

TERM SHEET

Integrity Healthcare, Inc. (“Purchaser”) Daughters of Charity Health System (“DCHS” or “Seller”)

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| Assets to be acquired | <p>All tangible and intangible property of Seller, including, without limitation, all of Seller’s hospitals, medical office buildings, clinics and business offices (including all real estate); all equity interests of Seller in DePaul Ventures, Merilac Insurance Company, St. Vincent Dialysis Center, DePaul Ventures, San Jose ASC, LLC, DePaul Ventures San Jose Dialysis LLC, all medical foundation assets.</p> <p>Accounts receivable, including without limitation, rights to QAF payments and accounts receivable from non-hospital DCHS affiliates, including, without limitation the DCHS Foundation and all other hospital-related foundations. For avoidance of doubt, receivables related to foundation assets that are restricted to an investment or purchase for or at a hospital or for which a hospital has made a commitment are to be transferred to the hospital immediately to permit use of the funds in conformance with the relevant restriction; Purchaser understands the amount of such foundation and/or affiliate receivables to be not less than \$25 million, and the actual amount is to be confirmed by Seller.</p> <p>Rights to use of hospital names (associated with the phrase “Integrity Healthcare” and not associated with the phrase “Daughters of Charity”).</p> <p><u>All assets to be conveyed at closing free and clear of all liens.</u></p> |
| Excluded assets | <p>DCHS Foundation assets that cannot be transferred to a for-profit entity (e.g., restricted cash, charitable foundations, religious artifacts, etc.), but not including assets described above under “Assets to be acquired”.</p> |

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| Contracts | All contracts (and liabilities thereunder) to be assumed as of the closing by Purchaser unless Seller can terminate contract pre-closing with notice and without a termination fee; provided the transaction will be considered an assignment of contracts, and Seller will reasonably cooperate with Purchaser to terminate selected contracts if Purchaser assumes liability for such termination. Purchaser to retain the right to assert to the contracting counter-party that it is not bound by any given contract to the extent consistent with applicable law. |
| Liabilities | Purchaser will assume all known and unknown liabilities without a cap, including Bridge Loan, except for liabilities associated with any retained assets or satisfied at closing from the cash consideration. |
| Bonds and Mortgage Debt | All bond debt and mortgages to be defeased/paid off by Seller from cash consideration. |
| Pension plans | Purchaser shall assume Seller’s liability for all pension plans and, to the extent permitted by applicable law, sponsorship of pension plans; except that with respect to the Church Plan Seller shall work with Purchaser to obtain a substitute qualified sponsor of the Church Plan to permit its continuation as a “church plan”, and Purchaser shall commit to payment of the required contribution obligations, which shall include Purchaser buying an insurance product to assure payment in the event of a default of that commitment, all subject to Seller confirming to Purchaser the total pension plan liabilities. |
| Collective bargaining agreements | Purchaser to assume CBAs in current form. Purchaser to be permitted to commence negotiations with unions after signing. |
| Structure | Asset purchase; but Purchaser open to acquiring converted corporations or membership substitution, where appropriate and subject to approval by the California AG |

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| | <p>(including confirmation that all assets of the converted corporations are not subject to charitable purposes).</p> <p>If the transaction constitutes a “change of ownership”, Seller and Purchaser to enter into commercially reasonable interim leaseback and management agreements as are appropriate to facilitate the closing and permit continued licensed operation and continued payment under Medicare and Medi-Cal provider agreements.</p> |
| Cash consideration | \$272 million cash at closing to be used only for defeasance of bonds and payoff of other long term debt. |
| Monetization of MOB properties | Seller to cooperate with Purchaser in Purchaser’s efforts in the pre-closing period to obtain bids for sale/leaseback of MOB properties to close concurrently with closing of DCHS transaction. |
| Seller pre-closing actions | Upon signing, Seller’s Board to adopt resolutions to implement objectives set forth in Attachment A. |
| Deposit | <p>\$25 million deposit at signing:</p> <p>\$5 million to be non-refundable at signing</p> <p>\$20 million to become non-refundable upon occurrence of all of the following:</p> <ol style="list-style-type: none"> 1. Purchaser has confirmed Seller’s stated accounts receivable assets through a paid and closed analysis, to be completed within 3 – 4 weeks of signing unless confirmed before signing. 2. Purchaser has confirmed payables data for each hospital’s top twenty vendors through confirmatory letters to and from such vendors, to be completed within 3 – 4 weeks of signing unless Purchaser is satisfied that Seller’s external auditor Ernst & Young has confirmed such payables data. |

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| | <p>3. Purchaser has confirmed that Seller holds marketable title to all real estate. Purchaser to have adequate time to complete this review to be completed within 3 – 4 weeks of signing unless confirmed before signing.</p> <p>4. Purchaser has confirmed through review of Phase I reports provided by Seller (and any appropriate follow-up), that no real estate site is, or contains conditions that are, in material violation of environmental law, to be completed within 3 – 4 weeks of signing, or such additional period as required if diligence in addition to Phase I reviews is appropriate, unless confirmed before signing.</p> <p>5. Upon signing, Seller’s Board to adopt resolutions to implement objectives set forth in Attachment A.</p> <p>Entire deposit shall be refundable in the event that California AG does not approve Purchaser’s acquisition of the assets in accordance with agreed conditions within 225 days of signing.</p> |
| <p>California AG approval conditions</p> | <p>California AG approval shall not require more than the following commitments from Purchaser:</p> <p>(1) continued operation of each acute care hospital for 5 years; but Purchaser shall not be obligated to perform any seismic retrofit or replacement of structurally non-conforming buildings to maintain acute care services beyond December 31, 2019.</p> <p>(2) continued operation of the emergency room at each acute care hospital for 5 years</p> <p>(3) continued charity care for 5 years at the current levels plus cost of living increases, recognizing, however, that with the advent of the Affordable Care Act and expansion of Medi-Cal, current levels may not be attainable because the numbers of persons presenting at the hospitals without insurance coverage who</p> |

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| | <p>qualify under DCHS charity care guidelines will decline.</p> <p>(4) continued community benefit spending for 5 years at current levels plus cost of living increases, excluding programs that have funding from a source other than the hospital.</p> <p>(5) continued participation of the hospitals in the Medicare and Medi-Cal programs and continuation of relationships with existing Medi-Cal managed care entities on the same terms and conditions as other similarly situated hospitals offering substantially the same services (e.g., not less than Medi-Cal fee-for-service rates applicable to non-contracted hospitals), without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause.</p> <p>(6) continuation of arrangements with local governments for care of the indigent on the same terms and conditions as other similarly situated hospitals offering substantially the same services (e.g., not less than Medi-Cal fee-for-service rates applicable to non-contracted hospitals), without any loss, interruption of service or diminution in quality, or gap in contracted hospital coverage, unless the contract is terminated for cause.</p> |
| Access to physicians and employees | Upon signing, Purchaser shall have reasonable access to: physicians on the medical staffs of the hospitals, hospital management teams and other persons who have business relationships with Seller. |
| Real estate title | Market standard closing conditions |
| Environmental | Market standard closing conditions |
| Material adverse effect condition | To be measured by entire DCHS system |
| Employees | Purchaser to assume and adhere to DCHS policies regarding severance, benefits, accrued PTO, etc. for a defined period post-closing, |

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| | <p>and to continue to employ substantially all full-time employees.</p> <p>Purchaser will continue the hospitals' Pastoral Care Departments.</p> |
| Required regulatory approvals | California AG approval plus licenses and certifications required to operate hospitals and outpatient facilities. |
| D&O policy | Seller to "pre-fund" D&O tail policy. |

Attachment A
Management Objectives To Be Reviewed And Approved By Seller's Board In Connection
With Acceptance of IHI Purchase Agreement

Upon the execution of IHI Purchase Agreement, the DCHS Board shall adopt the following objectives and will instruct DCHS management to make best efforts to accomplish them in consultation with IHI.

1. Review, revise and enforce productivity reporting processes and departmental productivity standards that are consistent with industry norms. This will be achieved by altering the use of part-time, per diem and temporary staff.

2. Management and supervisorial positions will be reevaluated at the hospital levels and will be adjusted to fit each hospital's needs.

3. Management will avoid service eliminations, contract cancellations, changes in charity care or collections policies between execution of Purchase Agreement and close.

4. There will be WARN ACT notices sent on a facility by facility basis if the DCHS management team, after consultation with IHI, believes that future staff reductions will require such notices and the Board concurs. Any such reductions would occur post close, however, such notices would be sent at a time that all parties believe that AG approval is forthcoming and close is projected to occur at a specific date.

5. Management team will expand availability of information to IHI beyond the "data room" to include current regular reports and will support a more intensive evaluation of:

- supply costs and vendors
- purchased service costs
- professional services
- patient record documentation, coding, and billing

6. The Board will undertake its best efforts to retain the existing DCHS Management and obtain Management's agreement to continue in their role at least until close because IHI desires to obtain the benefit of institutional history, knowledge of prior actions, agreements and relationships, as well as facilitation of contact and communication with the various stakeholders. Upon execution of the Purchase Agreement, the DCHS Board would allow IHI to propose ongoing consulting or other roles to existing senior executives.