of the Assets, except in the ordinary course of business (with adequate replacement of any transferred Assets), (ii) make any material change in the business or operation of the Assets, or (iii) enter into any other significant contract, commitment or transaction with respect to the Assets.

12. Controlling Law. This letter of intent will be governed by and construed in accordance with the laws of the State of Tennessee.

13. Diligence Process / Timing. Within ten days of the date this letter of intent is fully executed by both parties, (i) HCA shall transmit to Seller a diligence request, and (ii) the parties shall agree in writing to a timeline ("Timeline") for completion of the transactions contemplated by this letter of intent. The Timeline shall establish a timeframe for completion of all material steps in the transaction process including, but not limited to, the date by which Seller will complete production of all documents in response to HCA's due diligence requests. The parties acknowledge that due diligence information will be uploaded to an HCA virtual data room maintained by Intralinks.

14. Definitive Agreement. Except for the provisions of Sections 7, 8, 9, 10, 11, 12, 13 and 14 hereof, this letter of intent is not intended to be a binding agreement and shall not give rise to any obligations between the parties. Further, due to the complexity of the proposed transaction, it is the expressed intention of the parties that except for the provisions of Sections 7, 8, 9, 10, 11, 12, 13 and 14 hereof, no binding contractual agreement shall exist between them unless and until Buyer and Seller shall have executed and delivered the Definitive Agreement, which shall contain the provisions outlined above and the representations, warranties, and other terms and conditions customary in this type of transaction, all of which must be acceptable to both parties in their sole discretion (including, without limitation, contingencies for all necessary regulatory approvals). Either party may for whatever reason terminate this letter of intent and further negotiations by written notice to the other party. In such event, there shall be no liability between us as a result of the execution of this letter of intent, any acts or omissions of the parties or their representatives in connection with the proposed transaction, any action taken in reliance on this letter of intent, or such termination, except with respect to the provisions of Sections 7, 8, 9, 10, 11, 12, 13 and 14 hereof.

\* \* \*

Please indicate your approval of the terms and conditions of this proposal and your intention to enter into these negotiations by executing it in the space provided below and returning one executed copy to HCA, whereupon we shall proceed promptly with our evaluation and review of Seller's assets and business prospects and with the preparation and negotiation of the Definitive Agreement. Please be advised that this proposal shall expire unless there has been delivered to HCA a fully executed copy of this letter no later than 5:00 p.m., Nashville time, on November 15, 2013.

We look forward to a successful and mutually rewarding relationship in respect of the transactions set forth herein.

Sincerely,

**FAR WEST DIVISION, INC.**

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

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

THE FOREGOING IS APPROVED:

THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2013

**DAUGHTERS OF CHARITY HEALTH SYSTEM**

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

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

Assets

All of the tangible and intangible assets associated with or used in the operation of the Hospitals, including, without limitation (a) those assets accounted for on the Balance Sheet for Seller and its affiliates dated August 31, 2013, (b) all real and personal property, including, without limitation, furniture, fixtures and equipment, land held for development, contracts and leases, licenses and permits (to the extent transferable or assignable), certificates of need (whether pending or granted and to the extent transferable), inventory and supplies, claims against third parties (including warranty claims, breach of contract or lease claims, and other similar matters), all intellectual property rights, and patient and other records, (c) any joint venture or other equity interest in healthcare or related operations, including, without limitation, the interest in San Jose ASC, LLC, and (d) the real and personal property associated with the old St. Louise Hospital campus, including, without limitation, the DePaul Health Center [**Note: Evaluating cost to retrofit this property.**]

Excluded Assets

Cash and Cash Equivalents  
Patient Accounts Receivable

Computation of Net Working Capital

Current Assets

Assumable and Usable Prepaid Expenses  
Usable Inventories & Supplies

Current Liabilities

Vacation and Holiday  
Real Estate Taxes

Additional Terms and Conditions

1. Employees. In order to assure continuity of patient care at the Hospitals, Buyer intends to hire substantially all of the employees of Seller employed at the Hospitals as of the Closing at current base wage and salary levels except for senior management personnel. Any offers of employment to senior management personnel shall be consistent with usual and customary practices of Buyer and shall be subject to additional discussion and negotiation with such personnel. Buyer will reserve the right, however, not to hire any individual employee consistent with HCA policies and procedures or for any reason whatsoever. After the Closing, Buyer shall retain the number of employees necessary to avoid liability of Seller under the Workers Adjustment Retraining and Notification Act. Benefits for the employees hired by Buyer will be consistent with those generally offered to employees of other HCA affiliates operating in the area. To the extent lawful and provided for under Buyer's policies and contracts, Buyer shall honor prior service credit under Seller's current welfare plans for purposes of satisfying pre-existing condition limitations in Buyer's welfare benefit plans and will recognize the tenure of each employee while in the employ of Seller towards any waiting periods under Buyer's plans. Buyer shall recognize the tenure of each employee while in the employ of Seller towards any waiting periods under Buyer's retirement plans, but shall not make contributions to such plans with respect to prior service. Buyer intends to assume the accrued liability for vacation and sick time benefits related to such employees and shall receive a credit against the Purchase Price for such assumed liability.

2. Commitment to Current Mission. Buyer will operate the Hospitals as Catholic hospitals in a manner consistent with Seller's historic mission including specifically, adherence to the Ethical and Religious Directives for Catholic Health Care Services, as promulgated by the United States Conference of Catholic Bishop and amended from time to time, all as interpreted by the local ordinary of the Catholic Church (the "Ethical and Religious Directives"). Buyer proposes to enter into a covenant agreement with Seller on terms consistent with the covenant agreement entered in by affiliates of Buyer with respect to Mercy Hospital in Miami. Some key points of the Mercy Hospital Covenant Agreement are:

- Operation of the Hospitals in compliance with the Ethical and Religious Directives
- Approval of the mission statements and core values statements of the Hospitals by the sponsor
- To the extent in existence today, the continuance of a Vice President of Mission Integration for managing the relationship between the Hospitals and the sponsor
- Ability to maintain the Pastoral Care Department, Catholic symbols and Chapel space at the Hospitals

- Values-based decision making processes
- Potential for all senior executives of the Hospitals to attend Catholic sponsored programs that provide education on Ethical and Religious Directives compliance and/or ministry requirements
- Retention of religious culture that encourages prayer and reflection at the Hospitals.

The covenant agreement shall incorporate the above concepts in form and substance acceptable to Buyer and Seller, including provisions addressing the resolution of any disputes and appropriate remedies. The Buyer and Seller agree that if a dispute regarding Buyer's compliance with these commitments cannot be resolved (following the dispute resolution protocol), Seller's exclusive remedy shall be to require that the Hospitals forfeit their Catholic identity, including discontinuance of the use of any names associated with the Catholic ministry and the transfer to Seller of all religious articles and artifacts associated with that Catholic identity.

3. Hospitals' Board of Trustees. Following the Closing, Buyer will create an advisory Board of Trustees for each of the Hospitals composed of members of the local community, medical staff, and representatives of Seller and Buyer. The Board of Trustees shall operate in accordance with HCA's standard board of trustee bylaws. The Board of Trustees' function will be 1) to assure that the Hospitals and their medical staffs provide quality medical care that meets the needs of the community and to advise on all material plans in respect of the allocation of appropriate resources and support systems, all to the extent required for Joint Commission purposes, and 2) to monitor compliance with (and approve any changes to) the post-closing covenants of Buyer in Section 4 hereof.

4. Indigent Care. At Closing, Buyer will implement Buyer's policies for treatment of indigent patients at the Hospitals. Buyer will agree to maintain such policies for a minimum period of five (5) years after closing (subject to, among other things, changes in payment systems). Buyer anticipates that these policies are at least as favorable as Seller's current policies.

5. Covenant Not to Compete. Seller and its relevant affiliates will execute and deliver at the Closing a covenant not to compete for a period of time and within a geographic area, and containing other terms acceptable to Buyer and Seller.

6. Seismic Issues. [to be addressed]

7. DCHS Medical Foundation. [to be addressed]