

**Letter of Intent  
Between  
Overlake Hospital Medical Center  
And  
Public Hospital District No. 4, King County**

This letter of intent (the "Letter") is by and between Overlake Hospital Medical Center ("OMC") and Public Hospital District No. 4, King County (the "District") for OMC's lease and operation of the District's Snoqualmie Valley Hospital (the "New Hospital"), Snoqualmie Valley Hospital Clinic, and Snoqualmie Ridge Medical Clinic (collectively, "SVH"). This letter is solely for the purpose of outlining the proposed terms and process of a possible transaction and shall not be binding on either party, except as set forth herein.

**A. Background**

The District owns and operates SVH in the District's service area of East King County. OMC and the District desire to continue discussions concerning transfer of all healthcare operations from the District to OMC, and the lease of the New Hospital from the District to OMC according to such terms and conditions as the parties may agree (the "Transaction").

**B. Effective Date; Term**

The "Effective Date" of this Letter shall be March 13, 2019. This Letter shall continue in effect until (i) the closing of the Transaction, or (ii) the date either party receives a Notice of Termination, unless otherwise agreed by the parties in writing. A "Notice of Termination" means a written notice, signed by OMC or the District and delivered pursuant to Section G.6, (Notice), set forth below.

**C. Transaction Deal Points**

1. Operations. All SVH clinical operations (hospital and clinics) will be operated by OMC and branded under the Overlake family of facilities.
2. Structure. The operation and licenses of the SVH hospital and clinics will move into a new 501c3 (Newco) whose sole member will be OMC. The New Hospital and other real assets, along with all currently existing debt, will remain with the District. OMC will bear full operational and financial risk for the operation of Newco, subject to section C(4)(d).
3. Governance of Newco. All operations of Newco will be under the governance and control of OMC. OMC will provide the District with stewardship reports twice a year regarding Newco operations in the District.
4. Additional Deal Points
  - a. OMC shall lease from the District all the assets related to SVH, equipment and furnishings that are directly owned by the District (the "Assets"); ownership of the Assets and liability for the debt will remain with the District. The parties anticipate that the lease amount will not exceed 105% of the revenue bond annual debt service.
  - b. OMC shall assume the building lease for the Snoqualmie Ridge Medical Clinic.
  - c. OMC will assume all necessary third-party equipment and furnishing leases.
  - d. The District shall create a trust account funded by a portion of the tax revenue in excess of LTGO debt service and a portion of the District's unrestricted cash

balance (TBD) at the time of the execution of the definitive agreement, the purpose of which is to provide safety nets for OMC against possible operational losses, and for the District should OMC not continue to operate Newco post the initial term. The initial term of the agreement will go through December 1, 2025 when the District's revenue bonds become callable.

- e. OMC shall have the option to purchase the New Hospital or terminate the lease and transfer membership in Newco back to the District, at the end of initial lease term.
  - f. The District's East Campus property is excluded from the Transaction; OMC will have a right of first refusal for the acquisition of East Campus property and the District will be restricted from allowing any competitive use on the property.
5. Scope of Clinical Services. OMC will continue all current clinical services at SVH for at least one year after closing.
6. Community Needs. OMC will conduct Market Assessments and develop action plans according to the findings of those assessments.
7. Dissolution Triggers. During the term of the Agreement, the following will be triggers for termination of the lease and/or transfer of membership in Newco back to the District:
- a. Loss of Critical Access Status of Newco;
  - b. Loss of Swing Bed Status for Newco's inpatient hospital beds;
  - c. Material change (to be defined) to any CAH based reimbursement, including CAH swing bed reimbursement;
  - d. Imposition by CMS or other governmental/administrative authority of a material (to be defined) repayment obligation based on SVH operations prior to the effective date of the transaction;
  - e. District's failure to fund the Trust;
  - f. District's default on any of its bond obligations;
  - g. Failure of OMC to make timely lease payments; and
  - h. Either party's material failure to support and act in alignment with the intent and goals of the Transaction, or either party's actions to disparage or otherwise actively interfere with the stated goals and intent of the parties to the Transaction, following a mutually agreed dispute resolution process.

**D. Process**

The parties agree in good faith to make every reasonable effort to complete the process described below and determine whether to proceed with the Transaction by December 31, 2019. Representatives of OMC and the District shall meet regularly to discuss details of, and work to reach agreement on, the Transaction structure including legal and financial terms. If OMC and the District are able to reach an agreement regarding the structure and terms relating to a Transaction, definitive agreements will be completed as soon as reasonably possible (the "Definitive Agreements"). The Definitive Agreements will be conditioned upon (i) the approval of the OMC Board of Trustees and (ii) the District's Board of Commissioners.

**E. Exclusive Dealing Period**

During the Exclusive Dealing Period (defined below) the District shall not: (i) enter into discussions or negotiation with any other party in relation to the subject matter of the Transaction, or any

part thereof; or (ii) directly or indirectly, through any commissioner, officer, agent, or otherwise, solicit or initiate, or encourage submission of inquiries, proposals, or offers (other than from OMC) relating to the subject matter of the Transaction, or any part thereof. The Exclusive Dealing Period shall begin on the Effective Date of this Letter and continue until the later of (a) December 31, 2019, or (b) the date either party receives a Notice of Termination.

**F. Due Diligence**

The parties will complete a “Due Diligence” investigation regarding the Transaction. Consistent with applicable legal or contractual restriction, each party shall provide the other and its agents with full access to the information necessary for such party to complete its investigation of the appropriateness of the transaction. The parties shall work together in good faith to complete the necessary investigations in as prompt a manner as possible. The exchange of information shall be governed by the Confidentiality Agreement (attached).

**G. General**

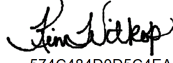
1. Non-Binding Nature. OMC and the District acknowledge and agree that unless and until Definitive Agreements between them with respect to the Transaction outlined above have been executed and delivered, neither party will be under any legal obligation of any kind whatsoever with respect to the Transaction outlined above except for this Section G and Section E (Exclusive Dealing Period), and as otherwise set forth herein. The parties further agree that neither party shall have any obligation to authorize or pursue the Transaction and that neither party has, as of the date hereof, authorized any such transaction.
2. Costs. The parties recognize that each will incur individual costs in connection with the Transaction, including, legal, consulting, and other costs. Each party is responsible to pay its own individual costs incurred in connection with this Transaction, except as otherwise specifically agreed in writing by the parties.
3. Assignment; Revisions. This Letter may not be revised or assigned by any party without the written consent of the other party.
4. Authority. The individuals signing below are authorized to execute this Letter on behalf of the parties, as indicated below, and no further act of OMC or the District is required to make this Letter final and, where applicable, binding on the parties. The parties acknowledge that the Definitive Agreements will be submitted, as necessary and appropriate, to their governing bodies for review and approval.
5. Counterparts. This Letter may be signed in counterparts.
6. Notice. Any and all notices or communications required or permitted to be given under any of the provisions of this Letter shall be in writing and shall be deemed to have been given upon receipt when personally delivered, or sent by overnight courier, or when such delivery is refused, or upon receipt if sent by facsimile with hard copy in two (2) days, or two (2) days after deposit in the United States mail if sent by first class, certified or registered mail, return receipt requested. All notices shall be addressed to the parties at the addresses set forth below or at such other address specified by notice to the other parties.

- 7. Public Announcements. Neither OMC nor the District shall issue or make any public announcements, reports, statements or other releases with respect to this Letter or the proposed Transaction without the express written approval of the other party prior to such announcements, reports, statements or other releases. Notwithstanding the foregoing, if an announcement, report, statement or other release is, in the opinion of legal counsel, required to discharge a party's legal obligations, then such party may make or issue the legally required announcement, statement or release and shall promptly furnish the other party with a copy thereof.
  
- 8. Confidentiality. The parties acknowledge and agree that their discussions regarding Transaction and the process outlined in the Letter are and shall remain subject to the provisions of that certain Confidentiality and Non-Disclosure Agreement (the "NDA") entered into between the parties on or around September 12, 2018. With regard to the further disclosure of confidential information to necessary representatives of the parties, the parties shall inform such representatives of the existence and nature of the terms of the NDA and the provisions of this Letter.

IN WITNESS WHEREOF, the parties have executed this Letter on the dates set below their signatures.

**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY**

**OVERLAKE HOSPITAL MEDICAL CENTER**

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Kim Witkop MD, Interim CEO and Superintendent

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J. Michael Marsh, President and CEO

3/15/2019

3/18/2019

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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Snoqualmie, WA 98065

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Bellevue, WA 98004