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LETTER OF INTENT TO ENTER INTO AN AGREEMENT

This Letter of Intent (LOI) is entered into by and between the City of Newberg (the City) and the Sisters of Providence in Oregon (SPO) for the purpose of expressing the parties' mutual intent to negotiate and enter into an agreement (the Agreement) through which the net assets of Newberg Community Hospital (NCH) will be transferred to SPO pursuant to an affiliation arrangement in which SPO will own and operate NCH and provide healthcare services for the benefit of the Newberg community in accordance with terms and conditions not inconsistent with the concepts set forth in this LOI.

I. HISTORY and PURPOSE

1.1 Newberg Community Hospital has operated as a component of the City of Newberg since its inception in 1957. Following an extended period of study, focusing on the increasing challenges and requirements of being a healthcare provider, the City has concluded that the long-term interests of its residents would be better served if NCH were to become an integrated component of an established, proven and financially stable major healthcare system serving the nearest major tertiary care area (i.e. the greater Portland area) and Northwest Oregon.

1.2 SPO meets those criteria and has also expressed its willingness to operate NCH and provide healthcare services to Newberg residents in accordance with the concepts described herein.

II. Transfer of Assets and Operating Responsibility

2.1 At closing of the Agreement, the City will transfer to SPO title to the City-owned healthcare assets as a going concern (the TRANSFERRED NET ASSETS), excluding \$450,000 in a combination of net assets comprised of working capital, equipment, funded depreciation and other assets pertaining to the ambulance service, which the City will retain. SPO will accept title subject to the conditions and terms expressed herein, and will concurrently assume and undertake a binding obligation to discharge City obligations related to the TRANSFERRED NET ASSETS or their operation (including assumption of contracts and other ongoing obligations relating to the TRANSFERRED NET ASSETS), and to defend and hold the City harmless and indemnify it as provided in section 12.1. SPO shall specifically undertake all steps necessary to properly and timely pay, refund or defease the City's existing long-term debt, which is approximately \$2.4 million, relating to the TRANSFERRED NET ASSETS as required by law or the contractual terms of such debt and shall defend and hold City harmless from any claims based on failure to do so.

2.2 From and after closing, SPO shall own and operate the TRANSFERRED NET ASSETS as its property and shall continue to locally provide healthcare services for Newberg residents in accordance with and subject to the terms and conditions of the Agreement.

III. Triggering Events; Repurchase and Cash Payment Obligations

3.1 Upon the occurrence during the periods specified below (calculated from Closing of the Agreement) of any of the events described in this Section III (hereinafter referred to as "TRIGGERING EVENTS") and their determination and formal declaration by City as TRIGGERING EVENTS in the manner described below, SPO shall have the obligation to pay or transfer to the City as provided herein the amounts described in Section V [the PRICE] for the TRANSFERRED NET ASSETS, or in lieu thereof, at the City's option, to sell to the City SPO's LOCAL HEALTHCARE SYSTEM as defined in Section 6.1 on a going-concern basis at its then fair market value, less a credit in the amount of the PURCHASE CREDIT (defined below). Unless the City gives notice of exercise of the right to purchase within ninety (90) days after formal declaration of a TRIGGERING EVENT, SPO shall pay THE PRICE in cash to the City within 180 days after formal declaration of the TRIGGERING EVENT. After the expiration of the period of 25 years or SPO's payment of its obligations to the City as described in this section, SPO shall be deemed to have satisfied all obligations to the City except for the Right of First Refusal and the Villa Road property Right of ReEntry.

3.2 The occurrence of any of the following events or conditions during the designated time periods, when subsequently officially declared by the City in accordance with Section 3.3 and its subsections, shall constitute a TRIGGERING EVENT:

3.2.1 The bankruptcy or dissolution of SPO or its successor (except for a dissolution resulting from a structural reorganization permitted under Section 3.2.4.) at any time within 25 years from the Closing date.

3.2.2 SPO's failure to make regularly available a reasonable scope of locally-delivered healthcare services (with emphasis on building a integrated delivery system) in the LOCAL AREA as defined in section 3.2.5. A reasonable scope of such services shall be that scope of services which, in the aggregate, is comparable to the scope of services then commonly provided in similar communities, considering such factors as size, urban/rural character, competitive profile, and proximity to major metropolitan areas. However, SPO's compliance with explicit healthcare-related ethical directives of the Roman Catholic Church will not be construed as failure to make available a reasonable scope of services. In the ten years immediately following the Closing date any dispute concerning an alleged failure under this section will be determined by a review committee composed as provided in section 3.3. In the succeeding fifteen years, a failure under this section shall be deemed to occur only if SPO agrees in writing that it does not intend to continue to deliver such services.

3.2.3 Discontinuation or significant alteration of SPO's charitable mission and philosophy including but not limited to its interest in the health status of the communities it serves and its willingness, to a reasonable extent, to provide care regardless of patients' ability to pay, considering its economic capabilities and the then-applicable circumstances in the healthcare industry, within a period of 25 years from Closing.

3.2.4 The sale, assignment or transfer of all or substantially all of the assets of SPO within a period of 25 years from Closing, except to an organization with a similar charitable mission and philosophy which commits to be bound by the terms and conditions of the Agreement, or pursuant to an internal reorganization in which

sponsorship and control continues to be vested in and the obligations backed by SPO or another financially equivalent entity owned or controlled by the Sisters of Providence, Sacred Heart Providence.

3.2.5 The relocation within a period of 25 years from Closing (without the written consent of the City) of SPO's principal healthcare service facility for the GREATER NEWBERG SERVICE AREA (encompassing Yamhill and southwestern Washington Counties) from within a geographic area that includes the then-current city limits of the City of Newberg and a three-mile circumference around such city limits (the LOCAL AREA).

3.3 If the existence of a TRIGGERING EVENT is believed to exist, the parties shall disclose the relevant facts to each other and attempt to informally resolve the issue.

3.3.1 If, after discussion, a potentially TRIGGERING EVENT is agreed to exist, SPO shall be granted ninety days in which to cure it prior to City's issuance of a formal declaration of a TRIGGERING EVENT.

3.3.2 If the parties are unable to reach voluntary agreement on the existence of a TRIGGERING EVENT or the adequacy of any proposed or attempted cure, except as provided in section 3.2.2 with respect to issues of the scope of locally-delivered healthcare services after ten years, the issue shall be promptly submitted to a review committee composed of two SPO representatives, two City representatives and two mutually acceptable independent and prudent persons with professional healthcare delivery expertise pertinent to the issues, and that group shall make a binding determination by majority vote within 30 days.

3.3.3 SPO shall have ninety days following agreement or determination by the review committee of a TRIGGERING EVENT to cure; if SPO has diligently pursued all reasonably available methods of cure during the 90-day period but has been unable to effectively cure due to factors beyond its control, the period for completion of the cure shall be extended an additional 90 days.

3.3.4 If the City does not accept the cure as effective, its adequacy shall be promptly determined by the review committee in accordance with the process of section 3.3.2. If a TRIGGERING EVENT has been found by committee decision or agreement of the Parties and SPO elects not to cure or its cure is found to be inadequate, the City may officially declare a TRIGGERING EVENT has occurred and implement its rights based thereon.

IV. RIGHT OF FIRST REFUSAL

4.1 In addition to its rights upon the declaration of a TRIGGERING EVENT, City shall at all times have a Right of First Refusal to purchase from SPO its Local Healthcare System (as defined in section 6.1) on the same terms and conditions as offered to and conditionally accepted by SPO by any other legitimate prospective purchaser with the capability of completing the purchase on the offered terms and conditions, provided that City shall have no such right if the sale of the property is part of the sale of substantially all of SPO's assets under circumstances permitted by section 3.2.4. The City shall have sixty (60) days from written notification by SPO of all offered terms in which to give SPO written notification of its decision. Such right may be exercised independently of

the existence or nonexistence of any other TRIGGERING EVENT. If no TRIGGERING EVENT has occurred but there is a sale which triggers the right of first refusal, the City's credit against the purchase price shall be the original appraised value of the TRANSFERRED NET ASSETS (without amortization and without transfer of the SPECIAL ACCOUNT). If all TRIGGERING EVENTS have expired, City shall not be entitled to any credit against the purchase price.

V. DETERMINATION OF THE PRICE:
ESTABLISHMENT AND USE OF THE SPECIAL ACCOUNT

5.1 Fair market value of the TRANSFERRED NET ASSETS will be established as of the Closing date in accordance with the finalized appraisal of the TRANSFERRED NET ASSETS (for which the preliminary report indicates a value of \$7,650,000) and the accumulated but undistributed funds and net collectible pledges of the FOUNDATION determined in accordance with GAAP (preliminarily determined to be \$325,000), jointly referred to as the TOTAL ORIGINAL VALUE. The PRICE to be paid to the City or credited against its purchase price (as defined in Section 6.1) if it elects to purchase SPO's Local Healthcare System shall be the sum of the Unamortized TOTAL ORIGINAL VALUE, plus the balance of the SPECIAL ACCOUNT described below, or if the City elects to purchase, the PURCHASE CREDIT shall be the sum of the TOTAL ORIGINAL VALUE (without deduction or amortization) and the balance of the SPECIAL ACCOUNT.

5.2 For the ten years immediately following the Closing Date, the Unamortized TOTAL ORIGINAL VALUE shall be the full final TOTAL ORIGINAL VALUE established at closing. Thereafter the Unamortized TOTAL ORIGINAL VALUE shall be determined by decreasing the TOTAL ORIGINAL VALUE to fully amortize it ratably over the following fifteen year period on a straight line basis.

5.3 At Closing, SPO will deposit a check in an amount equal to the TRANSFERRED NET ASSETS to a segregated investment account (the SPECIAL ACCOUNT), and shall keep such funds and the earnings thereon invested in a manner consistent with SPO's investment policy for investments of similar maturities. The principal and earnings on such funds will be expended solely for items defined in Section 5.3.1 as Qualified Community Healthcare Assets, with \$4,750,000.00 of the funds in the SPECIAL ACCOUNT being expendable only for CATEGORY A QUALIFIED COMMUNITY HEALTHCARE ASSETS and the remainder for either CATEGORY A OR CATEGORY B QUALIFIED COMMUNITY HEALTHCARE ASSETS. If a mutually acceptable means to perfect City's security and priority in such funds, assure automatic transfer of such funds to the designated trust upon entitlement to such transfer, and enforceable controls on potential uses of the funds can be devised, SPO will be allowed to commingle such funds with other SPO assets in pooled investments. The parties shall endeavor to make such arrangements in a manner that existing SPO pooled investments need not be liquidated and reinvested.

5.3.1 QUALIFIED COMMUNITY HEALTHCARE ASSETS consist of the following categories of expenditures, provided that they have been recommended by the LOCAL COMMUNITY BOARD and made by SPO on or after Closing of the Agreement, provided that proceeds of sale or other disposal of assets already in the Area or assets acquired by prior expenditures from the SPECIAL ACCOUNT shall be deposited to the

SPECIAL ACCOUNT if such proceeds are \$50,000 or more for any single item or related items sold as a group.

i. Category A:

- I. Property, plant and equipment which will be located in the Local Area and which has a useful life greater than one year and a unit cost greater than \$250;
- II. Organizational and start-up costs incurred solely for new services and programs in the Local Area;
- III. Organizational, start-up and other capital costs incurred in establishing a regional healthcare initiative in which the Local Healthcare System participates, to the extent that such costs would have been avoided except for Newberg participation;
- IV. Income guarantees and recruitment expenses to relocate practitioners to the Local Area and establish them in practice within a local network, but not exceeding in the aggregate, a period of three years and a total of \$150,000 support (in 1994 dollars) for any individual practice;

ii. Category B:

- I. The Local Area's pro rata share of system-wide or regional healthcare initiatives in which the Local Area participates, over and above the incremental cost recognized as a Category A expenditure;
- II. Acquisition costs of practitioner practices already located in or serving the Local Area prior to Closing date of the Agreement.
- III. Costs of episodic preventive public health programs solely and directly of benefit to the community, such as immunization or student screening programs, but not to exceed a maximum of \$50,000 per fiscal year in the first five years after closing or \$100,000 per fiscal year thereafter.

5.3.2 The unexpended balance of the SPECIAL ACCOUNT, or any part thereof, shall be disbursed only when supported by written evidence of the recommendation of the LOCAL COMMUNITY BOARD unless a TRIGGERING EVENT is, in accordance with the process described in section 3.3 and its subsections, declared to exist. If a TRIGGERING EVENT is declared to exist in accordance with such processes and the City elects to purchase the Local Healthcare System, the balance of the SPECIAL ACCOUNT, along with the TOTAL ORIGINAL VALUE, shall be credited against the Purchase Price to be paid to SPO and the balance of the SPECIAL ACCOUNT shall be released to SPO upon closing of the transfer of such assets. If a TRIGGERING EVENT is declared to exist in accordance with such processes and the City does not elect to purchase the Local Healthcare System, or if the fund is not completely expended on authorized expenses within 25 years from Closing, the balance in the SPECIAL

ACCOUNT shall be transferred to a trust fund established and controlled by the City to be used for healthcare purposes in the Local Area. The Agreement shall provide appropriate means of securing City's creditor rights, priority and access to such funds.

5.3.3 It is intended by both the City and SPO that Newberg Community Hospital will become an integral part of the SPO Region and SPHS and participate in all applicable System and Region-wide programs and services of benefit to the Local Area. Accordingly, it may be charged fees for such services and for other System and Region-wide assessments, allocations and fees, to the extent that all such assessments, charges, allocations or fees are levied and applied to all SPO facilities and programs in the relevant System or Region based on a formula determined in good faith by SPO to reflect the relative proportionate benefit to each. In no event shall any allocations, fees or assessments be imposed on Newberg Community Hospital other than for specific services benefitting it, or when required to meet obligations under bonds to which assets of all SPO operations in the relevant area (including Newberg) are pledged. In any obligation derived from bonds, SPO shall apply Newberg Community Hospital assets and make charges against its assets equitably with those of other obligated operational units. Except as permitted by this section, all earnings derived from the TRANSFERRED NET ASSETS or their replacements shall be retained for use in the Local Area.

VI. TERMS OF PURCHASE OF THE LOCAL HEALTHCARE SYSTEM

6.1 If the City elects following declaration of a TRIGGERING EVENT to acquire the LOCAL HEALTHCARE SYSTEM, the current fair market value of the system shall be determined by an appropriately qualified independent appraiser mutually acceptable to the parties. The LOCAL HEALTHCARE SYSTEM, and hence the items to be included in the appraisal and transfer, shall consist of:

i. All TRANSFERRED NET ASSETS, to the extent they remain under the ownership or control of SPO, and if they have been sold or otherwise disposed of, the Local Area healthcare assets procured with their proceeds;

ii. All Qualified Community Healthcare Assets acquired by application of funds in the SPECIAL ACCOUNT and their proceeds;

iii. All facilities, equipment, operating components, employees, contracts, systems, intangible rights and other related assets of whatever kind or nature owned or controlled by SPO and located in the Local Area or used by SPO in delivery of healthcare services in the Local Area preceding the TRIGGERING EVENT and reasonably necessary to the City's continued delivery of healthcare services to the Local Area consistent with a reasonable scope of services as defined in section 3.2.2, but not including the balance of the SPECIAL ACCOUNT;

provided, however, that any such asset which is by its nature so intertwined with broader SPO operations that it can neither be segregated or severed and delivered to City or its designee for separate operation nor continue to be provided to the City or its designee by SPO without undue prejudice to SPO's remaining operations, SPO may repay to the SPECIAL ACCOUNT any amount withdrawn for purchase of the item, together with interest for the interim period sufficient to effectively reverse the transaction, and may

thereafter remove the item from inclusion in the LOCAL HEALTHCARE SYSTEM to be purchased by City. Any service provided to the LOCAL HEALTHCARE SYSTEM by SPO prior to City's purchase which is not so excluded shall continue to be made available to City so long as and on the same terms (including payment of service costs) as it is made available to other SPO operations for a period of five years. In no event shall the fair market value of the LOCAL HEALTHCARE SYSTEM determined pursuant to this Section 6.1 be established at an amount less than the PURCHASE CREDIT described in Section 5.1, provided that the original TRANSFERRED NET ASSETS or their proceeds remain in the LOCAL HEALTHCARE SYSTEM.

VII. VILLA ROAD CAMPUS "REVERSION"
[RIGHT TO RECLAIM]

7.1 Title to the Villa Road hospital campus real estate, consisting of those parcels of land on which the primary healthcare facilities of NCH are located at the Closing of the Agreement, shall be transferred to SPO subject to a condition subsequent (right of re-entry), with the transfer in fee simple but if the property ever ceases to be primarily used for general community healthcare purposes, then the City as grantor may reenter and terminate the estate and retake the property for City uses. The condition shall survive sale of the property by SPO regardless of whether there has been a TRIGGERING EVENT unless SPO has extinguished that right by payment pursuant to section 7.4. The occurrence of the deed condition shall not require a TRIGGERING EVENT as defined in this LOI. If the failure to use the property in the required manner causes the City to exercise its right to reclaim the property, that portion of the unamortized TOTAL ORIGINAL VALUE attributable to the Villa Road campus land only will be deducted from the unamortized TOTAL ORIGINAL VALUE and the PURCHASE CREDIT.

7.2 If the City has exercised the right of re-entry and reclaimed the Villa Road property, so long as SPO remains in conformance with other terms of the Agreement and has not suffered a TRIGGERING EVENT, the City will not use (or permit others to use) the Villa Road property for any healthcare purpose reasonably considered by SPO to be in competition with SPO.

7.3 If the City, having exercised the right of re-entry and having reclaimed the Villa Road property, thereafter sells that property or any portion thereof, and SPO continues to meet the requirements of the Agreement, has not suffered a TRIGGERING EVENT and is providing community healthcare from other Local Area sites, the City shall pay SPO the lesser of:

- a. Fifty percent of the net proceeds from the sale; or
- b. All net proceeds in excess of the then appraised value attributable solely to the Villa Road land.

7.4 If SPO decides to sell or transfer the Villa Road property as part of a larger transaction involving sale of the Local Healthcare System or assets which trigger the City's Right of First Refusal or constitutes a TRIGGERING EVENT, and the City elects not to exercise its right to purchase the Local Healthcare System, SPO may eliminate the condition and the City's Right of Re-Entry on the Villa Road property by paying the City an amount equal to the then appraised value of the land only. In all other sales (those which do not constitute a TRIGGERING EVENT or trigger the Right of First Refusal or

in which such an event occurs or right is triggered but the City does not elect to purchase and SPO does not make such payment), the sale and transfer of title shall remain subject to the condition, and the City's right of re-entry to reclaim the land at any time it is not used for the required purposes in the future will continue in effect.

VIII. LOCAL COMMUNITY BOARD

8.1 SPO will establish and operate the Local Healthcare System through a LOCAL COMMUNITY BOARD, in which it will vest delegated decision-making and recommendation authority and responsibilities equal to and consistent with the authority delegated to SPO's Portland-Area Regional Community Board (the "Regional Board"), in addition to the special role with respect to QUALIFIED COMMUNITY HEALTHCARE ASSETS, provided above.

8.2 The initial LOCAL COMMUNITY BOARD will be appointed by SPO from among persons recommended by a joint nominating committee composed of an equal number of appointees of each of the following: SPO, The Newberg Community Hospital Board of Commissioners, and the City. Thereafter, at least until such time as the TRIGGERING EVENTS have all expired, appointments will be made by SPO from among persons recommended by the then-existing LOCAL COMMUNITY BOARD.

8.3 So long as the provisions concerning any TRIGGERING EVENT remain applicable, at least one local member of the LOCAL COMMUNITY BOARD will be appointed by SPO (in accordance with its normal appointment process) at all times to serve on SPO's Regional Board.

8.4 The day-to-day activities of SPO's healthcare services in the LOCAL AREA will be managed under the direction of an on-site Administrator (the ADMINISTRATOR), who, in the event of a vacancy in the position, will be retained by SPO after consultation with the LOCAL COMMUNITY BOARD, from among candidates recommended by the LOCAL COMMUNITY BOARD. The ADMINISTRATOR will report to the LOCAL COMMUNITY BOARD, the Regional Executive Officer to whom the COO's of SPO's Portland-area acute care facilities report and SPO's Regional Board, within their respective areas of authority.

8.5 A majority of the members of the LOCAL COMMUNITY BOARD shall at all times be residents of the LOCAL AREA.

IX. MEDICAL STAFF AND RECRUITMENT

9.1 Working within reasonable policy parameters established by SPO as needed to assure consistency with system-wide ethical and quality standards, SPO will work with the LOCAL COMMUNITY BOARD and the Newberg Community Hospital Medical Staff to develop and adopt Medical Staff Bylaws and Rules and Regulations as provided by law.

9.2 SPO will promptly undertake reasonable efforts to recruit (in a manner consistent with SPO's system guidelines and policies) appropriate practitioners for areas of unmet local medical need, with particular initial emphasis on family practitioners, an additional OB/GYN practitioner, a part-time orthopedist and (in the longer term) a pediatrics provider. In providing such assistance, SPO will work with Local Area practitioners to

give them reasonable opportunity to participate, if they are willing, so long as the community need is met.

X. EMPLOYEES

10.1 SPO will offer all persons who are employed at Newberg Community Hospital at the time of Closing of the Agreement (except for those employed with respect to the ambulance service who will continue to be employed by the City) comparable positions with total compensation and benefits comparable to those persons' present total compensation/benefits package as Newberg Community Hospital employees and will recognize accrued length of service at Newberg Community Hospital as if earned at SPO for purposes of vacation, sick leave and other benefits defined by the Parties in the Definitive Agreement but not including retirement benefits. SPO's future relationships with former Newberg Community Hospital employees will be subject to the same considerations as SPO's relationships with its other employees and will not be based on their prior NCH employment status. SPO shall bear the cost of severance of employees and termination of their benefit plans at NCH and institution of their employment and benefits programs at SPO.

XI. RELATED ORGANIZATIONS

11.1 Contingent upon the respective consents of the Newberg Community Hospital Foundation (FOUNDATION) and Newberg Community Hospital's Auxiliary (AUXILIARY), the Agreement will provide for the FOUNDATION and the AUXILIARY to be restructured as support organizations for SPO's Local Area Healthcare System, in a manner consistent with SPO's guidelines and policies. The City will receive credit as described in Section V. for the FOUNDATION's accumulated and undistributed donations and net collectible pledges obtained prior to Closing of the Agreement.

XII. CITY RELATIONSHIP AND SERVICES

12.1 SPO will defend, indemnify and hold the City, its officers, agents, employees, council and commission, harmless from all claims, debts, obligations, demands, payments, judgments or other legal responsibility, of whatever nature and however denominated, related to or arising from prior City ownership or operation of Newberg Community Hospital or other TRANSFERRED NET ASSETS or related personnel or operations, whether the basis of the claim or demand occurred before or after the Closing of the Agreement, and whether asserted by third parties, former NCH employees, contractors or others, whether in tort, contract or otherwise, to the extent that such defense, claim, demand or payment is not covered by and actually paid by City-procured insurance or barred by applicable law, including the Tort Claims Act. The City shall maintain existing claims-made insurance or procure "tail coverage" for its existing claims-made liability policies. If SPO is required to make payment in excess of \$300,000 in the aggregate for claims or demands which were neither known nor considered in determination of the TOTAL ORIGINAL VALUE and which were caused solely by acts, failure to act or conditions at Newberg Community Hospital prior to Closing of the Agreement, the amount paid by SPO on those claims shall be deducted from the unexpended Category A balance of the SPECIAL ACCOUNT upon payment by SPO.

12.2 As part of Closing of the Agreement, SPO and the City will enter into a three-year exclusive service agreement for the City to provide all necessary local emergency medical response and transport arranged by SPO's Local Healthcare System, and SPO will work cooperatively with the City's fire department to encourage development of a cost-effective, quality service for the benefit of the Local Area residents.

12.3 SPO will in good faith consider the establishment and maintenance of reasonable service relationships with the City where appropriate, shall permit reasonable access (on an as-available basis) by the City and the Newberg community to NCH conference facilities without charge, and where feasible, will include City employees in immunization and similar SPO employee initiatives.

12.4 As part of its assumption of responsibility for the City's NCH-related liabilities and obligations, SPO will reimburse the City for amounts accrued and owed to the general City budget for services of the City attorney, not to exceed \$20,715.39.

XIII. REPORTING

13.1 SPO will annually provide the City with copies of audited financial statements for SPO and certified information from either SPO's Regional CFO or independent auditors regarding its service components related to the Local Area, together with information describing the components and value of the Qualified Community Healthcare Assets and their proceeds, by category, and the unexpended balance of the SPECIAL ACCOUNT. SPO will also provide the City with reasonable advance notice of pending events which might constitute a TRIGGERING EVENT or give rise to the City's need to consider the potential exercise of its Right of First Refusal or Right of Re-entry.

XIV. TRANSITION

14.1 The parties will use their best efforts to effect a smooth operational transition from City ownership and operation of the TRANSFERRED NET ASSETS to SPO. SPO will appoint a transition team which shall include former NCH employees to assist it in implementing the initial operational changes occurring following Closing of the Agreement.

XV. HISTORICALLY SIGNIFICANT ASSETS

15.1 SPO will use its best efforts to preserve those historically significant assets, objects and relationships identified in Exhibit 1, attached hereto and incorporated herein by this reference.

XVI. NONBINDING LETTER/ REQUIRED APPROVALS

16.1 When signed and delivered, this letter will set forth an agreement in principle only, and except as explicitly provided below, will not be binding on the parties hereto, and may not be relied upon as a basis for a contract by estoppel, it being the intent that no party be bound until a definitive Agreement has been negotiated, reduced to writing, approved by all required corporate, governmental and religious bodies, duly executed and delivered. Notwithstanding that understanding, by their signatures below the parties do intend that section XIX (exclusivity) will be enforceable until execution of the Agreement or the date on which negotiations are formally terminated (whichever occurs first), and

that the obligations of sections XVIII (Due Diligence), XXIII (Confidentiality), and XVII (Transaction Costs) shall be enforceable by their terms.

XVII. TRANSACTION COSTS

17.1 Except as otherwise specifically provided herein, each party shall bear its own costs and expenses (including legal and consulting fees) in connection with this Letter of Intent and the negotiation of all agreements and preparation of documents contemplated by this Letter of Intent. Each party represents that it has not engaged any business broker or other person entitled to a finder's fee in connection with this proposed transaction.

XVIII. DUE DILIGENCE

18.1 The City and SPO will cooperate with each other in undertaking and completing all reviews and other steps required to enable the parties to complete detailed negotiations and to prepare the Agreement in connection with the proposed transaction. The parties shall make a good faith effort to enable the contemplated transaction to close on or before June 30, 1994. As part of this process, both parties shall promptly furnish such information to the other as may be reasonably requested concerning their respective operations, liabilities, assets and other relevant information.

XIX. EXCLUSIVITY

19.1 Following the parties' execution of this Letter of Intent and continuing until notice of termination is given pursuant to section XX below, neither the City nor SPO shall enter into negotiations with or solicit or consider offers from any third party respecting any matter that is the subject matter of this Letter of Intent. With respect to SPO, this paragraph shall apply to any negotiations or offers for purchase, lease, option to acquire, contract for construction or any form of affiliation or commitment to any other healthcare facility or system which would, if carried out, establish a new Providence facility or healthcare provider system within the GREATER NEWBERG SERVICE AREA (Yamhill and southwestern Washington counties), unless waived by City in writing. With respect to City, this section shall include any discussions, negotiations or contracts with third parties with respect to sale, lease, option to sell, or contract for sale or encumbrance of any substantial component of the City's health-care assets and any form of affiliation with another healthcare provider, unless waived by SPO in writing.

XX. TERMINATION

20.1 The City or SPO may terminate this Letter of Intent, with or without cause, by giving prior written notice of such termination to the other party. In addition, this Letter of Intent shall be automatically terminated unless both parties expressly waive such termination, in the event that a binding contract is not signed on or before June 15, 1994, or such later date as may be mutually agreed by the City and SPO.

XXI. NO THIRD PARTY BENEFICIARIES

21.1 Nothing in this letter or the contemplated Agreement is or shall be intended to provide or convey any actionable right or benefit to or upon any person or persons other than the City and SPO.

XXII. MISSION AND VALUES

22.1 As a Catholic organization, SPO will operate the TRANSFERRED NET ASSETS in accordance with The Ethical and Religious Directives for Catholic Health Facilities, as now stated or amended in the future. SPO will operate the TRANSFERRED NET ASSETS in a manner which makes appropriate provision for the religious and spiritual needs of all of its patients, families, staff and physicians.

XXIII. CONFIDENTIALITY

23.1 The parties recognize the City's obligations as a public entity to comply with Oregon's open records and open meetings laws. The parties also recognize that SPO has access to substantial City information relating to the TRANSFERRED NET ASSETS, liabilities and plans in its role as provider of management services for Newberg Community Hospital under a prior contract with the City. Information which SPO develops or accesses through that role shall be deemed provided to SPO pursuant to this letter and in furtherance of the contemplated Agreement to the extent used to perform any investigation or function under this LOI.

23.2 To the extent that either entity is permitted by law to do so, it will hold in confidence any financial or strategic planning information and any other information specifically designated by the other as confidential which is provided by or obtained from or about the other in furtherance of due diligence, investigation or other steps required or in aid of consummation of the Agreement and will not disclose such information to any third party other than those third parties specifically retained to participate in or conduct the valuation of the contemplated transaction, to perform some act in furtherance thereof or whose approval is required.

23.3 The foregoing shall not preclude the City or its negotiators from revealing to the full City Council, in open session, the terms of this LOI or of the Agreement, or the alternatives proposed or rejected in their negotiation, or the factual bases of any recommendation.

23.4 The parties will cooperate with each other to jointly develop and release any formal press statements or public announcements concerning these discussions or the proposed transaction.

Signed this 2nd day of May, 1994

Sisters of Providence In Oregon

City of Newberg

By Sister Donald Taylor
President

Laura Prosser
Mayor

James M. ...
Secretary

Quane R. Cole
City Recorder

ACKNOWLEDGED



Chairman, NCH Commission

STOEL RIVES BOLEY JONES & GREY

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May 10, 1994

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Vice President and General Counsel
Sisters of Providence
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Seattle, Washington 98111-9038

Re: SPO/Newberg Letter of Intent

Dear Jeff:

Following further discussion between the parties concerning interpretation and clarification of the language in the City of Newberg/Sisters of Providence Letter of Intent, it is my understanding that agreement has been reached to consider the Letter of Intent as if clarified in the manner indicated below. Specifically, when both documents have been signed by representatives of both parties, the LOI and this letter shall be considered as parts of the same modified document, and we will proceed with negotiation and drafting of the Definitive Agreement based on the LOI as clarified in this letter:

The first paragraph of Section 5.3.1 shall be interpreted and implemented in the following revised form: QUALIFIED COMMUNITY HEALTHCARE ASSETS consist of the following categories of expenditures, provided that they have been recommended by the LOCAL COMMUNITY BOARD and made by SPO on or after the Closing of the Agreement (but not including the first \$300,000 of expenditures for otherwise QUALIFIED COMMUNITY HEALTHCARE ASSETS each year for the first ten fiscal years following Closing), provided that proceeds of the sale or other disposal of assets acquired by expenditures from the SPECIAL ACCOUNT shall be deposited to the SPECIAL ACCOUNT if such proceeds are \$50,000 or more for any single item or related items sold as a group.

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Section 5.3.2 shall be interpreted and implemented as if the words "...or if the fund is not completely expended on authorized expenses within twenty-five years from Closing..." were deleted.

Section 5.3.3 shall be interpreted and implemented in the following revised form: "It is intended by the City and SPO that the LOCAL HEALTHCARE SYSTEM (including NCH) will become an integral part of SPO and of the Sisters of Providence Health System ("SPHS") of which SPO is a part, will be part of the Sisters of Providence Obligated Group, and will participate in all applicable SPHS and SPO programs and services. As such, the Local Healthcare System will be responsible to participate in and pay its assigned share for SPHS and SPO system and regional management and service fees, and other system-wide or region-wide assessments, charges, allocations and fees, which SPO and SPHS will use their best efforts in good faith to levy and apply in a consistent and equitable manner which recognizes the variability in financial size and strength of its system components. Except as necessary to pay its share of such assessments, charges, allocations and fees, the TRANSFERRED NET ASSETS (during their useful lives) and the proceeds from sale or other disposition of such assets which exceed \$50,000 per item or related group of items will be retained by SPO in the LOCAL HEALTHCARE SYSTEM at least until the funds from the SPECIAL ACCOUNT have been fully expended in the LOCAL HEALTHCARE SYSTEM. Except as otherwise provided in the LOI, SPO shall have the right to fully integrate the LOCAL HEALTHCARE SYSTEM operationally, managerially and financially, and operate the LOCAL HEALTHCARE SYSTEM in accordance with applicable SPO and SPHS policies, procedures, guidelines and directions.

Section 8.2 shall be interpreted and implemented in the following revised form: "The initial LOCAL COMMUNITY BOARD, which will be comprised of nine to fifteen people, including at least two physicians, will be appointed..."

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Section 8.5 shall be interpreted and implemented in the following revised form: "A majority of the members of the LOCAL COMMUNITY BOARD shall at all times be residents of or employed within the LOCAL AREA."

Section 13.1 shall be interpreted and implemented in the following revised form: "SPO will annually provide the City with copies of audited financial statements for SPO and certified information from either SPO's Regional CFO or independent auditors regarding its service components related to the Local Area, to the extent such information is reasonably available, together with information describing the components and value of the QUALIFIED COMMUNITY HEALTHCARE ASSETS and their proceeds, by category, and the unexpended balance of the SPECIAL ACCOUNT. SPO will also provide the City with reasonable advance notice of pending events which might constitute a TRIGGERING EVENT or give rise to the City's need to consider the potential exercise of its Right of First Refusal or Right of Re-entry."

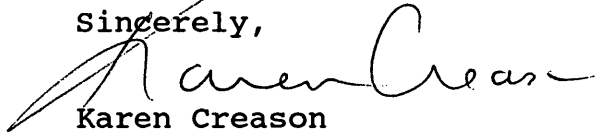
As you know, the timing of the emergence of the issues which led to the above clarifications did not permit disclosure of the clarifications or discussion of those issues with the full City Council prior to its resolution approving the LOI and directing its representatives to move forward with negotiations of a Definitive Agreement with SPO. We believe that these changes will be acceptable to the City and are within the drafting authority of the City's representatives, however. Of course, the final Definitive Agreement incorporating them in a binding document will be subject to approval of both the Sisters of Providence in Oregon and the full City Council before the Definitive Agreement becomes binding. Under those circumstances, it is my understanding that you will accept this letter as a clarification of the parties' interpretation of the existing LOI language and an indication of the type of language we expect to include in the Definitive Agreement and that you are executing this letter simultaneously with the Letter of Intent to indicate that shared intent.

Several copies of this letter have been sent to Duane Cole, the City Manager, for his signature confirming the City's intent and will be sent to you for the signature of Sister Donna Taylor, SP as soon as they arrive. Please return two

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fully executed copies of the LOI and of the copies of this letter signed by Mr. Cole after the latter have reached you.

Sincerely,


Karen Creason

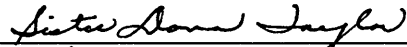
BY THEIR SIGNATURES BELOW, THE PARTIES INDICATE THEIR CONCURRENCE IN THE ABOVE CLARIFICATIONS/INTERPRETATIONS OF THE LOI PREVIOUSLY SIGNED BY THE CITY OF NEWBERG:

CITY OF NEWBERG

SISTERS OF PROVIDENCE IN
OREGON



BY: Duane Cole, City Manager



BY: Sister Donna Taylor, SP
President & CEO

LETTER OF INTENT TO ENTER INTO AN AGREEMENT

This Letter of Intent (LOI) is entered into by and between the City of Newberg (the City) and the Sisters of Providence in Oregon (SPO) for the purpose of expressing the parties' mutual intent to negotiate and enter into an agreement (the Agreement) through which the net assets of Newberg Community Hospital (NCH) will be transferred to SPO pursuant to an affiliation arrangement in which SPO will own and operate NCH and provide healthcare services for the benefit of the Newberg community in accordance with terms and conditions not inconsistent with the concepts set forth in this LOI.

I. HISTORY and PURPOSE

1.1 Newberg Community Hospital has operated as a component of the City of Newberg since its inception in 1957. Following an extended period of study, focusing on the increasing challenges and requirements of being a healthcare provider, the City has concluded that the long-term interests of its residents would be better served if NCH were to become an integrated component of an established, proven and financially stable major healthcare system serving the nearest major tertiary care area (i.e. the greater Portland area) and Northwest Oregon.

1.2 SPO meets those criteria and has also expressed its willingness to operate NCH and provide healthcare services to Newberg residents in accordance with the concepts described herein.

II. Transfer of Assets and Operating Responsibility

2.1 At closing of the Agreement, the City will transfer to SPO title to the City-owned healthcare assets as a going concern (the TRANSFERRED NET ASSETS), excluding \$450,000 in a combination of net assets comprised of working capital, equipment, funded depreciation and other assets pertaining to the ambulance service, which the City will retain. SPO will accept title subject to the conditions and terms expressed herein, and will concurrently assume and undertake a binding obligation to discharge City obligations related to the TRANSFERRED NET ASSETS or their operation (including assumption of contracts and other ongoing obligations relating to the TRANSFERRED NET ASSETS), and to defend and hold the City harmless and indemnify it as provided in section 12.1. SPO shall specifically undertake all steps necessary to properly and timely pay, refund or defease the City's existing long-term debt, which is approximately \$2.4 million, relating to the TRANSFERRED NET ASSETS as required by law or the contractual terms of such debt and shall defend and hold City harmless from any claims based on failure to do so.

2.2 From and after closing, SPO shall own and operate the TRANSFERRED NET ASSETS as its property and shall continue to locally provide healthcare services for Newberg residents in accordance with and subject to the terms and conditions of the Agreement.

III. Triggering Events; Repurchase and Cash Payment Obligations

3.1 Upon the occurrence during the periods specified below (calculated from Closing of the Agreement) of any of the events described in this Section III (hereinafter referred to as "TRIGGERING EVENTS") and their determination and formal declaration by City as TRIGGERING EVENTS in the manner described below, SPO shall have the obligation to pay or transfer to the City as provided herein the amounts described in Section V [the PRICE] for the TRANSFERRED NET ASSETS, or in lieu thereof, at the City's option, to sell to the City SPO's LOCAL HEALTHCARE SYSTEM as defined in Section 6.1 on a going-concern basis at its then fair market value, less a credit in the amount of the PURCHASE CREDIT (defined below). Unless the City gives notice of exercise of the right to purchase within ninety (90) days after formal declaration of a TRIGGERING EVENT, SPO shall pay THE PRICE in cash to the City within 180 days after formal declaration of the TRIGGERING EVENT. After the expiration of the period of 25 years or SPO's payment of its obligations to the City as described in this section, SPO shall be deemed to have satisfied all obligations to the City except for the Right of First Refusal and the Villa Road property Right of ReEntry.

3.2 The occurrence of any of the following events or conditions during the designated time periods, when subsequently officially declared by the City in accordance with Section 3.3 and its subsections, shall constitute a TRIGGERING EVENT:

3.2.1 The bankruptcy or dissolution of SPO or its successor (except for a dissolution resulting from a structural reorganization permitted under Section 3.2.4.) at any time within 25 years from the Closing date.

3.2.2 SPO's failure to make regularly available a reasonable scope of locally-delivered healthcare services (with emphasis on building a integrated delivery system) in the LOCAL AREA as defined in section 3.2.5. A reasonable scope of such services shall be that scope of services which, in the aggregate, is comparable to the scope of services then commonly provided in similar communities, considering such factors as size, urban/rural character, competitive profile, and proximity to major metropolitan areas. However, SPO's compliance with explicit healthcare-related ethical directives of the Roman Catholic Church will not be construed as failure to make available a reasonable scope of services. In the ten years immediately following the Closing date any dispute concerning an alleged failure under this section will be determined by a review committee composed as provided in section 3.3. In the succeeding fifteen years, a failure under this section shall be deemed to occur only if SPO agrees in writing that it does not intend to continue to deliver such services.

3.2.3 Discontinuation or significant alteration of SPO's charitable mission and philosophy including but not limited to its interest in the health status of the communities it serves and its willingness, to a reasonable extent, to provide care regardless of patients' ability to pay, considering its economic capabilities and the then-applicable circumstances in the healthcare industry, within a period of 25 years from Closing.

3.2.4 The sale, assignment or transfer of all or substantially all of the assets of SPO within a period of 25 years from Closing, except to an organization with a similar charitable mission and philosophy which commits to be bound by the terms and conditions of the Agreement, or pursuant to an internal reorganization in which

sponsorship and control continues to be vested in and the obligations backed by SPO or another financially equivalent entity owned or controlled by the Sisters of Providence, Sacred Heart Providence.

3.2.5 The relocation within a period of 25 years from Closing (without the written consent of the City) of SPO's principal healthcare service facility for the GREATER NEWBERG SERVICE AREA (encompassing Yamhill and southwestern Washington Counties) from within a geographic area that includes the then-current city limits of the City of Newberg and a three-mile circumference around such city limits (the LOCAL AREA).

3.3 If the existence of a TRIGGERING EVENT is believed to exist, the parties shall disclose the relevant facts to each other and attempt to informally resolve the issue.

3.3.1 If, after discussion, a potentially TRIGGERING EVENT is agreed to exist, SPO shall be granted ninety days in which to cure it prior to City's issuance of a formal declaration of a TRIGGERING EVENT.

3.3.2 If the parties are unable to reach voluntary agreement on the existence of a TRIGGERING EVENT or the adequacy of any proposed or attempted cure, except as provided in section 3.2.2 with respect to issues of the scope of locally-delivered healthcare services after ten years, the issue shall be promptly submitted to a review committee composed of two SPO representatives, two City representatives and two mutually acceptable independent and prudent persons with professional healthcare delivery expertise pertinent to the issues, and that group shall make a binding determination by majority vote within 30 days.

3.3.3 SPO shall have ninety days following agreement or determination by the review committee of a TRIGGERING EVENT to cure; if SPO has diligently pursued all reasonably available methods of cure during the 90-day period but has been unable to effectively cure due to factors beyond its control, the period for completion of the cure shall be extended an additional 90 days.

3.3.4 If the City does not accept the cure as effective, its adequacy shall be promptly determined by the review committee in accordance with the process of section 3.3.2. If a TRIGGERING EVENT has been found by committee decision or agreement of the Parties and SPO elects not to cure or its cure is found to be inadequate, the City may officially declare a TRIGGERING EVENT has occurred and implement its rights based thereon.

IV. RIGHT OF FIRST REFUSAL

4.1 In addition to its rights upon the declaration of a TRIGGERING EVENT, City shall at all times have a Right of First Refusal to purchase from SPO its Local Healthcare System (as defined in section 6.1) on the same terms and conditions as offered to and conditionally accepted by SPO by any other legitimate prospective purchaser with the capability of completing the purchase on the offered terms and conditions, provided that City shall have no such right if the sale of the property is part of the sale of substantially all of SPO's assets under circumstances permitted by section 3.2.4. The City shall have sixty (60) days from written notification by SPO of all offered terms in which to give SPO written notification of its decision. Such right may be exercised independently of

the existence or nonexistence of any other TRIGGERING EVENT. If no TRIGGERING EVENT has occurred but there is a sale which triggers the right of first refusal, the City's credit against the purchase price shall be the original appraised value of the TRANSFERRED NET ASSETS (without amortization and without transfer of the SPECIAL ACCOUNT). If all TRIGGERING EVENTS have expired, City shall not be entitled to any credit against the purchase price.

V. DETERMINATION OF THE PRICE:
ESTABLISHMENT AND USE OF THE SPECIAL ACCOUNT

5.1 Fair market value of the TRANSFERRED NET ASSETS will be established as of the Closing date in accordance with the finalized appraisal of the TRANSFERRED NET ASSETS (for which the preliminary report indicates a value of \$7,650,000) and the accumulated but undistributed funds and net collectible pledges of the FOUNDATION determined in accordance with GAAP (preliminarily determined to be \$325,000), jointly referred to as the TOTAL ORIGINAL VALUE. The PRICE to be paid to the City or credited against its purchase price (as defined in Section 6.1) if it elects to purchase SPO's Local Healthcare System shall be the sum of the Unamortized TOTAL ORIGINAL VALUE, plus the balance of the SPECIAL ACCOUNT described below, or if the City elects to purchase, the PURCHASE CREDIT shall be the sum of the TOTAL ORIGINAL VALUE (without deduction or amortization) and the balance of the SPECIAL ACCOUNT.

5.2 For the ten years immediately following the Closing Date, the Unamortized TOTAL ORIGINAL VALUE shall be the full final TOTAL ORIGINAL VALUE established at closing. Thereafter the Unamortized TOTAL ORIGINAL VALUE shall be determined by decreasing the TOTAL ORIGINAL VALUE to fully amortize it ratably over the following fifteen year period on a straight line basis.

5.3 At Closing, SPO will deposit a check in an amount equal to the TRANSFERRED NET ASSETS to a segregated investment account (the SPECIAL ACCOUNT), and shall keep such funds and the earnings thereon invested in a manner consistent with SPO's investment policy for investments of similar maturities. The principal and earnings on such funds will be expended solely for items defined in Section 5.3.1 as Qualified Community Healthcare Assets, with \$4,750,000.00 of the funds in the SPECIAL ACCOUNT being expendable only for CATEGORY A QUALIFIED COMMUNITY HEALTHCARE ASSETS and the remainder for either CATEGORY A OR CATEGORY B QUALIFIED COMMUNITY HEALTHCARE ASSETS. If a mutually acceptable means to perfect City's security and priority in such funds, assure automatic transfer of such funds to the designated trust upon entitlement to such transfer, and enforceable controls on potential uses of the funds can be devised, SPO will be allowed to commingle such funds with other SPO assets in pooled investments. The parties shall endeavor to make such arrangements in a manner that existing SPO pooled investments need not be liquidated and reinvested.

5.3.1 QUALIFIED COMMUNITY HEALTHCARE ASSETS consist of the following categories of expenditures, provided that they have been recommended by the LOCAL COMMUNITY BOARD and made by SPO on or after Closing of the Agreement, provided that proceeds of sale or other disposal of assets already in the Area or assets acquired by prior expenditures from the SPECIAL ACCOUNT shall be deposited to the

SPECIAL ACCOUNT if such proceeds are \$50,000 or more for any single item or related items sold as a group.

i. **Category A:**

- I. Property, plant and equipment which will be located in the Local Area and which has a useful life greater than one year and a unit cost greater than \$250;
- II. Organizational and start-up costs incurred solely for new services and programs in the Local Area;
- III. Organizational, start-up and other capital costs incurred in establishing a regional healthcare initiative in which the Local Healthcare System participates, to the extent that such costs would have been avoided except for Newberg participation;
- IV. Income guarantees and recruitment expenses to relocate practitioners to the Local Area and establish them in practice within a local network, but not exceeding in the aggregate, a period of three years and a total of \$150,000 support (in 1994 dollars) for any individual practice;

ii. **Category B:**

- I. The Local Area's pro rata share of system-wide or regional healthcare initiatives in which the Local Area participates, over and above the incremental cost recognized as a Category A expenditure;
- II. Acquisition costs of practitioner practices already located in or serving the Local Area prior to Closing date of the Agreement.
- III. Costs of episodic preventive public health programs solely and directly of benefit to the community, such as immunization or student screening programs, but not to exceed a maximum of \$50,000 per fiscal year in the first five years after closing or \$100,000 per fiscal year thereafter.

5.3.2 The unexpended balance of the **SPECIAL ACCOUNT**, or any part thereof, shall be disbursed only when supported by written evidence of the recommendation of the **LOCAL COMMUNITY BOARD** unless a **TRIGGERING EVENT** is, in accordance with the process described in section 3.3 and its subsections, declared to exist. If a **TRIGGERING EVENT** is declared to exist in accordance with such processes and the City elects to purchase the Local Healthcare System, the balance of the **SPECIAL ACCOUNT**, along with the **TOTAL ORIGINAL VALUE**, shall be credited against the Purchase Price to be paid to SPO and the balance of the **SPECIAL ACCOUNT** shall be released to SPO upon closing of the transfer of such assets. If a **TRIGGERING EVENT** is declared to exist in accordance with such processes and the City does not elect to purchase the Local Healthcare System, or if the fund is not completely expended on authorized expenses within 25 years from Closing, the balance in the **SPECIAL**

ACCOUNT shall be transferred to a trust fund established and controlled by the City to be used for healthcare purposes in the Local Area. The Agreement shall provide appropriate means of securing City's creditor rights, priority and access to such funds.

5.3.3 It is intended by both the City and SPO that Newberg Community Hospital will become an integral part of the SPO Region and SPHS and participate in all applicable System and Region-wide programs and services of benefit to the Local Area. Accordingly, it may be charged fees for such services and for other System and Region-wide assessments, allocations and fees, to the extent that all such assessments, charges, allocations or fees are levied and applied to all SPO facilities and programs in the relevant System or Region based on a formula determined in good faith by SPO to reflect the relative proportionate benefit to each. In no event shall any allocations, fees or assessments be imposed on Newberg Community Hospital other than for specific services benefitting it, or when required to meet obligations under bonds to which assets of all SPO operations in the relevant area (including Newberg) are pledged. In any obligation derived from bonds, SPO shall apply Newberg Community Hospital assets and make charges against its assets equitably with those of other obligated operational units. Except as permitted by this section, all earnings derived from the TRANSFERRED NET ASSETS or their replacements shall be retained for use in the Local Area.

VI. TERMS OF PURCHASE OF THE LOCAL HEALTHCARE SYSTEM

6.1 If the City elects following declaration of a TRIGGERING EVENT to acquire the LOCAL HEALTHCARE SYSTEM, the current fair market value of the system shall be determined by an appropriately qualified independent appraiser mutually acceptable to the parties. The LOCAL HEALTHCARE SYSTEM, and hence the items to be included in the appraisal and transfer, shall consist of:

i. All TRANSFERRED NET ASSETS, to the extent they remain under the ownership or control of SPO, and if they have been sold or otherwise disposed of, the Local Area healthcare assets procured with their proceeds;

ii. All Qualified Community Healthcare Assets acquired by application of funds in the SPECIAL ACCOUNT and their proceeds;

iii. All facilities, equipment, operating components, employees, contracts, systems, intangible rights and other related assets of whatever kind or nature owned or controlled by SPO and located in the Local Area or used by SPO in delivery of healthcare services in the Local Area preceding the TRIGGERING EVENT and reasonably necessary to the City's continued delivery of healthcare services to the Local Area consistent with a reasonable scope of services as defined in section 3.2.2, but not including the balance of the SPECIAL ACCOUNT;

provided, however, that any such asset which is by its nature so intertwined with broader SPO operations that it can neither be segregated or severed and delivered to City or its designee for separate operation nor continue to be provided to the City or its designee by SPO without undue prejudice to SPO's remaining operations, SPO may repay to the SPECIAL ACCOUNT any amount withdrawn for purchase of the item, together with interest for the interim period sufficient to effectively reverse the transaction, and may

thereafter remove the item from inclusion in the LOCAL HEALTHCARE SYSTEM to be purchased by City. Any service provided to the LOCAL HEALTHCARE SYSTEM by SPO prior to City's purchase which is not so excluded shall continue to be made available to City so long as and on the same terms (including payment of service costs) as it is made available to other SPO operations for a period of five years. In no event shall the fair market value of the LOCAL HEALTHCARE SYSTEM determined pursuant to this Section 6.1 be established at an amount less than the PURCHASE CREDIT described in Section 5.1, provided that the original TRANSFERRED NET ASSETS or their proceeds remain in the LOCAL HEALTHCARE SYSTEM.

VII. VILLA ROAD CAMPUS "REVERSION"
[RIGHT TO RECLAIM]

7.1 Title to the Villa Road hospital campus real estate, consisting of those parcels of land on which the primary healthcare facilities of NCH are located at the Closing of the Agreement, shall be transferred to SPO subject to a condition subsequent (right of re-entry), with the transfer in fee simple but if the property ever ceases to be primarily used for general community healthcare purposes, then the City as grantor may reenter and terminate the estate and retake the property for City uses. The condition shall survive sale of the property by SPO regardless of whether there has been a TRIGGERING EVENT unless SPO has extinguished that right by payment pursuant to section 7.4. The occurrence of the deed condition shall not require a TRIGGERING EVENT as defined in this LOI. If the failure to use the property in the required manner causes the City to exercise its right to reclaim the property, that portion of the unamortized TOTAL ORIGINAL VALUE attributable to the Villa Road campus land only will be deducted from the unamortized TOTAL ORIGINAL VALUE and the PURCHASE CREDIT.

7.2 If the City has exercised the right of re-entry and reclaimed the Villa Road property, so long as SPO remains in conformance with other terms of the Agreement and has not suffered a TRIGGERING EVENT, the City will not use (or permit others to use) the Villa Road property for any healthcare purpose reasonably considered by SPO to be in competition with SPO.

7.3 If the City, having exercised the right of re-entry and having reclaimed the Villa Road property, thereafter sells that property or any portion thereof, and SPO continues to meet the requirements of the Agreement, has not suffered a TRIGGERING EVENT and is providing community healthcare from other Local Area sites, the City shall pay SPO the lesser of:

- a. Fifty percent of the net proceeds from the sale; or
- b. All net proceeds in excess of the then appraised value attributable solely to the Villa Road land.

7.4 If SPO decides to sell or transfer the Villa Road property as part of a larger transaction involving sale of the Local Healthcare System or assets which trigger the City's Right of First Refusal or constitutes a TRIGGERING EVENT, and the City elects not to exercise its right to purchase the Local Healthcare System, SPO may eliminate the condition and the City's Right of Re-Entry on the Villa Road property by paying the City an amount equal to the then appraised value of the land only. In all other sales (those which do not constitute a TRIGGERING EVENT or trigger the Right of First Refusal or

in which such an event occurs or right is triggered but the City does not elect to purchase and SPO does not make such payment), the sale and transfer of title shall remain subject to the condition, and the City's right of re-entry to reclaim the land at any time it is not used for the required purposes in the future will continue in effect.

VIII. LOCAL COMMUNITY BOARD

8.1 SPO will establish and operate the Local Healthcare System through a LOCAL COMMUNITY BOARD, in which it will vest delegated decision-making and recommendation authority and responsibilities equal to and consistent with the authority delegated to SPO's Portland-Area Regional Community Board (the "Regional Board"), in addition to the special role with respect to QUALIFIED COMMUNITY HEALTHCARE ASSETS, provided above.

8.2 The initial LOCAL COMMUNITY BOARD will be appointed by SPO from among persons recommended by a joint nominating committee composed of an equal number of appointees of each of the following: SPO, The Newberg Community Hospital Board of Commissioners, and the City. Thereafter, at least until such time as the TRIGGERING EVENTS have all expired, appointments will be made by SPO from among persons recommended by the then-existing LOCAL COMMUNITY BOARD.

8.3 So long as the provisions concerning any TRIGGERING EVENT remain applicable, at least one local member of the LOCAL COMMUNITY BOARD will be appointed by SPO (in accordance with its normal appointment process) at all times to serve on SPO's Regional Board.

8.4 The day-to-day activities of SPO's healthcare services in the LOCAL AREA will be managed under the direction of an on-site Administrator (the ADMINISTRATOR), who, in the event of a vacancy in the position, will be retained by SPO after consultation with the LOCAL COMMUNITY BOARD, from among candidates recommended by the LOCAL COMMUNITY BOARD. The ADMINISTRATOR will report to the LOCAL COMMUNITY BOARD, the Regional Executive Officer to whom the COO's of SPO's Portland-area acute care facilities report and SPO's Regional Board, within their respective areas of authority.

8.5 A majority of the members of the LOCAL COMMUNITY BOARD shall at all times be residents of the LOCAL AREA.

IX. MEDICAL STAFF AND RECRUITMENT

9.1 Working within reasonable policy parameters established by SPO as needed to assure consistency with system-wide ethical and quality standards, SPO will work with the LOCAL COMMUNITY BOARD and the Newberg Community Hospital Medical Staff to develop and adopt Medical Staff Bylaws and Rules and Regulations as provided by law.

9.2 SPO will promptly undertake reasonable efforts to recruit (in a manner consistent with SPO's system guidelines and policies) appropriate practitioners for areas of unmet local medical need, with particular initial emphasis on family practitioners, an additional OB/GYN practitioner, a part-time orthopedist and (in the longer term) a pediatrics provider. In providing such assistance, SPO will work with Local Area practitioners to

give them reasonable opportunity to participate, if they are willing, so long as the community need is met.

X. EMPLOYEES

10.1 SPO will offer all persons who are employed at Newberg Community Hospital at the time of Closing of the Agreement (except for those employed with respect to the ambulance service who will continue to be employed by the City) comparable positions with total compensation and benefits comparable to those persons' present total compensation/benefits package as Newberg Community Hospital employees and will recognize accrued length of service at Newberg Community Hospital as if earned at SPO for purposes of vacation, sick leave and other benefits defined by the Parties in the Definitive Agreement but not including retirement benefits. SPO's future relationships with former Newberg Community Hospital employees will be subject to the same considerations as SPO's relationships with its other employees and will not be based on their prior NCH employment status. SPO shall bear the cost of severance of employees and termination of their benefit plans at NCH and institution of their employment and benefits programs at SPO.

XI. RELATED ORGANIZATIONS

11.1 Contingent upon the respective consents of the Newberg Community Hospital Foundation (FOUNDATION) and Newberg Community Hospital's Auxiliary (AUXILIARY), the Agreement will provide for the FOUNDATION and the AUXILIARY to be restructured as support organizations for SPO's Local Area Healthcare System, in a manner consistent with SPO's guidelines and policies. The City will receive credit as described in Section V. for the FOUNDATION's accumulated and undistributed donations and net collectible pledges obtained prior to Closing of the Agreement.

XII. CITY RELATIONSHIP AND SERVICES

12.1 SPO will defend, indemnify and hold the City, its officers, agents, employees, council and commission, harmless from all claims, debts, obligations, demands, payments, judgments or other legal responsibility, of whatever nature and however denominated, related to or arising from prior City ownership or operation of Newberg Community Hospital or other TRANSFERRED NET ASSETS or related personnel or operations, whether the basis of the claim or demand occurred before or after the Closing of the Agreement, and whether asserted by third parties, former NCH employees, contractors or others, whether in tort, contract or otherwise, to the extent that such defense, claim, demand or payment is not covered by and actually paid by City-procured insurance or barred by applicable law, including the Tort Claims Act. The City shall maintain existing claims-made insurance or procure "tail coverage" for its existing claims-made liability policies. If SPO is required to make payment in excess of \$300,000 in the aggregate for claims or demands which were neither known nor considered in determination of the TOTAL ORIGINAL VALUE and which were caused solely by acts, failure to act or conditions at Newberg Community Hospital prior to Closing of the Agreement, the amount paid by SPO on those claims shall be deducted from the unexpended Category A balance of the SPECIAL ACCOUNT upon payment by SPO.

12.2 As part of Closing of the Agreement, SPO and the City will enter into a three-year exclusive service agreement for the City to provide all necessary local emergency medical response and transport arranged by SPO's Local Healthcare System, and SPO will work cooperatively with the City's fire department to encourage development of a cost-effective, quality service for the benefit of the Local Area residents.

12.3 SPO will in good faith consider the establishment and maintenance of reasonable service relationships with the City where appropriate, shall permit reasonable access (on an as-available basis) by the City and the Newberg community to NCH conference facilities without charge, and where feasible, will include City employees in immunization and similar SPO employee initiatives.

12.4 As part of its assumption of responsibility for the City's NCH-related liabilities and obligations, SPO will reimburse the City for amounts accrued and owed to the general City budget for services of the City attorney, not to exceed \$20,715.39.

XIII. REPORTING

13.1 SPO will annually provide the City with copies of audited financial statements for SPO and certified information from either SPO's Regional CFO or independent auditors regarding its service components related to the Local Area, together with information describing the components and value of the Qualified Community Healthcare Assets and their proceeds, by category, and the unexpended balance of the SPECIAL ACCOUNT. SPO will also provide the City with reasonable advance notice of pending events which might constitute a TRIGGERING EVENT or give rise to the City's need to consider the potential exercise of its Right of First Refusal or Right of Re-entry.

XIV. TRANSITION

14.1 The parties will use their best efforts to effect a smooth operational transition from City ownership and operation of the TRANSFERRED NET ASSETS to SPO. SPO will appoint a transition team which shall include former NCH employees to assist it in implementing the initial operational changes occurring following Closing of the Agreement.

XV. HISTORICALLY SIGNIFICANT ASSETS

15.1 SPO will use its best efforts to preserve those historically significant assets, objects and relationships identified in Exhibit 1, attached hereto and incorporated herein by this reference.

XVI. NONBINDING LETTER/ REQUIRED APPROVALS

16.1 When signed and delivered, this letter will set forth an agreement in principle only, and except as explicitly provided below, will not be binding on the parties hereto, and may not be relied upon as a basis for a contract by estoppel, it being the intent that no party be bound until a definitive Agreement has been negotiated, reduced to writing, approved by all required corporate, governmental and religious bodies, duly executed and delivered. Notwithstanding that understanding, by their signatures below the parties do intend that section XIX (exclusivity) will be enforceable until execution of the Agreement or the date on which negotiations are formally terminated (whichever occurs first), and

that the obligations of sections XVIII (Due Diligence), XXIII (Confidentiality), and XVII (Transaction Costs) shall be enforceable by their terms.

XVII. TRANSACTION COSTS

17.1 Except as otherwise specifically provided herein, each party shall bear its own costs and expenses (including legal and consulting fees) in connection with this Letter of Intent and the negotiation of all agreements and preparation of documents contemplated by this Letter of Intent. Each party represents that it has not engaged any business broker or other person entitled to a finder's fee in connection with this proposed transaction.

XVIII. DUE DILIGENCE

18.1 The City and SPO will cooperate with each other in undertaking and completing all reviews and other steps required to enable the parties to complete detailed negotiations and to prepare the Agreement in connection with the proposed transaction. The parties shall make a good faith effort to enable the contemplated transaction to close on or before June 30, 1994. As part of this process, both parties shall promptly furnish such information to the other as may be reasonably requested concerning their respective operations, liabilities, assets and other relevant information.

XIX. EXCLUSIVITY

19.1 Following the parties' execution of this Letter of Intent and continuing until notice of termination is given pursuant to section XX below, neither the City nor SPO shall enter into negotiations with or solicit or consider offers from any third party respecting any matter that is the subject matter of this Letter of Intent. With respect to SPO, this paragraph shall apply to any negotiations or offers for purchase, lease, option to acquire, contract for construction or any form of affiliation or commitment to any other healthcare facility or system which would, if carried out, establish a new Providence facility or healthcare provider system within the GREATER NEWBERG SERVICE AREA (Yamhill and southwestern Washington counties), unless waived by City in writing. With respect to City, this section shall include any discussions, negotiations or contracts with third parties with respect to sale, lease, option to sell, or contract for sale or encumbrance of any substantial component of the City's health-care assets and any form of affiliation with another healthcare provider, unless waived by SPO in writing.

XX. TERMINATION

20.1 The City or SPO may terminate this Letter of Intent, with or without cause, by giving prior written notice of such termination to the other party. In addition, this Letter of Intent shall be automatically terminated unless both parties expressly waive such termination, in the event that a binding contract is not signed on or before June 15, 1994, or such later date as may be mutually agreed by the City and SPO.

XXI. NO THIRD PARTY BENEFICIARIES

21.1 Nothing in this letter or the contemplated Agreement is or shall be intended to provide or convey any actionable right or benefit to or upon any person or persons other than the City and SPO.

XXII. MISSION AND VALUES

22.1 As a Catholic organization, SPO will operate the TRANSFERRED NET ASSETS in accordance with The Ethical and Religious Directives for Catholic Health Facilities, as now stated or amended in the future. SPO will operate the TRANSFERRED NET ASSETS in a manner which makes appropriate provision for the religious and spiritual needs of all of its patients, families, staff and physicians.

XXIII. CONFIDENTIALITY

23.1 The parties recognize the City's obligations as a public entity to comply with Oregon's open records and open meetings laws. The parties also recognize that SPO has access to substantial City information relating to the TRANSFERRED NET ASSETS, liabilities and plans in its role as provider of management services for Newberg Community Hospital under a prior contract with the City. Information which SPO develops or accesses through that role shall be deemed provided to SPO pursuant to this letter and in furtherance of the contemplated Agreement to the extent used to perform any investigation or function under this LOI.

23.2 To the extent that either entity is permitted by law to do so, it will hold in confidence any financial or strategic planning information and any other information specifically designated by the other as confidential which is provided by or obtained from or about the other in furtherance of due diligence, investigation or other steps required or in aid of consummation of the Agreement and will not disclose such information to any third party other than those third parties specifically retained to participate in or conduct the valuation of the contemplated transaction, to perform some act in furtherance thereof or whose approval is required.

23.3 The foregoing shall not preclude the City or its negotiators from revealing to the full City Council, in open session, the terms of this LOI or of the Agreement, or the alternatives proposed or rejected in their negotiation, or the factual bases of any recommendation.

23.4 The parties will cooperate with each other to jointly develop and release any formal press statements or public announcements concerning these discussions or the proposed transaction.

Signed this 2nd day of May, 1994

Sisters of Providence In Oregon

City of Newberg

By *Sister Donna Taylor*
President

Laura Proctor
Mayor

Jeffrey May
Secretary

Diane R. Cole
City Recorder

ACKNOWLEDGED


Chairman, NCH Commission

STOEL RIVES BOLEY JONES & GREY

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Telex 703455

Writer's Direct Dial Number

(503) 294-9336

May 10, 1994

By FAX: 206-464-3038

Mr. Jeffrey W. Rogers
Vice President and General Counsel
Sisters of Providence
System Office
520 Pike Street
P.O. Box 11038
Seattle, Washington 98111-9038

Re: SPO/Newberg Letter of Intent

Dear Jeff:

Following further discussion between the parties concerning interpretation and clarification of the language in the City of Newberg/Sisters of Providence Letter of Intent, it is my understanding that agreement has been reached to consider the Letter of Intent as if clarified in the manner indicated below. Specifically, when both documents have been signed by representatives of both parties, the LOI and this letter shall be considered as parts of the same modified document, and we will proceed with negotiation and drafting of the Definitive Agreement based on the LOI as clarified in this letter:

The first paragraph of Section 5.3.1 shall be interpreted and implemented in the following revised form: QUALIFIED COMMUNITY HEALTHCARE ASSETS consist of the following categories of expenditures, provided that they have been recommended by the LOCAL COMMUNITY BOARD and made by SPO on or after the Closing of the Agreement (but not including the first \$300,000 of expenditures for otherwise QUALIFIED COMMUNITY HEALTHCARE ASSETS each year for the first ten fiscal years following Closing), provided that proceeds of the sale or other disposal of assets acquired by expenditures from the SPECIAL ACCOUNT shall be deposited to the SPECIAL ACCOUNT if such proceeds are \$50,000 or more for any single item or related items sold as a group.

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Section 5.3.2 shall be interpreted and implemented as if the words "...or if the fund is not completely expended on authorized expenses within twenty-five years from Closing..." were deleted.

Section 5.3.3 shall be interpreted and implemented in the following revised form: "It is intended by the City and SPO that the LOCAL HEALTHCARE SYSTEM (including NCH) will become an integral part of SPO and of the Sisters of Providence Health System ("SPHS") of which SPO is a part, will be part of the Sisters of Providence Obligated Group, and will participate in all applicable SPHS and SPO programs and services. As such, the Local Healthcare System will be responsible to participate in and pay its assigned share for SPHS and SPO system and regional management and service fees, and other system-wide or region-wide assessments, charges, allocations and fees, which SPO and SPHS will use their best efforts in good faith to levy and apply in a consistent and equitable manner which recognizes the variability in financial size and strength of its system components. Except as necessary to pay its share of such assessments, charges, allocations and fees, the TRANSFERRED NET ASSETS (during their useful lives) and the proceeds from sale or other disposition of such assets which exceed \$50,000 per item or related group of items will be retained by SPO in the LOCAL HEALTHCARE SYSTEM at least until the funds from the SPECIAL ACCOUNT have been fully expended in the LOCAL HEALTHCARE SYSTEM. Except as otherwise provided in the LOI, SPO shall have the right to fully integrate the LOCAL HEALTHCARE SYSTEM operationally, managerially and financially, and operate the LOCAL HEALTHCARE SYSTEM in accordance with applicable SPO and SPHS policies, procedures, guidelines and directions.

Section 8.2 shall be interpreted and implemented in the following revised form: "The initial LOCAL COMMUNITY BOARD, which will be comprised of nine to fifteen people, including at least two physicians, will be appointed..."

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Section 8.5 shall be interpreted and implemented in the following revised form: "A majority of the members of the LOCAL COMMUNITY BOARD shall at all times be residents of or employed within the LOCAL AREA."

Section 13.1 shall be interpreted and implemented in the following revised form: "SPO will annually provide the City with copies of audited financial statements for SPO and certified information from either SPO's Regional CFO or independent auditors regarding its service components related to the Local Area, to the extent such information is reasonably available, together with information describing the components and value of the QUALIFIED COMMUNITY HEALTHCARE ASSETS and their proceeds, by category, and the unexpended balance of the SPECIAL ACCOUNT. SPO will also provide the City with reasonable advance notice of pending events which might constitute a TRIGGERING EVENT or give rise to the City's need to consider the potential exercise of its Right of First Refusal or Right of Re-entry."

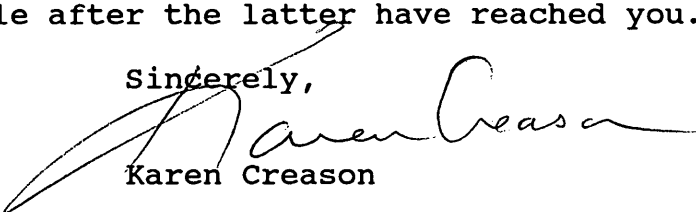
As you know, the timing of the emergence of the issues which led to the above clarifications did not permit disclosure of the clarifications or discussion of those issues with the full City Council prior to its resolution approving the LOI and directing its representatives to move forward with negotiations of a Definitive Agreement with SPO. We believe that these changes will be acceptable to the City and are within the drafting authority of the City's representatives, however. Of course, the final Definitive Agreement incorporating them in a binding document will be subject to approval of both the Sisters of Providence in Oregon and the full City Council before the Definitive Agreement becomes binding. Under those circumstances, it is my understanding that you will accept this letter as a clarification of the parties' interpretation of the existing LOI language and an indication of the type of language we expect to include in the Definitive Agreement and that you are executing this letter simultaneously with the Letter of Intent to indicate that shared intent.

Several copies of this letter have been sent to Duane Cole, the City Manager, for his signature confirming the City's intent and will be sent to you for the signature of Sister Donna Taylor, SP as soon as they arrive. Please return two

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fully executed copies of the LOI and of the copies of this letter signed by Mr. Cole after the latter have reached you.

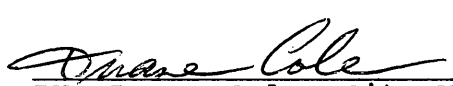
Sincerely,

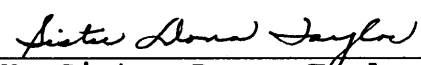

Karen Creason

BY THEIR SIGNATURES BELOW, THE PARTIES INDICATE THEIR CONCURRENCE IN THE ABOVE CLARIFICATIONS/INTERPRETATIONS OF THE LOI PREVIOUSLY SIGNED BY THE CITY OF NEWBERG:

CITY OF NEWBERG

SISTERS OF PROVIDENCE IN
OREGON


BY: Duane Cole, City Manager


BY: Sister Donna Taylor, SP
President & CEO