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1401 Garces Highway
Delano, CA 93215

CENTRAL CALIFORNIA FOUNDATION FOR HEALTH

August 21, 2018

Mr. Joseph Reppert
Senior Vice President and Chief Financial Officer
Adventist Health
2100 Douglas Boulevard
Roseville, California 95661

Dear Mr. Reppert:

I am pleased to submit this letter to you expressing the intent of Central California Foundation for Health dba Delano Regional Medical Center ("Delano") to enter into negotiations with Adventist Health System/West ("Adventist Health") with a view to affiliating with it (the "Proposed Affiliation"), generally in accordance with the proposed terms set out below. To express the corresponding intent of Adventist Health to proceed with the Proposed Affiliation, please sign a copy of this letter and return it to me.

This letter constitutes a mere expression of present intent. Nothing in this letter is intended to create any binding obligation on the part of either Delano or Adventist Health, except for the limited obligations set out in Section 4 below, which are intended to be legally binding. An obligation to proceed with and consummate the Proposed Affiliation, if any, will only be pursuant to definitive agreements ("Definitive Agreements"), as the same may be executed and delivered by the parties.

1. Form of Affiliation. We contemplate that the Proposed Affiliation will be effected by the substitution of Adventist Health as the sole member of Delano under the California Nonprofit Corporation Law, and the withdrawal of Delano's existing members, all by amendment of Delano's organizational documents. Post-closing Delano will continue to exist as a separate nonprofit corporation, holding its own, separate balance sheet, including cash and investment assets (although cash will be consolidated for investment purposes, but remain available to Delano when needed, subject to Adventist Health approval). Post-closing, Adventist Health will seek to re-classify Delano as a nonprofit religious corporation and Delano will be known as "Adventist Health Delano," consistent with Adventist Health existing branding guidelines.

2. Other Principal Terms. Other contemplated terms of the Proposed Affiliation follow:

a. Board. As the sole member of Delano, Adventist Health will appoint all members of the Delano board of directors. We understand Adventist Health's current practice is to have all members of its board of directors also serve as all the members of the board of directors of each affiliate, and that Adventist Health intends to follow the same practice in an affiliation with Delano. In addition, Adventist Health intends, consistent with its existing practice, to appoint a "Local Board," which will have certain delegated powers. A listing of such delegated powers together certain other Local Board functions are set out in Exhibit A hereto. In connection with negotiating the Definitive Agreements, we will collaboratively identify potential members of the initial Local Board, subject to confirmation by the Adventist Health board sitting as the Delano board. Future Local Board membership will be identified by a Local Board nominating committee, subject to approval by the Adventist Health board, sitting as the Delano board.

b. Debt/Capital Allocation. Negotiation of the Definitive Agreements will include analysis of Delano's existing long-term debt, and whether such debt should be refinanced as an obligation of the Adventist Health obligated group. Delano will join the Adventist Health obligated group as appropriate in light of the parties' existing debt and future borrowing needs. Post-closing, Delano will immediately commence to participate in the Adventist Health capital allocation process for both routine and strategic capital needs.

c. Obstetrics Facility. The Definitive Agreements shall contain a covenant obligating Adventist Health to develop and, within five years from closing, open an inpatient obstetrics and delivery facility at a size and scope to be specified. Adventist Health is committed to meet the obstetrics needs of the Delano community.

d. Clinical Services. The Definitive Agreements shall contain a commitment to maintain Delano Regional Medical Center as a licensed acute care hospital, with an operating bed count for emergency, acute care (including perinatal and intensive care) and skilled nursing care not less than the current bed count for a period of not less than 10 years post-closing. Negotiation of the Definitive Agreements will include analysis of additional service commitments, such commitments to be in addition to any other commitments typically required by the California Attorney General.

e. Change of Control. Adventist Health will not, for a period of not less than 10 years following the closing, transfer control of Delano, cause Delano to merge or consolidate with a third party, or sell all or substantially all of the Delano's assets to a third party, *provided*, that nothing in this regard is intended to limit in any way actions of Adventist Health as a system including any change of control of Adventist Health or any transaction involving another affiliate of Adventist Health.

f. Medical Staff. We do not contemplate that the Proposed Affiliation will involve any changes to the current medical staff bylaws or other governing policies or procedures subject to such changes as the Medical Staff may approve. Negotiation of Definitive Agreements will include discussion of physician recruitment needs, consistent with the above commitments to retain clinical services and identified current physician shortages, together with Adventist Health's commitment to make its existing physician recruitment programs and practice development vehicles available as necessary to best fulfill recruitment needs, including standard recruiting agreements, rural health clinics and the Adventist Health Physician Network.

g. Employees. Delano employees in good standing as of the closing will be retained absent good cause at existing compensation and benefit levels and at substantially similar positions for a period of not less than 180 days, subject to personnel engaged in functions that constitute Adventist Health shared services being offered similar roles in Roseville, California. Employees to retain existing years of service and vested benefit status. Subject to diligence review, Adventist Health to honor all commercially reasonable and appropriate existing employee and executive contracts and policies, including, without limitation, those providing for "stay bonuses," severance pay, performance-based bonuses, retirement pay and change of control pay.

h. Charity Care. Negotiation of Definitive Agreements will include a comparison of current Delano and Adventist Health financial assistance policies and a review of existing Delano community health programs. The Definitive Agreements will specify Delano's post-closing financial assistance policy and community health programs.

i. Shared Services. Delano to have access to Adventist Health shared service programs, including revenue cycle, clinical engineering and cost accounting, with pricing consistent with that of other affiliates.

j. Contracting. Adventist Health to integrate Delano into its managed care networks and payor contracts. Delano to have access to Adventist Health GPO and other vendor arrangements, managed care support systems and health reform initiatives, consistent with other affiliates.

k. IT. Adventist Health will, within six months of the closing, begin implementation of the IT infrastructure upgrades necessary to support the standard Cerner Millennium EMR at Delano. The costs of the Cerner conversion will be borne by Adventist Health.

3. Timing; Due Diligence; Regulatory Review. We anticipate a two-stage diligence review of Delano, consisting of a first phase document review followed by interviews with key Delano management to assess what additional diligence material may be required. To facilitate this the diligence document requests will be identified as "A" or "B" priority with "A" being the first phase requests. Based on the interviews the "B" requests may be expanded or reduced.

Delano will respond to document and meeting requests by Adventist Health as promptly as is practicable, with a view to targeting completion of diligence within 90 days after signing of this letter (assuming Adventist Health and its representatives are given timely access to requested diligence). Delano will conduct and complete whatever diligence of Adventist Health that it deems appropriate during same diligence period. During the diligence period, the parties will also engage in negotiation of Definitive Agreements with a view to execution and delivery of the same promptly following completion of the diligence period. Promptly following execution of Definitive Agreements, we anticipate prompt submission of the Proposed Affiliation to all regulatory authorities whose approval is legally required as a condition to closing, including that of the California Attorney General. Adventist Health will accept those conditions and commitments typically required by the California Attorney General in similar change of ownership transactions involving nonprofit general acute care hospitals. In connection with negotiation of Definitive Agreements, we will make a mutual determination whether filing is required under the Hart-Scott-Rodino Antitrust Improvements Act.

4. **Binding Obligations.** The following provisions shall be legally binding on Delano and Adventist Health:

a. **Exclusivity; Good Faith Negotiations.** For a period of ninety (90) days following execution of this letter, each of Delano and Adventist Health shall: (i) reasonably cooperate with the other in connection with its diligence review, including providing access to requested materials and responding to questions; and (ii) negotiate in good faith toward the development of Definitive Agreements. For a period of ninety (90) days following execution of this letter, Delano shall not: (i) solicit or substantively respond to any proposal from a person other than Adventist Health relative to an affiliation transaction of a type comparable to that addressed in this letter; or (ii) engage in discussions with any person other than Adventist Health relative to such an affiliation transaction.”

b. **Confidentiality.** Adventist Health and Delano each acknowledges that it is a party with the other to a certain Confidentiality and Non-Disclosure Agreement effective as of February 26, 2018, and that the same remains in full force and effect. Notwithstanding the foregoing, Adventist Health consents to Delano sharing information concerning this letter and the Proposed Affiliation with its bond holders and any credit rating agencies, to the extent that Delano deems appropriate and consistent with good legal practice, subject to reasonable assurances of confidentiality.

c. **Notices.** Any notice or other communication to a party required or permitted hereunder shall be sufficient if in writing and sent to the party by: (i) certified or registered mail, postage prepaid, return receipt requested, or nationally recognized overnight courier service, in either case addressed to the party at its address specified below, or (ii) by e-mail to its e-mail address set forth below, or to such other address that the party specifies for notice by notice to the other party.

If to Delano: Delano Regional Medical Center
881 Alma Real Dr., Suite 301
Pacific Palisades, CA 90272
Attn: Bill Noble
Email: wlnnoble@aol.com

With a copy to: Foley & Lardner LLP
555 California St., Suite 1700
San Francisco, CA 94104-1520
Attn: Mark Schieble
Email: MSchieble@foley.com

If to Adventist Health: Adventist Health System/West
2100 Douglas Blvd.
Roseville, CA 95661
Attn: Bob Beehler, Vice President Market
Development
Email: beehlerj@ah.org

With a copy to: Adventist Health System/West
2100 Douglas Blvd.
Roseville, CA 95661
Attn: Meredith Jobe, Vice President &
General Counsel
Email: jobems@ah.org

d. **Public Communication.** Except as otherwise required by law, all press releases or other public communications of any sort relating to the Proposed Affiliation, and the method of release for publication thereof, will be subject to prior approval of both parties.

e. **Expenses.** Each Party shall bear its respective legal, accounting and other expenses and costs in connection with the Proposed Affiliation, provided that Adventist Health shall pay all cost and expense of seeking and obtaining approval of the Proposed Affiliation from the California Attorney General, as well as any filing deemed necessary under the Hart Scott Rodino Antitrust Improvement Act, in each case whether or not the Proposed Affiliation is consummated.

f. **Termination.** This letter may be terminated by a party by notice to the other party at any time. Upon termination of this letter for any reason, the parties shall have no further obligations except the confidentiality and other commitments contained in the Confidentiality Agreement, and the commitments set forth in Sections 4.d and 4.e, which will survive termination.

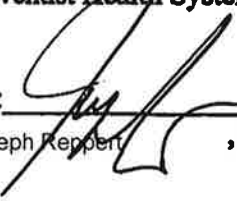
Very truly yours,

Central California Foundation for Health


By: _____
William L. Noble, Chief Executive Officer

Accepted by:

Adventist Health System/West

By:  _____
Joseph Reppert, its Senior Vice President and Chief Financial Officer

Dated: August 21, 2018

Exhibit A

Delegated Powers and Other Functions of Local Board.

Delegated Powers:

- **Providing market planning, including local physician integration strategies, community mission and clinical delivery**
- **Providing input and recommendations for local executive leadership selection**
- **Organizing and supervising the medical staff, including approval of bylaws, rules and regulations**
- **Establishing policies and procedures for functions of the hospital delegated to the governing board, and**
- **Overseeing quality and safety.**

Additional Functions:

- **Providing input and oversight of the Community Health Needs Assessment and population health strategy**
- **Granting medical staff appointments and clinical privileges**
- **Establishing quality of service standards and policies**
- **Reviewing and advising the hospital president on hospital goals and plans**
- **Reviewing the annual operating budget and long-term capital expenditures as requested by the legal board**
- **Ensuring the medical staff attends meetings and has the opportunity to comment**
- **Ensuring the medical staff practices within the scope of privileges as set out by the governing board**
- **Developing and facilitating a quality assurance program**
- **Evaluating the performance of the local board**
- **Working with the hospital president to maintain accreditation and eligibility for participation in Medicare, Medicaid and other payment programs**
- **Monitoring the hospital's performance via regular reports from the hospital president.**