

EXECUTION VERSION

HEALTH SYSTEM COMBINATION AGREEMENT

BY AND BETWEEN

ST. JOSEPH HEALTH SYSTEM

AND

PROVIDENCE HEALTH & SERVICES

November 23, 2015

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HEALTH SYSTEM COMBINATION AGREEMENT

This **HEALTH SYSTEM COMBINATION AGREEMENT** (the “**Agreement**”) is made and entered into this 23rd day of November, 2015 (the “**Execution Date**”), by and between **ST. JOSEPH HEALTH SYSTEM**, a California nonprofit public benefit corporation (“**SJHS**”) and **PROVIDENCE HEALTH & SERVICES**, a Washington nonprofit corporation (“**PH&S**”) (each a “**Party**” and collectively, the “**Parties**”).

RECITALS

A. SJHS is a Catholic-sponsored integrated healthcare delivery system that exists to extend the healing ministry of Jesus in the tradition of the Sisters of St. Joseph of Orange. SJHS provides a broad range of healthcare services within three geographic regions, Northern California, Southern California and West Texas/Eastern New Mexico, as set forth on Exhibit A.

B. PH&S is a Catholic-sponsored integrated healthcare system that exists to reveal God’s love for all, especially the poor and vulnerable, through compassionate service. PH&S maintains hospitals, clinics, other healthcare services and related programs in Alaska, Washington, Montana, Oregon and Southern California, as set forth on Exhibit B.

C. The Parties share a common and unifying charitable mission to promote and improve health care delivery and the health care status of the communities they serve, to provide high quality, affordable health care and related services; to address the special needs of the poor and the vulnerable in those communities; and to ensure the continued vibrancy of nonprofit Catholic health care in the western United States.

D. The Parties have shared a history of affinity for each other due, in part, to the fact that both systems have been sponsored by religious congregations, and are currently sponsored by public juridic persons.

E. The Parties’ sponsors (each, a “**Sponsor**” and together, the “**Sponsors**”) have met together over the last several months to discuss the possibility of affiliating and engaged in significant discernment about what their systems, each with strong operations alone, might achieve relative to their missions, if the systems combined.

F. Together, PH&S and SJHS will strengthen Catholic healthcare in the western United States and in West Texas/Eastern New Mexico, delivering on their shared charitable nonprofit missions to provide excellent quality, cost-effective care to the communities served, with special attention to the poor and vulnerable. The Parties share compatible and deep roots in Catholic heritage and identity, and compatible visions for the future of healthcare in the United States. The Parties together will be particularly effective in serving the complex and sometimes fragmented market for healthcare in Southern California, while spreading best practices including mission formation, clinical institutes and other quality of care enhancements, medical group management and innovation programs across the entire multi-state combined system.

G. The Parties desire to unite SJHS and PH&S as a fully integrated, Catholic-sponsored, nonprofit, charitable health care system (the “**Combination**”).

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Agreement, and other good and valuable consideration, the sufficiency and receipt of which hereby are acknowledged, the Parties agree as follows:

ARTICLE 1

MISSION OBJECTIVES OF THE TRANSACTION

1.1 Deliberative Process. The governing boards of SJHS and PH&S, in keeping with their fiduciary duties to oversee their respective organizations' charitable assets, have engaged in a deliberative process to explore ways to effectively serve their communities. These discussions have culminated in the Parties' mutual desire to implement the Combination, with a goal of optimizing clinical services and health benefits, creating a strong and effective permanent relationship between the Parties and ensuring that both organizations' charitable missions are achieved over the long term.

1.2 Overview of Mission Objectives. The Parties intend that as a result of the Combination, they will expand community benefit programs, achieve greater affordability and access for health care services, share best practices which promote outstanding clinical care and greatly improve the patient experience and develop the necessary infrastructure for a population health management effort which truly advances healthier communities. Additionally, through their combined talents and attention, they hope to advance innovations in health care that will benefit future generations. Through the Combination, the Parties desire to unite as a fully integrated nonprofit, charitable healthcare delivery system focused on: (a) ensuring Catholic identity; and (b) continued commitment to lasting partnerships with like-minded faith-based and secular organizations. Further, the Parties desire to pursue the Combination in a manner that sustains their respective heritages and which minimizes undue disruption in their individual ministries and operations.

1.3 Anticipated Benefits to the Community. The Parties anticipate that the Combination will produce the following benefits, among others, to the communities served by the New System:

- (a) Continue the presence of Catholic health care in the United States;
- (b) Create broader opportunities for advocacy in connection with social justice, with particular emphasis on the poor and vulnerable;
- (c) Make possible closer integration and/or adoption of specific programs to address the needs of the poor and vulnerable;
- (d) Unite and enhance the mission formation programs of each of the Parties within the New System;
- (e) Honor existing affiliations, partnerships and other arrangements with organizations that have maintained their original faith tradition or secular status, as well as their brands;

(f) Enhance the ability to establish new affiliations, partnerships and other arrangements with like-minded faith-based and secular organizations;

(g) Enhance the delivery of health care through a nonprofit, charitable model;

(h) Improve patient access, patient safety, the quality, continuity and coordination of care and improved patient satisfaction with the care and service provided, utilizing a holistic approach focused on the body, mind and spirit;

(i) Develop a stronger infrastructure, including clinical and administrative expertise, for serving specific populations, such as Medicaid and Medi-Cal and the uninsured, in order to promote the health of recipients and use resources more effectively;

(j) Provide a greater ability to combine and coordinate the response to community needs across increased scale and a broader geography;

(k) Spread and adopt the triple aim in the areas of clinical expertise, growth, diversification, innovation and shared services;

(l) Obtain specific financial benefits through access to capital through the creation of a single obligated group, which will allow both organizations to become jointly and severally liable for all combined organization tax-exempt debt, allocate risk and optimize borrowing strategy across the New System;

(m) Strengthen and enhance the work environment across the New System;

(n) Support the ability of the Parties to attract to and retain the talent and expertise required to best serve community needs, including but not limited to, clinical talent to those particular communities where it has previously been challenging to do so;

(o) Share clinical and administrative best practices across regions and communities; and

(p) Maintain and enhance medical group management infrastructure to benefit clinical practice, including sharing of clinical and administrative best practices.

ARTICLE 2

THE COMBINATION STRUCTURE

2.1 Corporate Structure. The Parties intend to form a fully integrated, Catholic-sponsored, nonprofit charitable health care system (the “New System”), through which their respective ministries and operations will be combined as follows:

(a) **Formation of NewCo.** Prior to the Closing Date, the Parties shall form Providence St. Joseph Health, a new Washington nonprofit corporation to become the sole corporate member of each of the Parties effective as of the Closing Date (as hereinafter defined) (“NewCo”). The purposes of NewCo shall include: (i) serving as the corporate member of PH&S

and SJHS; and (ii) maintaining the relationships the Parties have established with like-minded faith-based and secular organizations. In such capacity, NewCo shall provide overall mission, vision, strategic, financial and operational direction for such ministries and organizations. As soon as possible following the Execution Date, the Parties shall apply for federal income tax exempt status for NewCo.

(b) **PH&S and SJHS; Operations.** The Combination shall not change the legal status, purposes and functions of the Parties, each of which shall continue in operation in a manner consistent with their governing documents, as amended from time to time. For operational purposes, there will be two divisions initially: one comprised of SJHS operations in California, Texas and New Mexico and PH&S operations in Southern California, and the other comprised of PH&S operations in Alaska, Montana, Washington and Oregon.

(c) **Actions at Closing.** In order to consummate the Combination and to achieve the charitable objectives set forth in Article 1, the Parties agree that, on the Closing Date, the Parties shall take the following actions: (i) PH&S shall amend its Articles of Incorporation and restate its Bylaws (the “**PH&S Restated Bylaws**”) to name NewCo as its sole corporate member; (ii) SJHS shall amend its Articles of Incorporation and restate its Bylaws (the “**SJHS Restated Bylaws**”) to name NewCo as its sole corporate member; (iii) the Parties shall each appoint seven individuals to the NewCo governing board (the “**NewCo Board**”) as described in Section 2.2(a)(i) and subject to the reserved rights of the Sponsors; and (iv) the Parties shall adopt the governance matrix attached hereto at Exhibit 2.1(c) (the “**Governance Matrix**”).

2.2 Corporate Governance.

(a) **Sponsorship.** Each of the Parties currently has a public juridic person serving as its Sponsor, responsible for assuring Catholic identity and fidelity to mission. The Parties anticipate that each of the Parties’ Sponsors will enter into a separate agreement establishing a co-sponsorship model through contractual obligations exercised by Parties’ sponsors collectively (the “**Co-Sponsors Council**”). The Co-Sponsors Council shall retain certain reserved rights as set forth on Exhibit 2.2(a). Such sponsorship shall not be exercised through a new corporation nor through a new or combined canonically-recognized organization of the Catholic Church.

(b) **NewCo Board.**

(i) The initial NewCo Board shall consist of fourteen elected members, with seven members appointed by each of the respective Parties, subject to the reserved rights of their respective Sponsors. The initial NewCo Board members (the “**Initial Members**”) shall serve a term of three years (the “**Initial Term**”), and serve staggered terms thereafter. The Initial Members are set forth on Exhibit 2.2(b)(i).

(ii) Following the Initial Term, the NewCo Board shall be self-perpetuating, subject to the reserved rights of the Co-Sponsors Council and without regard to representational requirements. No member of the NewCo Board (Initial Member, Replacement Trustee or successor) may serve more than nine consecutive years. An individual may be eligible for reappointment to the Board following a one year break in service.

(iii) The President and Chief Executive Officer of NewCo (the "NewCo CEO") shall serve as an ex-officio board member of NewCo, with vote.

(iv) The NewCo Board shall meet no less frequently than quarterly.

(v) The NewCo Board shall appoint such committees as required by law or established by the NewCo Board. The Chair of the NewCo Board (the "NewCo Chair") shall appoint committee members, taking into account input of the members of the NewCo Board and expertise needed on committees. Committee membership may include individuals who are not on the NewCo Board who have specific expertise, to the extent permitted by law and after consultation with the NewCo CEO. Committee members shall serve terms of two years. The NewCo Chair and NewCo CEO shall each serve as an ex-officio member, with vote, on all NewCo Board committees.

(vi) The NewCo Board shall elect a Chair and a Vice Chair. The initial Chair and Vice Chair of the NewCo Board are set forth on Exhibit 2.2(b)(vi). The initial Chair of the NewCo board shall be designated by SJHS and approved by both Sponsors and shall serve for a two year term. The initial Vice-Chair of the NewCo board shall be designated by PH&S and approved by both Sponsors and shall serve for a two year term, but shall not automatically succeed to the position of Chair at the conclusion of the term of office of the initial Chair. The NewCo officer positions (President, Vice President, Secretary and Treasurer) shall be appointed by the NewCo CEO and in each case shall be members of management for the New System.

(c) **PH&S and SJHS Boards.** From and after the Closing Date, the governing boards of PH&S and SJHS shall consist of the same individuals as those then currently serving on the board of NewCo, with the exception of the NewCo CEO. Appointment, term, and removal of a member of the board of NewCo, shall constitute appointment, term of office, and removal from such individual's service as a member of the governing boards of PH&S and SJHS. In the event a member of the board of NewCo shall resign, such resignation shall automatically cause the resignation of such individual as a director of PH&S and SJHS. The Parties will continue consistent with past practices with respect to subsidiary governance.

(d) **Reserved Powers.** The PH&S Restated Bylaws and the SJHS Restated Bylaws will reserve to NewCo the powers set forth on Exhibit 2.2(d).

2.3 Senior Management Team and Support Staff. The NewCo CEO and members of management set forth on Exhibit 2.3 (the "NewCo Staff") shall be directly employed or otherwise retained by NewCo. Senior management support staff shall remain employed by their respective employer as of the Closing Date.

2.4 No Cash Consideration/Merger. Consistent with the provisions of Article 8 hereof, the Parties intend to create the New System based upon equality of interest and shared values. The Combination establishes NewCo as the sole corporate member for each of the Parties, and does not involve the exchange of cash, assets, or similar financial consideration; the merger or consolidation of any existing legal entities; the sale, purchase or lease of part or all of any existing hospital; nor the transfer of all or substantially all of the assets of any Party. All of

the assets of SJHS, PH&S and their respective affiliates and subsidiaries shall continue to be owned by the existing owners thereof immediately after the Closing.

ARTICLE 3

CLOSING

3.1 Closing. Subject to the satisfaction or waiver by the appropriate Party of all the conditions precedent to Closing specified herein, the consummation of the Combination contemplated by and described in this Agreement (the “Closing”) shall take place at January 1, 2016, at 10:00 a.m. local time, within seventy-two (72) hours following the satisfaction of the closing conditions set forth in Article 7 (the “Closing Date”), or a date mutually agreed upon by the Parties.

3.2 Closing Deliverables of PH&S. At the Closing, PH&S shall deliver to SJHS the following documents:

(a) **NewCo Governing Documents.** File-stamped NewCo Articles of Incorporation and NewCo Bylaws in substantially the form attached hereto at Exhibit 3.2(a) (the “NewCo Governing Documents”);

(b) **Amended Articles of Incorporation.** File-stamped amended Articles of Incorporation of PH&S in substantially the form attached hereto at Exhibit 3.2(b);

(c) **Amended Bylaws.** Amended bylaws of PH&S in substantially the form attached hereto at Exhibit 3.2(c);

(d) **President’s Certificate of PH&S.** A President’s Certificate of PH&S, dated as of the Closing Date, attesting to the accuracy of representations and warranties and the performance by PH&S of the covenants and the conditions precedent set forth in this Agreement;

(e) **Secretary’s Certificate of PH&S.** A Secretary’s Certificate of PH&S, dated as of the Closing Date, certifying the due adoption and continued effectiveness of the resolutions of PH&S attached to said Certificate and approving: (i) the transactions contemplated by this Agreement; (ii) this Agreement and the Closing documents referred to herein; (iii) the amended PH&S governing documents; and (iv) the Governance Matrix;

(f) **Sponsor Approval.** Approval of the Combination by the Sponsor of PH&S;

(g) **Third Party Consents.** Each of the consents, authorizations, orders and approvals set forth on Schedule 3.2(g) required to be obtained by PH&S in connection with the Combination; and

(h) **Other Deliverables.** Such other instruments and documents as may be reasonably requested by SJHS to carry out the transactions contemplated by this Agreement and to comply with its terms.

3.3 Closing Deliverables of SJHS. At the Closing, SJHS shall deliver to PH&S the following documents:

- (a) **NewCo Governing Documents.** The NewCo Governing Documents;
- (b) **Amended Articles of Incorporation.** File-stamped amended Articles of Incorporation of SJHS in substantially the form attached hereto at Exhibit 3.3(b);
- (c) **Amended Bylaws.** Amended bylaws of SJHS in substantially the form attached hereto at Exhibit 3.3(c);
- (d) **President's Certificate of SJHS.** A President's Certificate of SJHS, dated as of the Closing Date, attesting to the accuracy of representations and warranties and the performance by SJHS of the covenants and the conditions precedent set forth in this Agreement;
- (e) **Secretary's Certificate of SJHS.** A Secretary's Certificate of SJHS, dated as of the Closing Date, certifying the due adoption and continued effectiveness of the resolutions of SJHS attached to said Certificate and approving: (i) the transactions contemplated by this Agreement; (ii) this Agreement and the Closing documents referred to herein; (iii) the amended SJHS governing documents; and (iv) the Governance Matrix;
- (f) **Sponsor Approval.** Approval of the Combination by the Sponsor of SJHS;
- (g) **Third Party Consents.** Each of the consents, authorizations, orders and approvals set forth on Schedule 3.3(g) required to be obtained by SJHS in connection with the Combination; and
- (h) **Other Deliverables.** Such other instruments and documents as may be reasonably requested by PH&S to carry out the transactions contemplated by this Agreement and to comply with its terms.

ARTICLE 4

TERMINATION

This Agreement may be terminated without cause or penalty at any time prior to the Closing by written notice of either Party, duly authorized by its respective governing board and Sponsor. Notwithstanding the foregoing, this Agreement shall automatically terminate on January 1, 2016 or such later date mutually agreed to by the Parties in writing. If this Agreement terminates pursuant to this Article 4, this Agreement shall be of no further force or effect and there shall be no liability or obligation on the part of the Parties or their respective officers or directors, except as may specifically be provided elsewhere in this Agreement.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES

5.1 Representations and Warranties of PH&S. PH&S represents and warrants to SJHS as of the Execution Date and as of the Closing Date, as follows:

(a) **Due Organization.** PH&S is a Washington nonprofit corporation. PH&S and each of its wholly-owned or controlled affiliates and subsidiaries (the “**PH&S Affiliates**”) is duly organized, validly existing and in good standing under the laws of its state of incorporation/organization, and has the corporate or limited liability company power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted.

(b) **Corporate Authorization; No Violation.** PH&S has the full corporate power and authority to enter into, and to perform its obligations under this Agreement, subject to the reserved rights of its Sponsor. The execution, delivery and performance of this Agreement by PH&S have been duly and properly authorized by proper corporate action in accordance with applicable laws and its articles of incorporation and bylaws. This Agreement constitutes the lawful, valid and legally binding obligation of PH&S, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other laws of general application affecting the enforcement of creditors’ rights and by general equitable principles. The execution, delivery and performance of this Agreement will not: (i) violate or conflict with any material provision of, does not constitute a default or breach of any material contract, lease, agreement, indenture, mortgage, pledge, sublease, option, assignment, permit, license, approval or other commitment to which PH&S is a party or is subject or by which PH&S is bound, any judgment decree, order, writ or injunction of any court order or requesting authority; (ii) result in the acceleration or mandatory prepayment of any material indebtedness of PH&S; or (iii) result in the creation of any material lien, charge, or encumbrance, the termination or acceleration of any material indebtedness or other obligation of PH&S. Except as set forth on Schedule 3.2(g), no approval, authorization, registration, consent, order or other action of or filing with any person, including any court, administrative agency or other governmental authority, is required (that has not been obtained) for the execution and delivery by PH&S of this Agreement or the consummation by PH&S and the PH&S Affiliates of the transactions contemplated or required hereby.

(c) **Financial Statements.** PH&S has delivered to SJHS true and correct copies of the audited consolidated financial statements of PH&S and the PH&S Affiliates for the three (3) years ended December 31, 2012, 2013 and 2014 and interim financial statements for the eight months ended August 31, 2015 (the “**Balance Sheet Date**”) (collectively, the “**PH&S Financial Statements**”). The PH&S Financial Statements were prepared from and are in accordance with the books and records of PH&S and the PH&S Affiliates and present fairly and accurately the financial position of PH&S and the PH&S Affiliates, and the results of their respective operations at the dates and for the periods indicated and have been prepared in conformity with generally accepted accounting principles, applied consistently for the periods specified, except for the interim financial statements which lack footnotes and year-end audit adjustments. Except as set forth on Schedule 5.1(c), PH&S and the PH&S Affiliates have not made any material changes to their accounting methods or practices since the Balance Sheet Date. To PH&S’s Knowledge, PH&S and the PH&S Affiliates have no material liabilities or obligations, whether contingent or absolute, direct or indirect, or matured or unmatured, which are not shown or provided for in the most recent PH&S Financial Statements, except for (i)

liabilities that have arisen since the Balance Sheet Date in the ordinary course of business or as contemplated by this Agreement or (ii) liabilities set forth on Schedule 5.1(c).

(d) **Interim Change.** Except as set forth on Schedule 5.1(d), from and after the Balance Sheet Date, there has not been: (i) any change in the financial condition, assets, liabilities, properties or results of operations of the business of PH&S and the PH&S Affiliates which has had or could have a material adverse effect on the business of PH&S and the PH&S Affiliates in the aggregate; (ii) any damage, destruction or loss, whether or not covered by insurance, which has had or could have, in the aggregate, a material adverse effect on the business of any of PH&S and the PH&S Affiliates in the aggregate; (iii) any disposition by PH&S or any PH&S Affiliate of any property, rights or other assets owned by or employed in the business of PH&S or the PH&S Affiliates except for dispositions in the usual and ordinary course of the business of PH&S and the PH&S Affiliates; and (iv) any event or condition of any character which has had or could have a material adverse effect on the business of PH&S or the PH&S Affiliates in the aggregate.

(e) **Legal Proceedings.** Except as separately disclosed by PH&S, PH&S is not engaged in, is not a party to, and, to PH&S's Knowledge, has not been threatened with any action, suit, proceeding, complaint, charge, hearing, investigation or arbitration or other method of settling disputes or disagreements that may materially and adversely affect its business or financial condition or questions the ability of PH&S to perform hereunder. Except as separately disclosed by PH&S, PH&S has not received any notice of any investigation, threatened or contemplated, by any federal, state or local governmental or regulatory agency, including investigations involving its business practices and policies.

(f) **Licenses, Permits and Approvals.** PH&S and each PH&S Affiliate holds all governmental licenses, permits, certificates, accreditations, consents and approvals that are material to its business and operations (the "**PH&S Licenses and Permits**"). Each PH&S License and Permit is current and valid. Except as separately disclosed by PH&S, no notice from any governmental authority or accrediting body in respect to the revocation, termination, suspension or limitation of any PH&S License or Permit has been received, nor has any such action been proposed or, to the Knowledge of PH&S, threatened.

(g) **Compliance with Law.** PH&S and each PH&S Affiliate is in material compliance with all laws, regulations, ordinances, decrees and orders applicable to each of them. Except as separately disclosed by PH&S, without limiting the generality of the foregoing, PH&S, and each PH&S Affiliate is in material compliance with all health care regulatory laws, Environmental Laws, employment laws and applicable seismic laws/codes. None of PH&S and the PH&S Affiliates and, to the Knowledge of PH&S, their respective employees has committed a violation of federal or state laws regulating health care fraud, including but not limited to the federal Anti-Kickback Law, 42 U.S.C. § 1320a-7b, the Stark I and II Laws, 42 U.S.C. § 1395nn, as amended, and the False Claims Act, 31 U.S.C. § 3729, *et seq.* PH&S and the PH&S Affiliates are in compliance with the administrative simplification provisions required under the Health Insurance Portability and Accountability Act of 1996, including the electronic data interchange regulations and the health care privacy regulations, as of the applicable effective dates for such requirements. "**Environmental Laws**" as used herein shall mean any and all federal, state and local statutes and ordinances, and all rules and regulations promulgated thereunder, pertaining or

relating to the identification, reporting, generation, manufacture, processing, distribution, use, treatment, storage, disposal, emission, discharge, release, transport or other handling of any pollutants, contaminants, chemicals, wastes, including medical wastes, radioactive materials, or other noxious or harmful substances or materials.

(h) Title to Properties and Assets. Except for Permitted Encumbrances, to PH&S's Knowledge, PH&S and the PH&S Affiliates own, free and clear of all encumbrances, all right, title and interest in and to all properties and assets (whether real, personal or mixed and whether tangible or intangible) used in the operation of PH&S and the PH&S Affiliates (except for assets held under capitalized or operating leases and the assets of tenants, patient, residents or visitors to their facilities). "Permitted Encumbrances" means (a) statutory encumbrances for current taxes not yet due and payable; (b) as to leased assets, statutory interests of the lessors thereof and interests set forth in the applicable lease; (c) purchase money liens securing rental payments under capital lease arrangements; (d) encumbrances of landlords and mechanics', carriers', workers', repairers' and similar encumbrances arising or incurred in the ordinary course of business and not yet delinquent; (e) zoning and other land use regulations imposed by governmental entities having jurisdiction over any of the real property which are not violated by the current use and operation of such real property and the existence of which do not and would not reasonably be expected to materially impair the marketability, value or use and enjoyment of such property; (f) with respect to owned real property, covenants, conditions, restrictions, easements and other similar matters of record; (g) encumbrances arising under worker's compensation, unemployment insurance, social security, retirement and similar legislation not yet due and payable; and (h) the existing master trust indenture, other debt instruments, existing security interests, and collateral arrangements relating to the current obligated group.

(i) Affiliates and Subsidiaries. PH&S and the PH&S Affiliates are shareholders, partners or members of corporations, partnerships and other entities (the "For Profit Affiliates"). To the Knowledge of PH&S, all of the shares and membership interests of the For Profit Affiliates have been duly authorized, are validly issued, fully paid and non-assessable and there are no material disputes as to ownership.

(j) Taxes. PH&S and each PH&S Affiliate has filed all federal, state and local tax returns required to be filed by it (all of which are true and correct in all material respects) and has duly paid or made provision for the payment of all taxes (including any interest or penalties and amounts due state unemployment authorities) that are due and payable to the appropriate tax authorities. PH&S and each PH&S Affiliate have withheld proper and accurate amounts from its employees' compensation in compliance with all withholding and similar provisions of the Internal Revenue Code (the "Code"), including employee withholding and social security taxes, and all other applicable laws. No deficiencies for any of such taxes have been asserted or, to the Knowledge of PH&S, threatened against any of PH&S and the PH&S Affiliates, and no audit on any such returns is currently under way, or to the Knowledge of PH&S, is threatened. There are no outstanding agreements by any of PH&S or the PH&S Affiliates for the extension of time for the assessment of any such taxes. Neither PH&S, nor any PH&S Affiliate has taken any action in respect of any federal, state or local taxes (including, without limitation, any withholdings required to be made in respect of employees) that may have a material adverse impact upon it subsequent to Closing. There are no tax liens on any of the assets of PH&S or the PH&S Affiliates.

(k) **Tax Exempt Status.** PH&S is an exempt organization under Section 501(c)(3) of the Code, and is not a “private foundation” within the meaning of Section 509(a) of the Code. The Internal Revenue Service (the “Service”) has not taken, or to the Knowledge of PH&S proposed to take, any action to revoke the tax-exempt status of PH&S, and has not announced, or to the Knowledge of PH&S proposed to announce, that PH&S is a “private foundation” within the meaning of Section 509(a) of the Code. There has been no change in its organization or operations that could result in a loss of PH&S’s status as an organization described in Section 501(c)(3) of the Code or that could cause PH&S to be treated as a “private foundation” within the meaning of Section 509(a) of the Code.

(l) **Insurance.** All binders and policies of insurance maintained by PH&S and the PH&S Affiliates (the “PH&S Insurance”) have been issued under valid and enforceable policies or binders for the benefit of PH&S and/or a PH&S Affiliate, and all such policies or binders are in full force and effect and are in amounts and for risks, casualties and contingencies which are customarily insured against by enterprises in businesses similar to PH&S or the PH&S Affiliates. Except as set forth on Schedule 5.1(l), no notice of cancellation or nonrenewal with respect to, or material increase of premiums for, any PH&S Insurance has been received by PH&S or a PH&S Affiliate within twenty-four (24) months immediately preceding the Closing Date, and PH&S does not have Knowledge of a claim that could give rise to a notice of cancellation or nonrenewal or a material increase in premiums for any PH&S Insurance.

(m) **Medicare, Medicaid and Other Reimbursement.** Except as separately disclosed by PH&S: (i) neither PH&S nor the PH&S Affiliates is engaged in termination proceedings as to its participation in Medicare or Medicaid or has received notice that its current participation in Medicare or Medicaid is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements; (ii) PH&S and each PH&S Affiliate meets the conditions for participation in the Medicare and Medicaid programs, and there are no pending or to the Knowledge of PH&S, threatened proceedings or investigations under such programs involving any of the foregoing; and (iii) to the Knowledge of PH&S, material liabilities and contractual adjustments of PH&S and each PH&S Affiliate under any third-party payor or reimbursement programs have been properly reflected and adequately reserved for in the PH&S Financial Statements.

(n) **Employees, Employee Benefit Plans and Labor Relations.**

(i) Schedule 5.1(n) sets forth an accurate, correct and complete list of all “employee welfare benefit plans” (as defined in Section 3(1) of ERISA), “employee pension benefit plans” (as defined in Section 3(2) of ERISA), church plans, and all other employee benefit plans, programs and arrangements, whether funded or unfunded, qualified or nonqualified, that are maintained, contributed to, or required to be contributed to by PH&S and the PH&S Affiliates for the benefit of any of its officers, employees or other persons (collectively, the “PH&S Benefit Plans”).

(ii) Except as separately disclosed by PH&S, none of PH&S, the PH&S Affiliates, or any PH&S ERISA Affiliates (as defined below) maintains, contributes to, has an obligation to contribute to or has any liability or potential liability under (or with respect to) any “defined benefit plan” (as defined in Section 3(35) of ERISA) or any “multiemployer

plan” (as defined in Section 3(37) of ERISA). No assets of PH&S or a PH&S Affiliate are subject to any filed lien (nor, to the Knowledge of PH&S, any lien arising by operation of statute), under ERISA or the Code regarding, relating to or resulting from the operation of a benefit plan. “PH&S ERISA Affiliate” means all employers (whether or not incorporated) that would be treated together with PH&S or any of the PH&S Affiliates as a “single employer” within the meaning of Section 414 of the Code. If any PH&S Benefit Plan is a multiemployer plan, Schedule 5.1(n) sets forth, as of the last date such information was provided by such PH&S Benefit Plan, the amount of potential withdrawal liability of PH&S, the PH&S Affiliates or any PH&S ERISA Affiliate.

(iii) All benefits, contributions and premiums relating to each PH&S Benefit Plan have been timely paid in accordance with the terms of such PH&S Benefit Plan and all applicable Laws and recorded appropriately under accounting principles. Except as disclosed on Schedule 5.1(n), no PH&S Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

(iv) Except as disclosed on Schedule 5.1(n), each PH&S Benefit Plan has been established, administered and maintained in material compliance with its terms and all applicable Laws (including ERISA and the Code). Except as disclosed on Schedule 5.1(n), the PH&S Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received current and favorable determination, opinion, or advisory letters from the IRS to the effect that such PH&S Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination, opinion, or advisory letter has been revoked, nor has revocation been, to the Knowledge of PH&S, threatened.

(v) To the Knowledge of PH&S, all reports, returns and similar documents with respect to the PH&S Benefit Plans required to be filed with any government agency or distributed to any PH&S Benefit Plan participant have been duly and timely filed or distributed. There are no pending or, to the Knowledge of PH&S, threatened investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the PH&S Benefit Plans), suits or proceedings against or involving any PH&S Benefit Plan or asserting any rights or claims to benefits under any PH&S Benefit Plan that could give rise to any material liability. Except as separately disclosed by PH&S, no PH&S Benefit Plan has within the four (4) years prior to the date hereof been the subject of an examination or audit by a governmental authority or the subject of an application or filing under an amnesty, voluntary compliance, or similar program sponsored by any governmental authority.

(vi) PH&S, the PH&S Affiliates and all PH&S ERISA Affiliates have materially complied with the applicable requirements of (A) Part 6 of Subtitle I of ERISA and COBRA and (B) the Patient Protection and Affordable Care Act of 2010, as amended. Except as disclosed on Schedule 5.1(n), none of PH&S, the PH&S Affiliates, or any PH&S ERISA Affiliates have any liability to provide post-termination or retiree welfare benefits to any individual, other than as required pursuant to COBRA.

(vii) To PH&S's Knowledge, no "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any PH&S Benefit Plan and that could subject PH&S or a PH&S Affiliate, or any of their respective employees, or a trustee, administrator or other fiduciary of any trusts created under any PH&S Benefit Plan to the tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA, nor of any facts giving rise to a prohibited transaction with respect to the assets of a PH&S Benefit Plan.

(viii) Except as set forth in Schedule 5.1(n), PH&S does not have Knowledge of any liability with respect to any benefit plan by reason of being or having been treated as a single employer under Section 414 of the Code with any trade, business or entity other than PH&S or the PH&S Affiliates.

(ix) Each PH&S Benefit Plan that is subject to Section 409A of the Code has been administered in material compliance with its terms and the operational and documentary requirements of Section 409A of the Code and all applicable regulatory guidance (including notices, rulings and proposed and final regulations) thereunder.

(x) The consummation of the Transaction will not result in private inurement to any PH&S executive.

(xi) PH&S has disclosed all of the labor contracts or collective bargaining agreements to which it is a party.

(o) **Defined Benefit Pension Plans.** Except as separately disclosed by PH&S:

(i) None of PH&S, the PH&S Affiliates or any PH&S ERISA Affiliates have (i) incurred or reasonably expects to incur, either directly or indirectly, any material liability under Title I or Title IV of ERISA; (ii) failed to timely pay premiums to the Pension Benefit Guaranty Corporation; (iii) withdrawn from any defined benefit plan; or (iv) engaged in any transaction which would give rise to liability under Section 4069 or Section 4212(c) of ERISA.

(ii) No amendment to a PH&S Benefit Plan which is not a multi-employer defined benefit plan has been made which has the effect of materially increasing liabilities of the plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable.

(iii) No PH&S Benefit Plan has failed to satisfy the minimum funding standards of Section 302 of ERISA or Section 412 of the Code.

(iv) Since the last valuation date for each defined benefit plan pursuant to which PH&S, the PH&S Affiliates or any PH&S ERISA Affiliates participated, no event has occurred or circumstance exists that would materially increase the amount of benefits under any such pension plan or that would cause the excess of pension plan assets over benefit liabilities (as defined in ERISA § 4001) to materially decrease, or the amount by which benefit liabilities

exceed assets to materially increase, other than the normal market fluctuation of the investments from time to time.

(v) No reportable event (as defined in ERISA § 4043 and in regulations issued thereunder) has occurred with respect to any PH&S Benefit Plan in the last six years.

(vi) PH&S and the PH&S Affiliates have made appropriate entries in its financial records and statements for all obligations and liabilities under such PH&S Benefit Plans that have accrued but are not due.

(p) **Compliance Program.** Except as separately disclosed by PH&S, PH&S and the PH&S Affiliates: (i) are not a party to a Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services; (ii) have no reporting obligations pursuant to any settlement agreement entered into with any governmental entity; (iii) in the last six years, have not been the subject of any government payer program investigation conducted by any federal or state enforcement agency which could have a material adverse effect on the business of PH&S; (iv) in the last six years, have not been a defendant in any *qui tam*/False Claims Act litigation; and (v) in the last six years, have not been served with or received any search warrant, subpoena, civil investigative demand, contact letter, or telephone or personal contact by or from any federal or state enforcement agency (except in the ordinary course of business or connection with medical services provided to third-parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by PH&S and the PH&S Affiliates). For purposes of this Agreement, the term “compliance program” refers to provider programs of the type described in the compliance guidance published by the Office of Inspector General of the Department of Health and Human Services.

(q) **Bonds.** Schedule 5.1(q) sets forth all tax-exempt bond indebtedness issued for the benefit of PH&S and/or the PH&S Affiliates (the “**Bonds**”). PH&S and the PH&S Affiliates have not taken any action, nor omitted to take any action, which would cause the interest on the Bonds to be includible in the gross income of the owners thereof for federal income tax purposes.

(r) **Disclosure; No Material Omissions.**

(i) The representations and warranties of PH&S contained in this Agreement (including each exhibit, certificate or other written statement delivered pursuant to this Agreement) are accurate, correct and complete.

(ii) PH&S has responded in all material respects to SJHS’s requests for information and documentation as part of SJHS’s due diligence review of the business, operations, assets and liabilities of PH&S and the PH&S Affiliates. PH&S has not knowingly omitted any material information relating to the businesses, operations, assets or liabilities of PH&S or the PH&S Affiliates in its responses to SJHS’s requests. None of PH&S and the PH&S Affiliates has received any material information which would render untrue or misleading any information previously disclosed to SJHS during its due diligence review.

(s) **PH&S Knowledge.** When used herein, the phrases “to PH&S’s Knowledge” or “to the Knowledge of PH&S” and “Knowledge” and similar references to PH&S’s knowledge shall mean and refer to all matters to which (i) PH&S has received a written notice; or (ii) the actual knowledge of any person set forth on Schedule 5.1(s).

(t) **Survival.** None of the representations and warranties contained in this Section 5.1 shall survive the Closing.

5.2 Representations and Warranties of SJHS. SJHS represents and warrants to PH&S as of the Effective Date and of the Closing Date, as follows:

(a) **Due Organization.** SJHS is a California nonprofit public benefit corporation. SJHS and each of its wholly-owned or controlled affiliates and subsidiaries (the “**SJHS Affiliates**”) is duly organized, validly existing and in good standing under the laws of its state of incorporation/organization, and has the corporate or limited liability company power and authority to own, operate or hold under lease its properties and assets and to carry on its business and operations as presently conducted.

(b) **Corporate Authorization; No Violation.** SJHS has the full corporate power and authority to enter into, and to perform its obligations under this Agreement, subject to the reserved rights of its Sponsor. The execution, delivery and performance of this Agreement by SJHS have been duly and properly authorized by proper corporate action in accordance with applicable laws and its articles of incorporation and bylaws. This Agreement constitutes the lawful, valid and legally binding obligation of SJHS, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or other laws of general application affecting the enforcement of creditors’ rights and by general equitable principles. The execution, delivery and performance of this Agreement will not: (i) violate or conflict with any material provision of, does not constitute a default or breach of any material contract, lease, agreement, indenture, mortgage, pledge, sublease, option, assignment, permit, license, approval or other commitment to which SJHS is a party or is subject or by which SJHS is bound, any judgment decree, order, writ or injunction of any court order or requesting authority; (ii) result in the acceleration or mandatory prepayment of any material indebtedness of SJHS; or (iii) result in the creation of any material lien, charge, or encumbrance of any kind, the termination or acceleration of any material indebtedness or other obligation of SJHS. Except as set forth on Schedule 3.3(g), no approval, authorization, registration, consent, order or other action of or filing with any person, including any court, administrative agency or other governmental authority, is required (that has not been obtained) for the execution and delivery by SJHS of this Agreement or the consummation by SJHS and the SJHS Affiliates of the transactions contemplated or required hereby.

(c) **Financial Statements.** SJHS has delivered to PH&S true and correct copies of the audited consolidated financial statements of SJHS and the SJHS Affiliates for the three (3) years ended June 30, 2013, 2014, and 2015 and interim financial statements for the two months ended August 31, 2015 (the “**Balance Sheet Date**”) (collectively, the “**SJHS Financial Statements**”). The SJHS Financial Statements were prepared from and are in accordance with the books and records of SJHS and the SJHS Affiliates and present fairly and accurately the financial position of SJHS and the SJHS Affiliates, and the results of their respective operations

at the dates and for the periods indicated and have been prepared in conformity with generally accepted accounting principles, applied consistently for the periods specified, except for the interim financial statements which lack footnotes and year-end audit adjustments. Except as set forth on Schedule 5.2(c), SJHS and the SJHS Affiliates have not made any material changes to their accounting methods or practices since the Balance Sheet Date. To SJHS's Knowledge, SJHS and the SJHS Affiliates have no material liabilities or obligations, whether contingent or absolute, direct or indirect, or matured or unmatured, which are not shown or provided for in the most recent SJHS Financial Statements, except for (i) liabilities that have arisen since the Balance Sheet Date in the in ordinary course of business or as contemplated by this Agreement or (ii) liabilities set forth on Schedule 5.2(c).

(d) **Interim Change.** Except as set forth on Schedule 5.2(d), from and after the Balance Sheet Date, there has not been: (i) any change in the financial condition, assets, liabilities, properties or results of operations of the business of SJHS and the SJHS Affiliates which has had or could have a material adverse effect on the business of SJHS and the SJHS Affiliates in the aggregate; (ii) any damage, destruction or loss, whether or not covered by insurance, which has had or could have, in the aggregate, a material adverse effect on the business of any of SJHS and the SJHS Affiliates in the aggregate; (iii) any disposition by SJHS or any SJHS Affiliate of any property, rights or other assets owned by or employed in the business of SJHS or the SJHS Affiliates except for dispositions in the usual and ordinary course of the business of SJHS and the SJHS Affiliates; and (iv) any event or condition of any character which has had or could have a material adverse effect on the business of SJHS or the SJHS Affiliates in the aggregate.

(e) **Legal Proceedings.** Except as separately disclosed by SJHS, SJHS is not engaged in, is not a party to, and, to its Knowledge, has not been threatened with any action, suit, proceeding, complaint, charge, hearing, investigation or arbitration or other method of settling disputes or disagreements that may materially and adversely affect its business or financial condition or questions the ability of SJHS to perform hereunder. Except as separately disclosed by SJHS, SJHS has not received any notice of any investigation, threatened or contemplated, by any federal, state or local governmental or regulatory agency, including investigations involving its business practices and policies.

(f) **Licenses, Permits and Approvals.** SJHS and each SJHS Affiliate holds all governmental licenses, permits, certificates, accreditations, consents and approvals that are material to its business and operations (the "SJHS Licenses and Permits"). Each SJHS License and Permit is current and valid. Except as separately disclosed by SJHS, no notice from any governmental authority or accrediting body in respect to the revocation, termination, suspension or limitation of any SJHS License or Permit has been received, nor has any such action been proposed or, to the Knowledge of SJHS, threatened.

(g) **Compliance with Law.** SJHS and each SJHS Affiliate is in material compliance with all laws, regulations, ordinances, decrees and orders applicable to each of them. Except as separately disclosed by SJHS, without limiting the generality of the foregoing, SJHS, and each SJHS Affiliate is in material compliance with all health care regulatory laws, Environmental Laws, employment laws and applicable seismic laws/codes. None of SJHS and the SJHS Affiliates and, to the Knowledge of SJHS, their respective employees has committed a

violation of federal or state laws regulating health care fraud, including but not limited to the federal Anti-Kickback Law, 42 U.S.C. § 1320a-7b, the Stark I and II Laws, 42 U.S.C. § 1395nn, as amended, and the False Claims Act, 31 U.S.C. § 3729, et seq. SJHS and the SJHS Affiliates are in compliance with the administrative simplification provisions required under the Health Insurance Portability and Accountability Act of 1996, including the electronic data interchange regulations and the health care privacy regulations, as of the applicable effective dates for such requirements.

(h) Title to Properties and Assets. Except for Permitted Encumbrances, to SJHS's Knowledge, SJHS and the SJHS Affiliates own, free and clear of all encumbrances, all right, title and interest in and to all properties and assets (whether real, personal or mixed and whether tangible or intangible) used in the operation of SJHS and the SJHS Affiliates (except for assets held under capitalized or operating leases and the assets of tenants, patient, residents or visitors to their facilities).

(i) Affiliates and Subsidiaries. SJHS and the SJHS Affiliates are shareholders, partners, or members of corporations, partnerships or other entities (the "**SJHS For-Profit Affiliates**"). All of the shares and membership interests of each of SJHS For-Profit Affiliates have been duly authorized, are validly issued, fully paid and non-assessable, and there are no material disputes as to ownership.

(j) Taxes. SJHS and each SJHS Affiliate has filed all federal, state and local tax returns required to be filed by it (all of which are true and correct in all material respects) and has duly paid or made provision for the payment of all taxes (including any interest or penalties and amounts due state unemployment authorities) that are due and payable to the appropriate tax authorities. SJHS and each SJHS Affiliate have withheld proper and accurate amounts from its employees' compensation in compliance with all withholding and similar provisions of the Code, including employee withholding and social security taxes, and all other applicable laws. No deficiencies for any of such taxes have been asserted or, to the Knowledge of SJHS, threatened against any of SJHS and the SJHS Affiliates, and no audit on any such returns is currently under way, or to the Knowledge of SJHS, is threatened. There are no outstanding agreements by any of SJHS or the SJHS Affiliates for the extension of time for the assessment of any such taxes. Neither SJHS, nor any SJHS Affiliate has taken any action in respect of any federal, state or local taxes (including, without limitation, any withholdings required to be made in respect of employees) that may have a material adverse impact upon it subsequent to Closing. There are no tax liens on any of the assets of SJHS or the SJHS Affiliates.

(k) Tax Exempt Status. SJHS is an exempt organization under Section 501(c)(3) of the Code, and is not a "private foundation" within the meaning of Section 509(a) of the Code. The Service has not taken, or to the Knowledge of SJHS proposed to take, any action to revoke the tax-exempt status of SJHS, and has not announced, or to the Knowledge of SJHS proposed to announce, that SJHS is a "private foundation" within the meaning of Section 509(a) of the Code. There has been no change in its organization or operations that could result in a loss of SJHS's status as an organization described in Section 501(c)(3) of the Code or that could cause SJHS to be treated as a "private foundation" within the meaning of Section 509(a) of the Code.

(l) **Insurance.** All binders and policies of insurance maintained by SJHS and the SJHS Affiliates (the “**SJHS Insurance**”) have been issued under valid and enforceable policies or binders for the benefit of SJHS and/or a SJHS Affiliate, and all such policies or binders are in full force and effect and are in amounts and for risks, casualties and contingencies which are customarily insured against by enterprises in businesses similar to SJHS or the SJHS Affiliates. Except as set forth on Schedule 5.2(l), no notice of cancellation or nonrenewal with respect to, or material increase of premiums for, any SJHS Insurance has been received by SJHS or a SJHS Affiliate within twenty-four (24) months immediately preceding the Closing Date, and SJHS does not have Knowledge of a claim that could give rise to a notice of cancellation or nonrenewal or a material increase in premiums for any SJHS Insurance.

(m) **Medicare, Medicaid and Other Reimbursement.** Except as separately disclosed by SJHS: (i) neither SJHS nor the SJHS Affiliates is engaged in termination proceedings as to its participation in Medicare or Medicaid or has received notice that its current participation in Medicare or Medicaid is subject to any contest, termination or suspension as a result of alleged violations or any noncompliance with participation requirements; (ii) SJHS and each SJHS Affiliate meets the conditions for participation in the Medicare and Medicaid programs, and there are no pending or to the Knowledge of SJHS, threatened proceedings or investigations under such programs involving any of the foregoing; and (iii) to the Knowledge of SJHS, material liabilities and contractual adjustments of SJHS and each SJHS Affiliate under any third-party payor or reimbursement programs have been properly reflected and adequately reserved for in the SJHS Financial Statements.

(n) **Employees, Employee Benefit Plans and Labor Relations.**

(i) Schedule 5.2(n) sets forth an accurate, correct and complete list of all “employee welfare benefit plans” (as defined in Section 3(1) of ERISA), “employee pension benefit plans” (as defined in Section 3(2) of ERISA), church plans, and all other employee benefit plans, programs and arrangements, whether funded or unfunded, qualified or nonqualified, that are maintained, contributed to, or required to be contributed to by SJHS and the SJHS Affiliates for the benefit of any of its officers, employees or other persons (collectively, the “**SJHS Benefit Plans**”).

(ii) Except as separately disclosed by SJHS, none of SJHS, the SJHS Affiliates, or any SJHS ERISA Affiliates (as defined below) maintains, contributes to, has an obligation to contribute to or has any liability or potential liability under (or with respect to) any “defined benefit plan” (as defined in Section 3(35) of ERISA) or any “multiemployer plan” (as defined in Section 3(37) of ERISA). No assets of SJHS or a SJHS Affiliate are subject to any filed lien (nor, to the Knowledge of SJHS, any lien arising by operation of statute), under ERISA or the Code regarding, relating to or resulting from the operation of a benefit plan. “**SJHS ERISA Affiliate**” means all employers (whether or not incorporated) that would be treated together with SJHS or any of the SJHS Affiliates as a “single employer” within the meaning of Section 414 of the Code. If any SJHS Benefit Plan is a multiemployer plan, Schedule 5.2(n) sets forth, as of the last date such information was provided by such SJHS Benefit Plan, the amount of potential withdrawal liability of SJHS, the SJHS Affiliates or any SJHS ERISA Affiliate.

(iii) All benefits, contributions and premiums relating to each SJHS Benefit Plan have been timely paid in accordance with the terms of such SJHS Benefit Plan and all applicable Laws and recorded appropriately under accounting principles. Except as disclosed on Schedule 5.2(n), no SJHS Benefit Plan is subject to the funding rules of Section 302 of ERISA or Section 412 of the Code.

(iv) Except as disclosed on Schedule 5.2(n), each SJHS Benefit Plan has been established, administered and maintained in material compliance with its terms and all applicable Laws (including ERISA and the Code). Except as disclosed on Schedule 5.2(n), the SJHS Benefit Plans that are intended to be qualified under Section 401(a) of the Code have received current and favorable determination, opinion, or advisory letters from the IRS to the effect that such SJHS Benefit Plans are qualified and exempt from Federal income taxes under Sections 401(a) and 501(a), respectively, of the Code, and no such determination, opinion, or advisory letter has been revoked, nor has revocation been, to the Knowledge of SJHS, threatened.

(v) To the Knowledge of SJHS, all reports, returns and similar documents with respect to the SJHS Benefit Plans required to be filed with any government agency or distributed to any SJHS Benefit Plan participant have been duly and timely filed or distributed. There are no pending or, to the Knowledge of SJHS, threatened investigations by any governmental agency, termination proceedings or other claims (except claims for benefits payable in the normal operation of the SJHS Benefit Plans), suits or proceedings against or involving any SJHS Benefit Plan or asserting any rights or claims to benefits under any SJHS Benefit Plan that could give rise to any material liability. Except as separately disclosed by SJHS, no SJHS Benefit Plan has within the four (4) years prior to the date hereof been the subject of an examination or audit by a governmental authority or the subject of an application or filing under an amnesty, voluntary compliance, or similar program sponsored by any governmental authority.

(vi) SJHS, the SJHS Affiliates and all SJHS ERISA Affiliates have materially complied with the applicable requirements of (A) Part 6 of Subtitle I of ERISA and COBRA and (B) the Patient Protection and Affordable Care Act of 2010, as amended. Except as disclosed on Schedule 5.2(n), none of SJHS, the SJHS Affiliates, or any SJHS ERISA Affiliates have any liability to provide post-termination or retiree welfare benefits to any individual, other than as required pursuant to COBRA.

(vii) To SJHS's Knowledge, no "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA) has occurred that involves the assets of any SJHS Benefit Plan and that could subject SJHS or a SJHS Affiliate, or any of their respective employees, or a trustee, administrator or other fiduciary of any trusts created under any SJHS Benefit Plan to the tax or penalty on prohibited transactions imposed by Section 4975 of the Code or the sanctions imposed under Title I of ERISA, nor of any facts giving rise to a prohibited transaction with respect to the assets of a SJHS Benefit Plan.

(viii) Except as set forth in Schedule 5.2(n), SJHS does not have Knowledge of any liability with respect to any benefit plan by reason of being or having been

treated as a single employer under Section 414 of the Code with any trade, business or entity other than SJHS or the SJHS Affiliates.

(ix) Each SJHS Benefit Plan that is subject to Section 409A of the Code has been administered in material compliance with its terms and the operational and documentary requirements of Section 409A of the Code and all applicable regulatory guidance (including notices, rulings and proposed and final regulations) thereunder.

(x) The consummation of the Transaction will not result in private inurement to any SJHS executive.

(xi) SJHS has disclosed all of the labor contracts or collective bargaining agreements to which it is a party.

(o) **Defined Benefit Pension Plans.** Except as separately disclosed by SJHS:

(i) None of SJHS, the SJHS Affiliates or any SJHS ERISA Affiliates have (i) incurred or reasonably expects to incur, either directly or indirectly, any material liability under Title I or Title IV of ERISA; (ii) failed to timely pay premiums to the Pension Benefit Guaranty Corporation; (iii) withdrawn from any defined benefit plan; or (iv) engaged in any transaction which would give rise to liability under Section 4069 or Section 4212(c) of ERISA.

(ii) No amendment to a SJHS Benefit Plan which is not a multi-employer defined benefit plan has been made which has the effect of materially increasing liabilities of the plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable.

(iii) No SJHS Benefit Plan has failed to satisfy the minimum funding standards of Section 302 of ERISA or Section 412 of the Code.

(iv) Since the last valuation date for each defined benefit plan pursuant to which SJHS, the SJHS Affiliates or any SJHS ERISA Affiliates participated, no event has occurred or circumstance exists that would materially increase the amount of benefits under any such pension plan or that would cause the excess of pension plan assets over benefit liabilities (as defined in ERISA § 4001) to materially decrease, or the amount by which benefit liabilities exceed assets to materially increase, other than the normal market fluctuation of the investments from time to time.

(v) No reportable event (as defined in ERISA § 4043 and in regulations issued thereunder) has occurred with respect to any SJHS Benefit Plan in the last six years.

(vi) SJHS and the SJHS Affiliates have made appropriate entries in its financial records and statements for all obligations and liabilities under such SJHS Benefit Plans that have accrued but are not due.

(p) **Compliance Program.** Except as separately disclosed by SJHS, SJHS and the SJHS Affiliates: (i) are not a party to a Corporate Integrity Agreement with the Office of

Inspector General of the Department of Health and Human Services; (ii) have no reporting obligations pursuant to any settlement agreement entered into with any governmental entity; (iii) in the last six years, have not been the subject of any government payer program investigation conducted by any federal or state enforcement agency which could have a material adverse effect on the business of SJHS; (iv) in the last six years, have not been a defendant in any *qui tam*/False Claims Act litigation; and (v) in the last six years, have not been served with or received any search warrant, subpoena, civil investigative demand, contact letter, or telephone or personal contact by or from any federal or state enforcement agency (except in the ordinary course of business or in connection with medical services provided to third-parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the health care businesses conducted by SJHS and the SJHS Affiliates).

(q) **Bonds.** Schedule 5.2(q) sets forth all tax-exempt bond indebtedness issued for the benefit of SJHS and/or the SJHS Affiliates (the “**SJHS Bonds**”). SJHS and the SJHS Affiliates have not taken any action, nor omitted to take any action, which would cause the interest on the SJHS Bonds to be includible in the gross income of the owners thereof for federal income tax purposes.

(r) **Disclosure; No Material Omissions.**

(i) The representations and warranties of SJHS contained in this Agreement (including each exhibit, certificate or other written statement delivered pursuant to this Agreement) are accurate, correct and complete.

(ii) SJHS has responded in all material respects to PH&S’s requests for information and documentation as part of PH&S’s due diligence review of the business, operations, assets and liabilities of SJHS and the SJHS Affiliates. SJHS has not knowingly omitted any material information relating to the businesses, operations, assets or liabilities of SJHS or the SJHS Affiliates in its responses to SJHS’s requests. None of SJHS and the SJHS Affiliates has received any material information which would render untrue or misleading any information previously disclosed to PH&S during its due diligence review.

(s) **SJHS Knowledge.** When used herein, the phrases “to SJHS’s Knowledge” or “to the Knowledge of SJHS” and “Knowledge” and similar references to SJHS’s knowledge shall mean and refer to all matters to which (i) SJHS has received a written notice; or (ii) the actual knowledge of any person set forth on Schedule 5.2(s).

(t) **Survival.** None of the representations and warranties contained in this Section 5.2 shall survive the Closing.

ARTICLE 6

PRE-CLOSING COVENANTS

6.1 Pre-Closing Covenants of PH&S. PH&S hereby agrees to keep, perform and fully discharge the following covenants and agreements from the Execution Date until the first to occur of (i) the termination of this Agreement; or (ii) the Closing Date (or thereafter, as specifically noted below):

(a) **Interim Conduct of Business.** PH&S shall: (i) preserve, protect and maintain the business, properties and assets of PH&S; (ii) operate the business of PH&S consistent with prior practices and in the ordinary course of business; (iii) preserve the good will of all individuals having material business or other relations with PH&S; and (iv) obtain all documents called for by this Agreement and required to facilitate the consummation of the transactions contemplated by this Agreement; (v) provide SJHS promptly with interim financial statements, as and when they are available; and (vi) not, without providing to SJHS prior written notification, (A) make any changes, or permit any changes to be made, in the governing documents of PH&S except for changes expressly authorized by this Agreement, or (B) enter into any transaction which could have a material change on the businesses of PH&S, except for transactions expressly authorized by this Agreement.

(b) **Preserve Accuracy of Representations and Warranties.** PH&S shall not take any action that would render any representation or warranty contained in Section 5.1 inaccurate or untrue as of the Closing Date. PH&S shall promptly notify SJHS in writing of any facts or circumstances that come to its attention and that causes, or through the passage of time may cause, any of the representations and warranties contained in Section 5.1 to be untrue or misleading at any time from the Execution Date until the Closing Date.

(c) **Access to Information.** PH&S shall give to SJHS and/or to its representatives full and free access, during normal business hours, to all properties, books, records and contracts pertaining to the businesses, properties and assets of PH&S, as may be reasonably requested with reasonable prior notice. PH&S shall cooperate in keeping SJHS fully informed and shall promptly notify SJHS of any material unexpected emergency or other unanticipated material adverse change in the normal course of business or prospects of the business of PH&S.

(d) **Maintenance of Books and Accounting Practices.** PH&S shall: (i) cause the books of account and records of PH&S to be maintained in the usual, regular and ordinary manner in accordance with generally accepted accounting principles consistently applied and on a basis consistent with prior years, and (ii) make no material changes in its accounting methods or practices.

(e) **Compliance with Laws; Consents.** PH&S shall: (i) comply in all material respects with all applicable statutes, laws, ordinances and regulations; (ii) keep, hold and maintain all certificates, accreditations, licenses and other permits necessary for the conduct and operation of the business of PH&S and each PH&S Affiliate; and (iii) use reasonable commercial efforts and cooperate fully with SJHS to obtain all consents, approvals, exemptions and authorizations of third parties, whether governmental or private; and (iv) give all notices and make all filings which may be necessary or desirable on the part of PH&S and each PH&S Affiliate under all applicable laws and under all contracts, agreements and commitments to which PH&S, and each PH&S Affiliate is a party or is bound in order to consummate the transactions contemplated or required by this Agreement.

(f) **No Merger or Consolidation.** PH&S shall not merge or consolidate with, or acquire (except in the ordinary course) any of the assets of, any other corporation, business or person.

(g) **Confidentiality.** The Parties previously entered into that Mutual Confidentiality and Non-Disclosure Agreement (“MCNDA”) on March 3, 2015. The terms and conditions of the MCNDA are hereby incorporated herein by reference, remain in full force and effect and shall survive any termination of this Agreement in accordance with its terms.

(h) **Performance of Undertakings.** PH&S shall perform faithfully at all times any and all covenants, undertakings, stipulations and provisions applicable to it contained in this Agreement and in any and every document executed, authenticated and delivered hereunder. PH&S shall use reasonable commercial efforts to consummate the transactions contemplated by this Agreement and shall not take any other action inconsistent with the obligations hereunder or which could hinder or delay the consummation of the transactions contemplated or required hereby.

(i) **Exclusivity.** Unless this Agreement has been terminated pursuant to Section 4.1 hereof, in light of the significant dedication of time and resources required by the Parties to evaluate the Combination, PH&S agrees that it shall not, without the prior written consent of SJHS, explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to a change in control, sale of equity, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation, liquidation or any other type of transaction similar to the Combination contemplated by this Agreement, or any transaction that could reasonably be considered to have negative effect (e.g., antitrust) on the feasibility of the Combination.

(j) **Integration Plan.** PH&S shall meet regularly with SJHS for the purpose of developing a comprehensive transition and integration plan, identifying, describing and quantifying the actions the Parties will take and the resources the Parties will dedicate pre- and post-Closing to ensure the orderly consummation of the Combination, which shall be attached at Exhibit 6.1(j) at Closing (the “**Integration Plan**”). The Integration Plan will evolve over time to reflect the needs of the communities served by the Parties.

6.2 Pre-Closing Covenants of SJHS. SJHS hereby agrees to keep, perform and fully discharge the following covenants and agreements from the Execution Date until the first to occur of (i) the termination of this Agreement; or (ii) the Closing Date (or thereafter, as specifically noted below):

(a) **Interim Conduct of Business.** SJHS shall: (i) preserve, protect and maintain the business, properties and assets of SJHS; (ii) operate the business of PH&S consistent with prior practices and in the ordinary course of business; (iii) preserve the good will of all individuals having material business or other relations with SJHS; and (iv) obtain all documents called for by this Agreement and required to facilitate the consummation of the transactions contemplated by this Agreement; (v) provide PH&S promptly with interim financial statements, as and when they are available; and (vi) not, without providing to PH&S prior written notification, (A) make any changes, or permit any changes to be made, in the governing documents of SJHS except for changes expressly authorized by this Agreement, or (B) enter into any transaction which could have a material change on the businesses of SJHS, except for transactions expressly authorized by this Agreement.

(b) Preserve Accuracy of Representations and Warranties. SJHS shall not take any action that would render any representation or warranty contained in Section 5.2 inaccurate or untrue as of the Closing Date. SJHS shall promptly notify PH&S in writing of any facts or circumstances that come to its attention and that causes, or through the passage of time may cause, any of the representations and warranties contained in Section 5.2 to be untrue or misleading at any time from the Execution Date until the Closing Date.

(c) Access to Information. SJHS shall give to PH&S and/or to its representatives full and free access, during normal business hours, to all properties, books, records and contracts pertaining to the businesses, properties and assets of SJHS, as may be reasonably requested with reasonable prior notice. SJHS shall cooperate in keeping PH&S fully informed and shall promptly notify PH&S of any material unexpected emergency or other unanticipated material adverse change in the normal course of business or prospects of the business of SJHS.

(d) Maintenance of Books and Accounting Practices. SJHS shall: (i) cause the books of account and records of SJHS to be maintained in the usual, regular and ordinary manner in accordance with generally accepted accounting principles consistently applied and on a basis consistent with prior years, and (ii) make no material changes in its accounting methods or practices.

(e) Compliance with Laws; Consents. SJHS shall: (i) comply in all material respects with all applicable statutes, laws, ordinances and regulations; (ii) keep, hold and maintain all certificates, accreditations, licenses and other permits necessary for the conduct and operation of the business of SJHS and each SJHS Affiliate; and (iii) use reasonable commercial efforts and cooperate fully with PH&S to obtain all consents, approvals, exemptions and authorizations of third parties, whether governmental or private; and (iv) give all notices and make all filings which may be necessary or desirable on the part of SJHS and each SJHS Affiliate under all applicable laws and under all contracts, agreements and commitments to which SJHS, and each SJHS Affiliate is a party or is bound in order to consummate the transactions contemplated or required by this Agreement.

(f) No Merger or Consolidation. SJHS shall not merge or consolidate with, or acquire (except in the ordinary course) any of the assets of, any other corporation, business or person.

(g) Confidentiality. The terms and conditions of the MCNDA are hereby incorporated herein by reference, remain in full force and effect and shall survive any termination of this Agreement in accordance with its terms.

(h) Performance of Undertakings. SJHS shall perform faithfully at all times any and all covenants, undertakings, stipulations and provisions applicable to it contained in this Agreement and in any and every document executed, authenticated and delivered hereunder. SJHS shall use reasonable commercial efforts to consummate the transactions contemplated by this Agreement and shall not take any other action inconsistent with the obligations hereunder or which could hinder or delay the consummation of the transactions contemplated or required hereby.

(i) **Exclusivity.** Unless this Agreement has been terminated pursuant to Section 4.1 hereof, in light of the significant dedication of time and resources required by the Parties to evaluate the Combination, SJHS agrees that it shall not, without the prior written consent of PH&S, explore, meet, discuss, negotiate, directly or indirectly, or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to a change in control, sale of equity, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation, liquidation or any other type of transaction similar to the Combination contemplated by this Agreement, or any transaction that could reasonably be considered to have negative effect (e.g., antitrust) on the feasibility of the Combination.

(j) **Integration Plan.** SJHS shall meet regularly with PH&S for the purpose of developing the Integration Plan. The Integration Plan will evolve over time to reflect the needs of the communities served by the Parties.

ARTICLE 7

CONDITIONS PRECEDENT

7.1 **Conditions Precedent to the Obligations of PH&S.** The obligations of PH&S to consummate the transactions contemplated by this Agreement are, at the option of PH&S, subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

(a) **Accuracy of Warranties; Performance of Covenants.** Except for changes or developments expressly permitted or contemplated by the express terms of this Agreement, the representations and warranties of SJHS contained in Section 5.2 shall be true and accurate as if made on and as of the Closing Date. SJHS shall have performed all of the obligations and complied with all of the covenants, agreements and conditions applicable to it required to be performed or complied with by it on or prior to the Closing Date.

(b) **Delivery of Closing Deliverables.** SJHS shall have delivered to PH&S all of the Closing deliverables set forth in Section 3.3.

(c) **No Pending Action.** No action or proceeding before any court or governmental body will be pending or threatened wherein an unfavorable judgment, decree or order would prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded.

(d) **Regulatory Approvals; Expiration of Waiting Periods.** All material consents, authorizations, orders and approvals of (or filings or registrations with) any governmental entity or other party required in connection with the execution, delivery and performance of this Agreement shall have been obtained or made by the Parties when so required, except for any documents required to be filed, or consents, authorizations, orders or approvals required to be issued, after the Closing Date. The Parties have made all filings and given all notices required by the Hart-Scott-Rodino Antitrust Improvements Act, and shall have

been advised by their respective legal counsel that the waiting period applicable to the consummation of the transactions contemplated herein shall have expired or terminated.

(e) **Consents.** All consents, approvals and authorizations of third parties required for the consummation of the transactions contemplated by this Agreement shall have been obtained on or before the Closing Date.

(f) **Due Diligence.** PH&S shall have completed its due diligence investigation of SJHS and the SJHS Affiliates, and in its sole discretion, shall be satisfied with the results of such investigation.

(g) **Insolvency.** None of SJHS and the SJHS Affiliates shall: (i) be in receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated as bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization, or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against SJHS or any SJHS Affiliate.

(h) **NewCo Staff.** Each member of the NewCo Staff shall have entered into a written agreement outlining the terms of his or her engagement with NewCo, effective as of the Closing Date.

7.2 Conditions Precedent to the Obligations of SJHS. The obligations of SJHS to consummate the transactions contemplated by this Agreement are, at the option of SJHS, subject to the satisfaction, on or prior to the Closing Date, of the following conditions:

(a) **Accuracy of Warranties; Performance of Covenants.** Except for changes or developments expressly permitted or contemplated by the express terms of this Agreement, the representations and warranties of PH&S contained in Section 5.1 shall be true and accurate as if made on and as of the Closing Date. PH&S shall have performed all of the obligations and complied with all of the covenants, agreements and conditions applicable to it required to be performed or complied with by it on or prior to the Closing Date.

(b) **Delivery of Closing Deliverables.** PH&S shall have delivered to SJHS all of the Closing deliverables set forth in Section 3.2.

(c) **No Pending Action.** No action or proceeding before any court or governmental body will be pending or threatened wherein an unfavorable judgment, decree or order would prevent the carrying out of this Agreement or any of the transactions contemplated hereby, declare unlawful the transactions contemplated by this Agreement or cause such transactions to be rescinded.

(d) **Regulatory Approvals; Expiration of Waiting Periods.** All material consents, authorizations, orders and approvals of (or filings or registrations with) any governmental entity or other party required in connection with the execution, delivery and performance of this Agreement shall have been obtained or made by the Parties when so required, except for any documents required to be filed, or consents, authorizations, orders or

approvals required to be issued, after the Closing Date. The Parties have made all filings and given all notices required by the Hart-Scott-Rodino Antitrust Improvements Act, and shall have been advised by their respective legal counsel that the waiting period applicable to the consummation of the transactions contemplated herein shall have expired or terminated.

(e) **Consents.** All consents, approvals and authorizations of third parties required for the consummation of the transactions contemplated by this Agreement shall have been obtained on or before the Closing Date.

(f) **Due Diligence.** SJHS shall have completed its due diligence investigation of PH&S and the PH&S Affiliates, and in its sole discretion, shall be satisfied with the results of such investigation.

(g) **Insolvency.** None of PH&S and the PH&S Affiliates shall: (i) be in receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated as bankrupt; or (v) have filed a petition in voluntary bankruptcy, a petition or answer seeking reorganization, or an arrangement with creditors under the federal bankruptcy law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against PH&S or any PH&S Affiliate.

(h) **NewCo Staff.** Each member of the NewCo Staff shall have entered into a written agreement outlining the terms of his or her engagement with NewCo, effective as of the Closing Date.

ARTICLE 8

POST-CLOSING COVENANTS OF THE PARTIES

8.1 **Commitment to the Poor and Vulnerable.** The Parties share a special commitment to meeting the needs of the communities they respectively serve, with special attention to the poor and vulnerable. Each Party has a long history of meeting those needs in a variety of ways. The Co-Sponsors, the NewCo Board and NewCo CEO shall collectively and consistent with this Agreement enter into a dialogue with respect to identifying programs and services for the benefit of the poor and vulnerable to be carried out by NewCo on behalf of the New System.

8.2 **Sponsorship Fee.** NewCo will honor each Party's contractual obligations in effect from time to time for sponsorship and/or founder's fees payable to their respective founding religious communities.

8.3 **Formation.** NewCo shall unite and enhance the mission formation programs of each of the Parties within the New System.

8.4 **Financial Matters.**

(a) **Donor Restricted Funds.** Following the Closing Date, all charitable gifts with donor-imposed restrictions and conditions ("**Restricted Gifts**") made to PH&S or a PH&S

Affiliate shall continue to be held and used by the recipient in accordance with donor-imposed restrictions and conditions, and all Restricted Gifts made to SJHS or a SJHS Affiliate shall continue to be held and used by the recipient in accordance with donor-imposed restrictions and conditions, except as permitted by applicable law. None of the charitable mission, corporate purposes, name, and/or operations of the Parties' affiliated foundations shall change as a result of the Combination.

(b) **NewCo Corporate Overhead Allocation.** The purposes and functions of NewCo shall, as of the Closing Date, be funded on the basis of a corporate overhead allocation formula, which shall be based on a proportion of system revenue.

(c) **System-Related Costs and Charges.** As of Closing Date, each Party's arrangements for the allocation of corporate overhead, shared services and direct billing costs and charges ("**System-Related Costs and Charges**") will remain in place, with such adjustments approved by NewCo. It is the intent of the Parties that, beginning in the second year following the Closing Date ("**Year Two**"), System-Related Costs and Charges shall be allocated on the basis of a new system-wide formula developed by NewCo executive leadership.

(d) **Care for the Poor, Community Benefit Programs and Medical Foundation Support.** Following the Closing Date, each Party, the PH&S Affiliates and the SJHS Affiliates may continue to make support payments for Care for the Poor, community benefit programs and tax-exempt medical foundations, consistent with its prior practices and contractual obligations.

8.5 Grandfathered Projects. Following the Closing Date, those specific capital projects identified on Exhibit 8.5 shall be considered "**Grandfathered Capital Projects**" and are not subject to an additional review process, unless there are proposed material changes or modifications to such Grandfathered Capital Projects. In such event, the review process shall be limited to any such proposed material changes, substitutions or modifications that require review under the then-current applicable capital approval policy of NewCo and the Governance Matrix.

8.6 Divisional and System Headquarters. Post-Closing, divisional management and headquarters for the SJHS Texas/New Mexico operations and both PH&S and SJHS California operations will be located in Irvine, California. NewCo management, headquarters for NewCo and divisional management and headquarters for Washington, Alaska, Oregon and Montana will be located in Renton, Washington.

8.7 Medical Staff. It is the intent of the Parties that consummation of the Combination shall not adversely affect (or require a change to) the medical staff privileges held by any member of a medical staff of a health care facility owned or controlled by a Party as of the Closing Date.

8.8 Affiliates and Partners. It is the intent of the Parties that the Combination will enhance the mission benefits of the relationships each of the Parties maintain with their respective corporate affiliates and partners; and this Agreement shall honor and shall not contravene nor diminish the rights of those affiliates and partners, including but not limited to Covenant Health System, Covenant Health Network (including Hoag Memorial Hospital

Presbyterian) and Western HealthConnect (including Swedish Health Services, PacMed Clinics, and Kadlec Medical Center.) Where required by contract, the funds held in the CIDCM Program (hereinafter defined) will be reflected on the balance sheets of the entities contributing such resources.

8.9 Naming/Branding. Neither Party shall be required to rebrand itself, and any material branding changes shall be approved by the NewCo Board and the Co-Sponsors Council.

8.10 Debt/Credit Management Plan. The Parties intend to form a single obligated group (the “Obligated Group”) within twelve months following the Closing Date, which will allow both organizations to become jointly and severally liable for all combined organization tax-exempt debt, allocate risk and optimize borrowing strategy across the combined organization, taking into account the most efficient borrowing structure and future plans of the Parties. The form and timing of the implementation of the new Obligated Group or any other agreed financing structure will be dependent upon applicable master trust indenture and other debt instrument requirements, existing security interests and collateral arrangements, market conditions, call premiums and/or prepayment penalties on outstanding bonds, bank and other debt and capital leases, banking relationships and current and anticipated commitments and any approvals required under existing bond and other debt instruments.

8.11 Cash and Investment Management. The Parties intend that within twelve months following the Closing Date, NewCo shall have a single integrated cash and investment policy (the “CIDCM Policy”). Within twelve months of developing the CIDCM Policy, the Parties will have a single integrated cash and investment program (the “CIDCM Program”). The CIDCM Program shall operate in accordance with guidelines established and monitored by NewCo.

8.12 Employees. It is the intent of the Parties that all employees of the Parties (except those that will be employed directly by NewCo as set forth on Exhibit 2.3) will remain employees of their current employer, with compensation and benefits established by their respective employers. Notwithstanding anything to the contrary, each of SJHS (including the SJHS Affiliates) and PH&S (including the PH&S Affiliates) shall continue to offer their own respective employee benefit programs.

8.13 California Services Commitment. Consistent with the charitable objectives of the Parties set forth in Article 1, the Parties shall commit to provide the services set forth on Exhibit 8.13 in the State of California (the “Services Commitments”).

8.14 Permanence. The Parties are committed to the permanency of the Combination described herein, and to preserving the heritage of each of the Parties.

ARTICLE 9

MISCELLANEOUS PROVISIONS

9.1 No Assumption or Assignment. Nothing contained in this Agreement shall be deemed to be an assumption or assignment by any Party hereto of any other Parties’ or its affiliates’ liabilities, obligations, debts, known or unknown, whether absolute, contingent,

accrued or otherwise, including without limitation any and all (a) obligations, commitments or liabilities of or claims arising out of or in connection with the Combination contemplated hereunder; (b) liabilities for federal, state or local taxes arising from the business or operations of any Party or its affiliates; (c) liabilities or negligence claims relating to the provision of medical services or nursing care; (d) liabilities for any default in the performance of or breach of any contract, agreement, lease, commitment or obligation; (e) liabilities for Medicare or third-party payor reimbursement program recaptures or offsets for cost reporting periods prior to the Closing Date; (f) liability for FICA, workers' compensation or other employment related taxes; (g) obligations, commitments or liabilities relating to the establishment, adoption, administration or funding of participation in, contribution to, or maintenance or termination, whether on, prior or subsequent to the Closing Date, of any employee benefit plan, program, or arrangement (whether or not described in or subject to, ERISA); (h) funding obligations relating to insurance or self-insurance programs; and (i) any other liability or obligation accruing prior to the Closing Date.

9.2 Amendment. Except as otherwise provided in this Agreement, no amendment of any provision of this Agreement shall be effective unless the same shall be in writing and signed by the Parties, and then such amendment shall be effective only in the specific instance and for the specific purpose for which given.

9.3 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be delivered personally or sent by registered or certified mail, postage prepaid, as follows:

To SJHS:

Deborah A. Proctor, President and CEO
St. Joseph Health System
3345 Michelson Drive, Suite 100
Irvine, CA 92612

With copy to:

Shannon G. Dwyer, Esq.
Executive Vice President & General
Counsel
St. Joseph Health System
3345 Michelson Drive, Suite 100
Irvine, CA 92612

To PH&S:

Rod Hochman, M.D., President and CEO
Providence Health & Services
1801 Lind Ave. SW
Renton, WA 98057

With copy to:

Cindy Fein Strauss, Esq.
Senior Vice President and Chief Legal
Officer
Providence Health & Services
Department of Legal Affairs
1801 Lind Ave. SW
Renton, WA 98057

A Party may change its address for receiving notice by written notice given to the others named above. All notices shall be effective when received, if by personal delivery, or two (2) business days after being deposited in the mail addressed as set forth above, if mailed.

9.4 Expenses. Each Party shall pay its own costs and expenses in connection with the transactions contemplated or required hereby.

9.5 Counterparts. This Agreement may be executed simultaneously in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement. The Parties may deliver executed signature pages to this Agreement by facsimile or e-mail transmission. No Party may raise (a) the use of a facsimile or email transmission to deliver a signature or (b) the fact that any signature, agreement or instrument was signed and subsequently transmitted or communicated through the use of a facsimile or email transmission as a defense to the formation or enforceability of a contract, and each Party forever waives any such defense.

9.6 Entire Transaction. This Agreement contains the entire understanding of the Parties with respect to the transactions contemplated hereby and supersedes all other agreements and understandings of the Parties on the subject matter hereof.

9.7 Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Washington, without regard to conflicts of laws principles, and the Parties hereby consent to the jurisdiction of Washington courts over all matters relating to this Agreement. Notwithstanding the foregoing, any action by the California Attorney General to enforce the Services Commitments pursuant to Section 8.13 herein, may be brought in the superior court in the proper county in California.

9.8 Headings; Articles and Sections. Headings of Articles and Sections in this Agreement and the table of contents hereof are solely for convenience or reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof. All references to "Articles," "Sections," "Exhibits" and "Schedules" in this Agreement are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specifically provided.

9.9 Gender. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa and the use of the neuter, masculine or feminine gender is for convenience only and shall be deemed to mean and include all other genders.

9.10 Further Assurances. After the Combination, each Party shall take such further actions and execute and deliver such additional documents and instruments as may be reasonably requested by the other Party in order to perfect and complete the transactions specifically contemplated herein.

9.11 Waiver of Terms. Any of the terms or conditions of this Agreement may be waived at any time by the Party entitled to the benefit thereof, but only by a written notice signed by the Party waiving such terms or conditions. The waiver of any term or condition shall not be construed as a waiver of any other term or condition of this Agreement and shall be effective only in the specific instance and for the specific purpose for which given.

9.12 Partial Invalidity. In case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

9.13 Exhibits and Schedules. Any Party may set forth any disclosures required by a Schedule in a separate writing delivered to the other Parties that specifically makes reference to the applicable Section of this Agreement and the required schedule thereto. From the Execution Date until the Closing, any Party may update any Exhibit or Schedule as necessary, with the other Parties' consent and approval.

9.14 Non-Assignment. No Party may assign its rights in this Agreement or delegate its duties under this Agreement to a third party without first obtaining the prior written consent of the other Parties.

9.15 No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

9.16 Public Statement. The Parties shall determine in advance, by mutual agreement and consent, the timing and content of any announcement, press release or other public statement concerning the transactions contemplated by this Agreement.

IN WITNESS WHEREOF, the Parties have executed or caused this Agreement to be executed on the day and year first above written.

ST. JOSEPH HEALTH SYSTEM

By: _____

Name: Deborah A. Proctor

Title: President and CEO

PROVIDENCE HEALTH & SERVICES

By: _____

Name: Rod F. Hochman, M.D.

Title: President and CEO

EXHIBIT A

SJHS Organizational Chart

See attached.

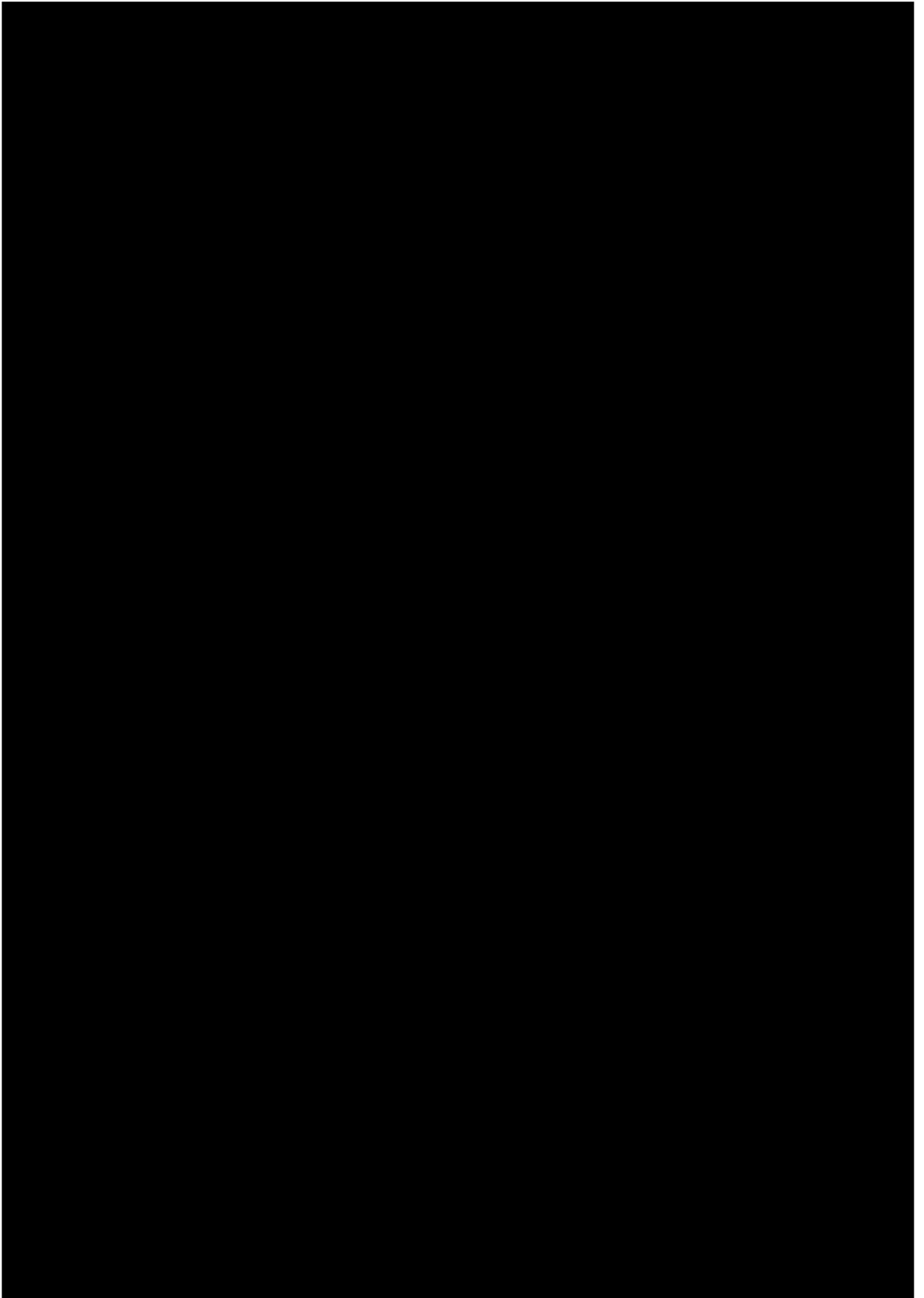


EXHIBIT B

PH&S Organizational Chart

See attached.

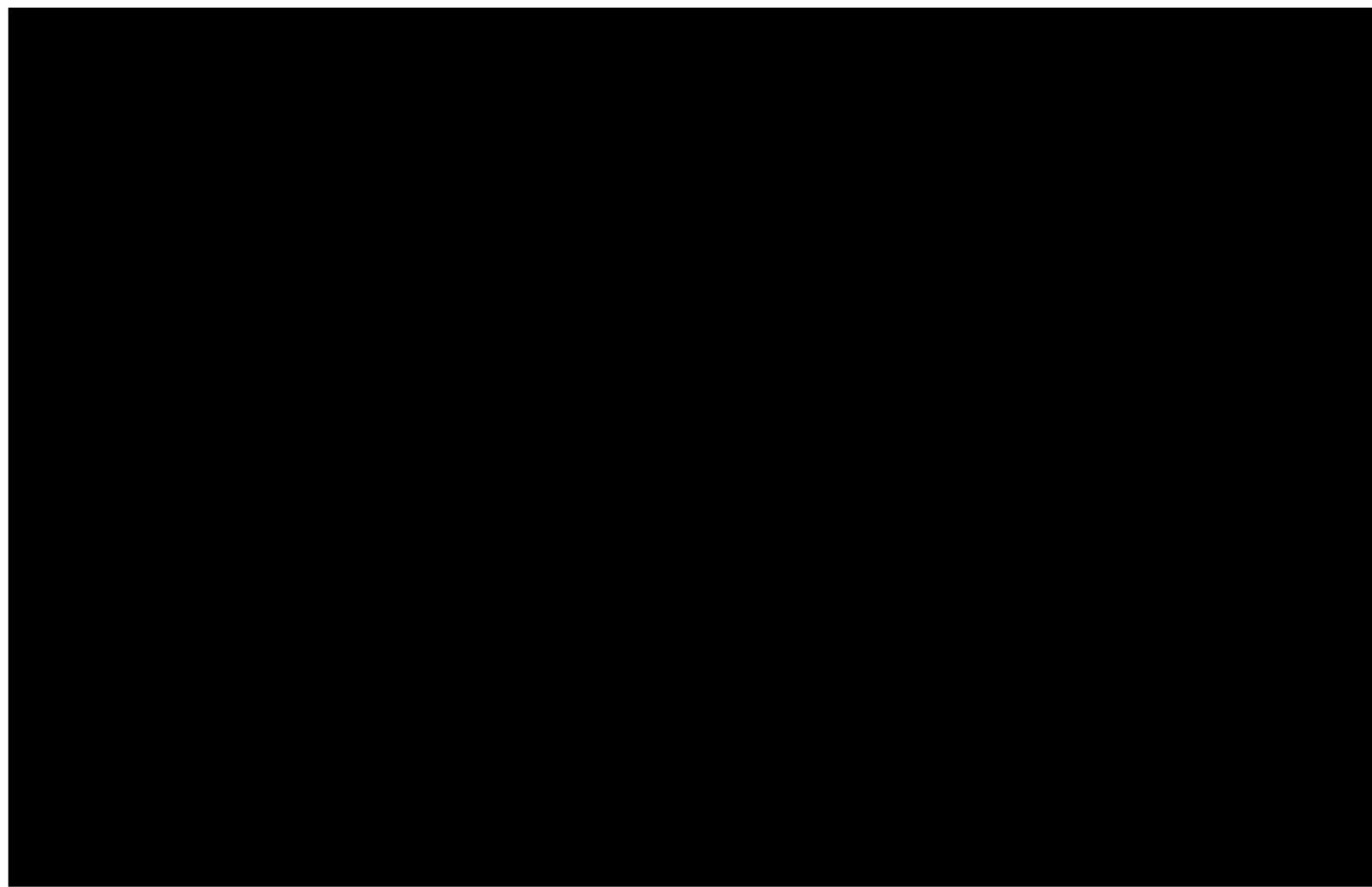


EXHIBIT 3.2(a)
NewCo Governing Documents

See attached.



Office of the Secretary of State Corporations & Charities Division

Washington Nonprofit Corporation

See attached detailed instructions

Filing Fee \$30.00

Filing Fee with Expedited Service \$80.00

This Box For Office Use Only

UBI Number:

ARTICLES OF INCORPORATION

Chapter 24.03 RCW

ARTICLE 1

NAME OF CORPORATION:

Providence St. Joseph Health

(MAY NOT contain any of the following designations or abbreviations of: Corporation, Company, Incorporated, Limited, Limited Partnership, Limited Liability Company, or Limited Liability Partnership. If one of the prohibited designations is used, it will be removed when processed.)

ARTICLE 2

EFFECTIVE DATE OF INCORPORATION (please check one of the following):

- Upon filing by the Secretary of State
- Specific Date: _____ (Specified effective date must be within 30 days AFTER the Articles of Incorporation have been filed by the Office of the Secretary of State.)

ARTICLE 3

TENURE (please check one of the following and indicate the date if applicable):

- Perpetual existence
- Specific term of existence _____ (Number of years or date of termination)

ARTICLE 4

PURPOSE FOR WHICH THE NONPROFIT IS ORGANIZED: (if necessary, attach additional information)

See Attachment A

ARTICLE 5

IN THE EVENT OF A VOLUNTARY DISSOLUTION, THE NET ASSETS WILL BE DISTRIBUTED AS

FOLLOWS: (if necessary, attach additional information) See Attachment A

ARTICLE 6

NAME AND ADDRESS OF EACH INITIAL DIRECTOR: *(If necessary, attach additional names and addresses)*

Name: See Attachment A
 Address: _____
 City _____ State _____ Zip Code _____

ARTICLE 7

NAME AND ADDRESS OF THE WASHINGTON STATE REGISTERED AGENT:

Name: Cindy Fein Strauss
 Physical Location Address *(required)*:
1801 Lind Avenue SW, #9016
 City Renton WA Zip Code 98057-9016
 Mailing or Postal Address *(optional)*:

 City _____ State _____ Zip Code _____

CONSENT TO SERVE AS REGISTERED AGENT:

I consent to serve as Registered Agent in the State of Washington for the above named corporation. I understand it will be my responsibility to accept Service of Process on behalf of the corporation; to forward mail to the corporation; and to immediately notify the Office of the Secretary of State if I resign or change the Registered Office Address.

X _____
 Signature of Registered Agent Printed Name Date

ARTICLE 8

NAME, ADDRESS AND SIGNATURE OF EACH INCORPORATOR:
(If necessary, attach additional names, addresses and signatures)

Name: Cindy Fein Strauss
 Address: 1801 Lind Avenue SW, #9016
 City Renton State WA Zip Code 98057-9016

This document is hereby executed under penalties of perjury, and is, to the best of my knowledge, true and correct.

X _____
 Signature of Incorporator Printed Name/Title Date Phone

Important note: If your nonprofit organization is currently fundraising, or plans to fundraise from the public, it may also be required to register with the Charities Program of the Secretary of State. Registration with the Charities Program is separate from, and in addition to, filings required under corporate law. Please visit the Charities Program website at www.sos.wa.gov/charities/ to review the registration requirements and forms for Charitable Organizations.

**ATTACHMENT A TO
ARTICLES OF INCORPORATION
OF
PROVIDENCE ST. JOSEPH HEALTH**

**ARTICLE 4
PURPOSES**

The Corporation has been formed to directly conduct activities that will achieve the charitable purposes set forth in this Article. The Corporation shall at all times be organized and operated exclusively for charitable, scientific, and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or the corresponding provision of any future United States Internal Revenue law (the “Code”). Further, the Corporation is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of those specified organizations listed on Exhibit A, all of which are organizations described in the Code and other than private foundations by reason of their being described in Section 509(a)(1) or Section 509(a)(2) of the Code. Consistent with the foregoing, the Corporation has been formed to directly conduct activities that will achieve the following purposes:

(a) To serve as the parent corporation for Providence Health & Services, a Washington nonprofit corporation (“PH&S”) and St. Joseph Health System, a California nonprofit public benefit corporation (“SJHS”);

(b) To maintain the relationships PH&S and SJHS have established with like-minded faith-based and secular organizations, and in such capacity provide overall mission, vision, strategic, financial and operational direction for such ministries and organizations;

(c) To facilitate the establishment, operation, management and maintenance for charitable purposes of, hospitals, nursing homes, and other health care, educational, and social service facilities and programs designed to meet the health, educational and social needs of the communities served by the Corporation;

(d) To facilitate the establishment, operation and maintenance for charitable purposes of, programs that provide high-quality, cost-effective health care and related services with particular consideration for the special needs of the poor and vulnerable in the communities the Corporation serves;

(e) To facilitate the provision of scientific research, educational, charitable and such other activities, services and programs related to its ministries;

(f) To engage, as appropriate, in other charitable works which are consistent with the objectives of the Corporation and the mission and values of Providence Ministries and St. Joseph Health Ministry (the “Co-Sponsors”); and

(g) To do any and all other things in furtherance of these purposes which are consistent with the laws of the State of Washington, the guiding principles of the Co-Sponsors, and the Corporation’s mission, vision and values, with reference to the Roman Catholic moral

tradition, as articulated in documents such as the *Ethical and Religious Directives for Catholic Health Care Services* as promulgated from time to time by the United States Conference of Catholic Bishops.

No part of the net earnings of the Corporation shall inure to the benefit of, or be distributable to, the Corporation's directors, officers, or other persons, except that the Corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein. No substantial part of the activities of the Corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the Corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of, or in opposition to, any candidate for public office except as authorized under the Code. The Corporation shall not carry on any other activities not permitted to be carried on by a corporation exempt from federal income tax under Code Section 501(c)(3) or by a corporation, contributions to which are deductible under Code Section 170(c)(2).

ARTICLE 5 DISSOLUTION

Upon dissolution or liquidation of the Corporation, its Board of Directors shall, after paying or making provision for the payment of all of the liabilities of the Corporation, dispose of all of the assets of the Corporation to a recipient entity selected by the Board of Directors, upon approval of the Co-Sponsors, that is organized and operated exclusively for charitable, educational, religious or scientific purposes and qualifies as an exempt organization under Section 501(c)(3) of the Code. If, at the time of dissolution, no such entity is selected, the Board of Directors shall dispose of all of the corporate assets to any other organization(s) selected by the Co-Sponsors, provided that each such recipient entity is then in existence and organized and operated exclusively for charitable, educational, religious or scientific purposes and qualifies at that time for exemption under the Code. Any property and assets not so disposed of by the Board of Directors shall be disposed of by a court of competent jurisdiction in the State of Washington to an entity organized and operated exclusively for charitable, educational, religious or scientific purposes and qualifies as an exempt organization under Section 501(c)(3) of the Code, to be used in such a manner as to accomplish the general health care purposes for which the Corporation is organized.

ARTICLE VI INITIAL DIRECTORS

<u>Name</u>	<u>Address</u>
Cindy Fein Strauss	1801 Lind Avenue SW, #9016, Renton, WA 98057-9016
Mike Butler	1801 Lind Avenue SW, #9016, Renton, WA 98057-9016
Todd Hofheins	1801 Lind Avenue SW, #9016, Renton, WA 98057-9016

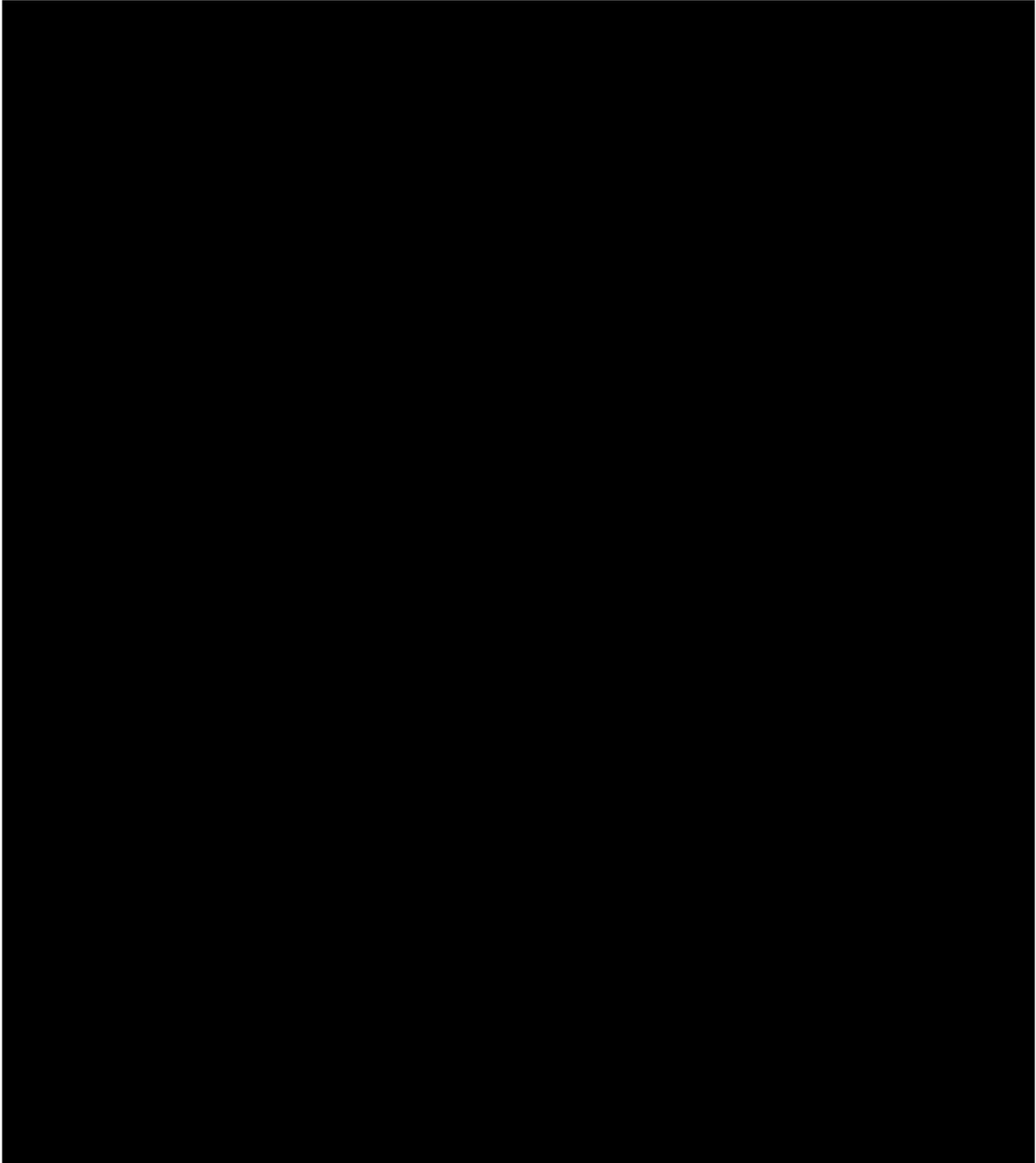
Exhibit A

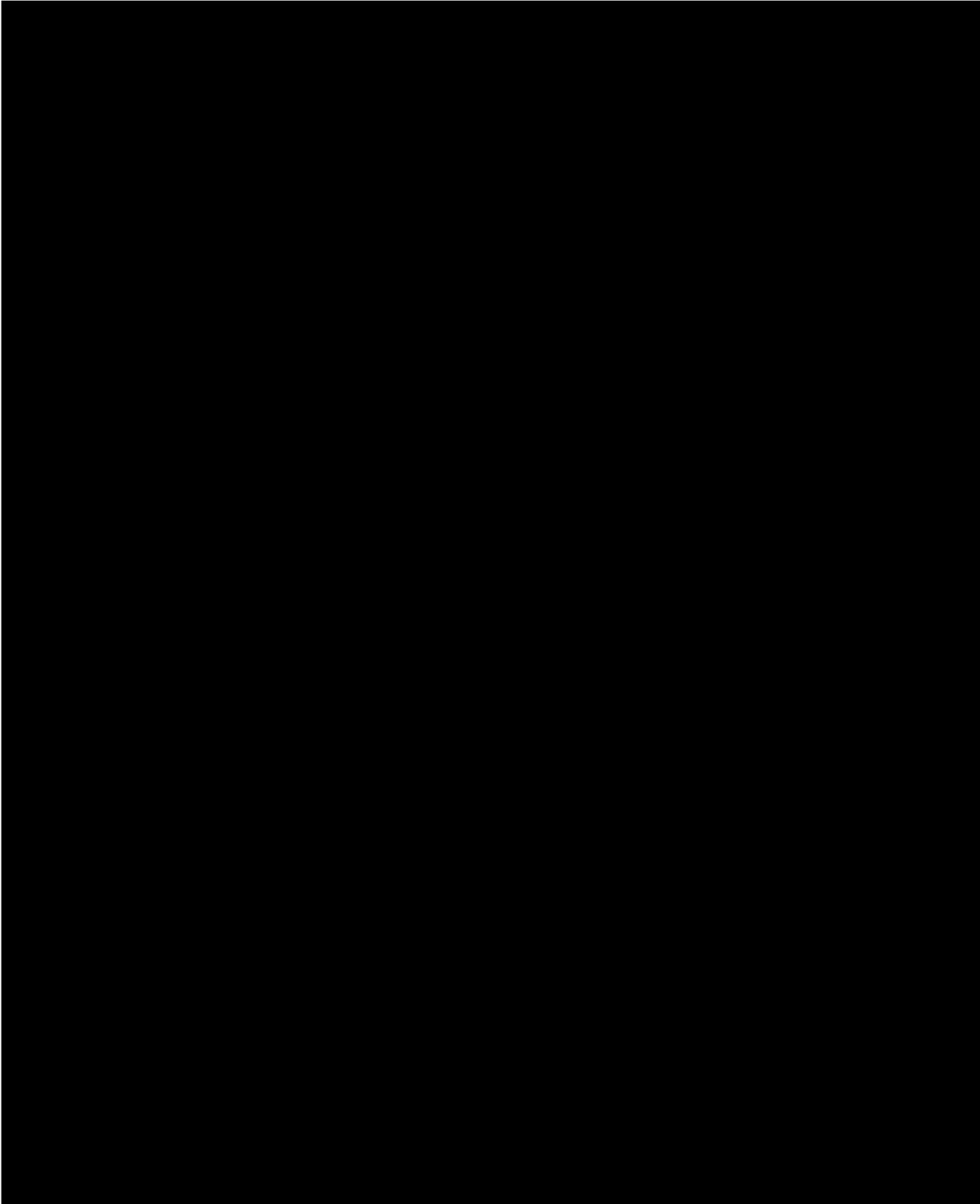
1. Providence Health & Services – Washington
2. Providence Health System – Southern California
3. Providence Health & Services – Oregon
4. Providence Health & Services – Montana
5. Mission Hospital Regional Medical Center
6. Queen of the Valley Medical Center
7. St. Joseph Hospital of Orange
8. St. Joseph Hospital of Eureka
9. St. Jude Hospital
10. Santa Rosa Memorial Hospital
11. St. Mary Medical Center
12. Redwood Memorial Hospital of Fortuna
13. St. Jude Hospital Yorba Linda

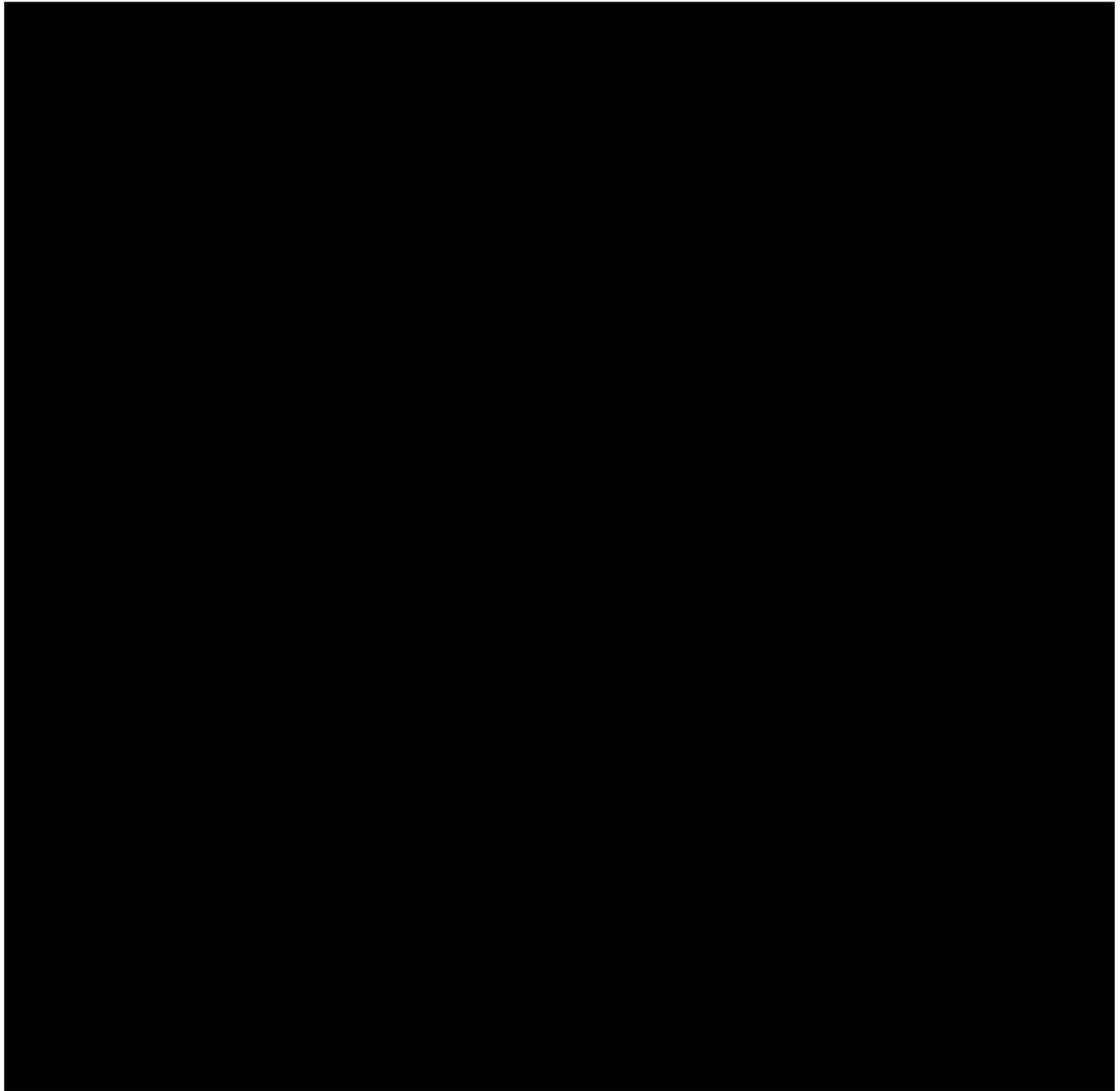
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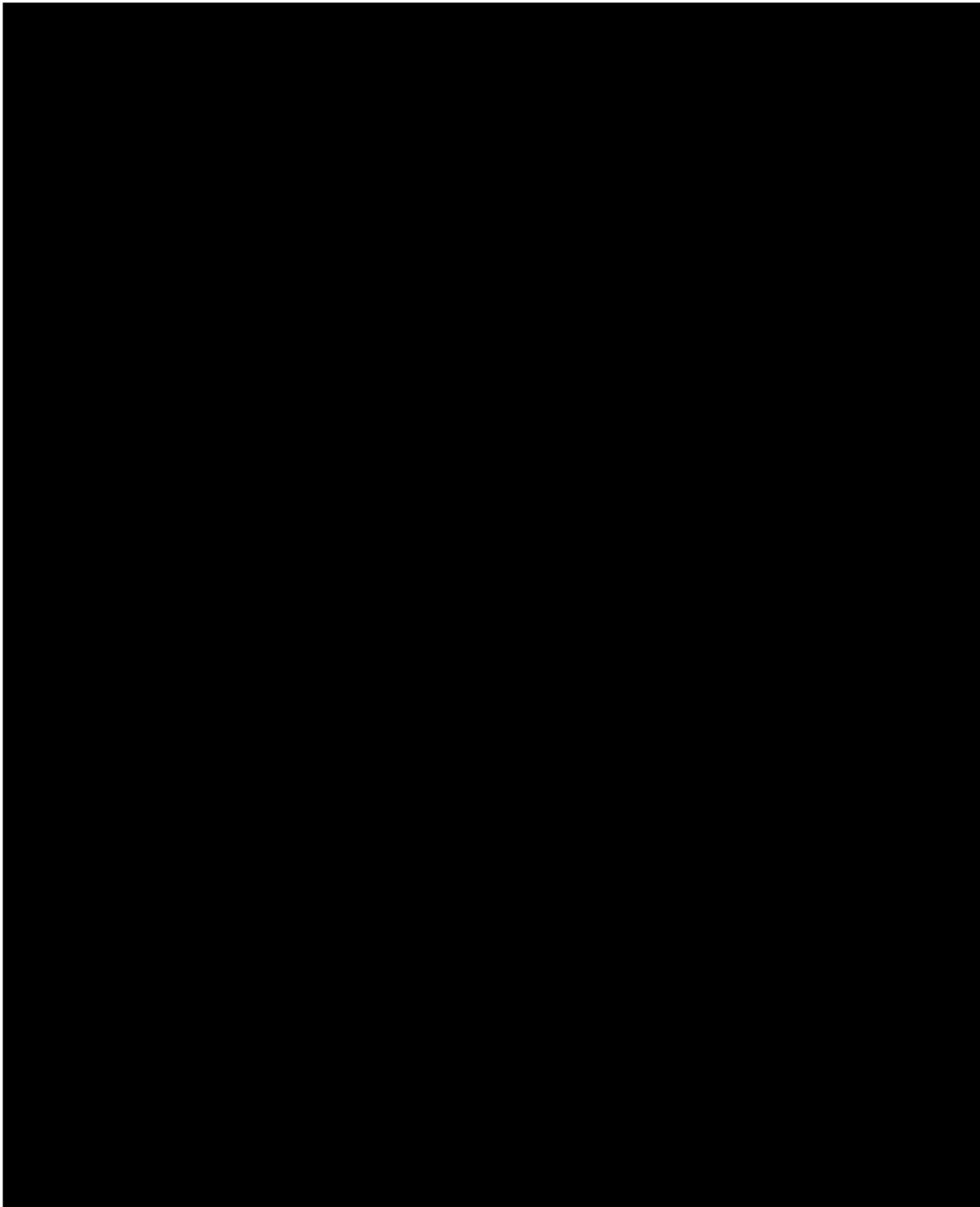
Service Commitments

The Service Commitments of the Parties, as referenced in Section 8.13 of the Health System Combination Agreement, are set forth in Paragraphs 1.0 through 9.0 below.

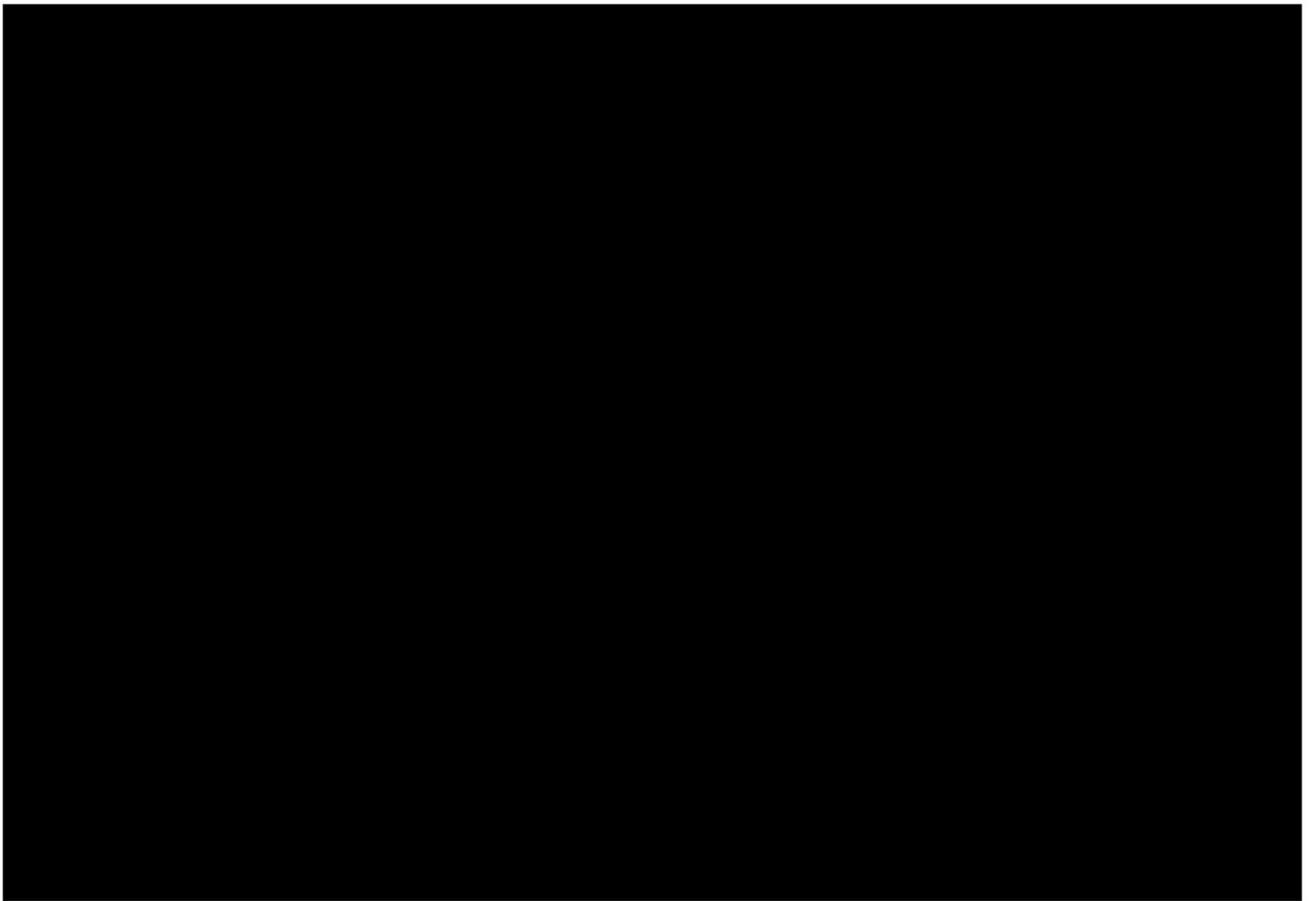


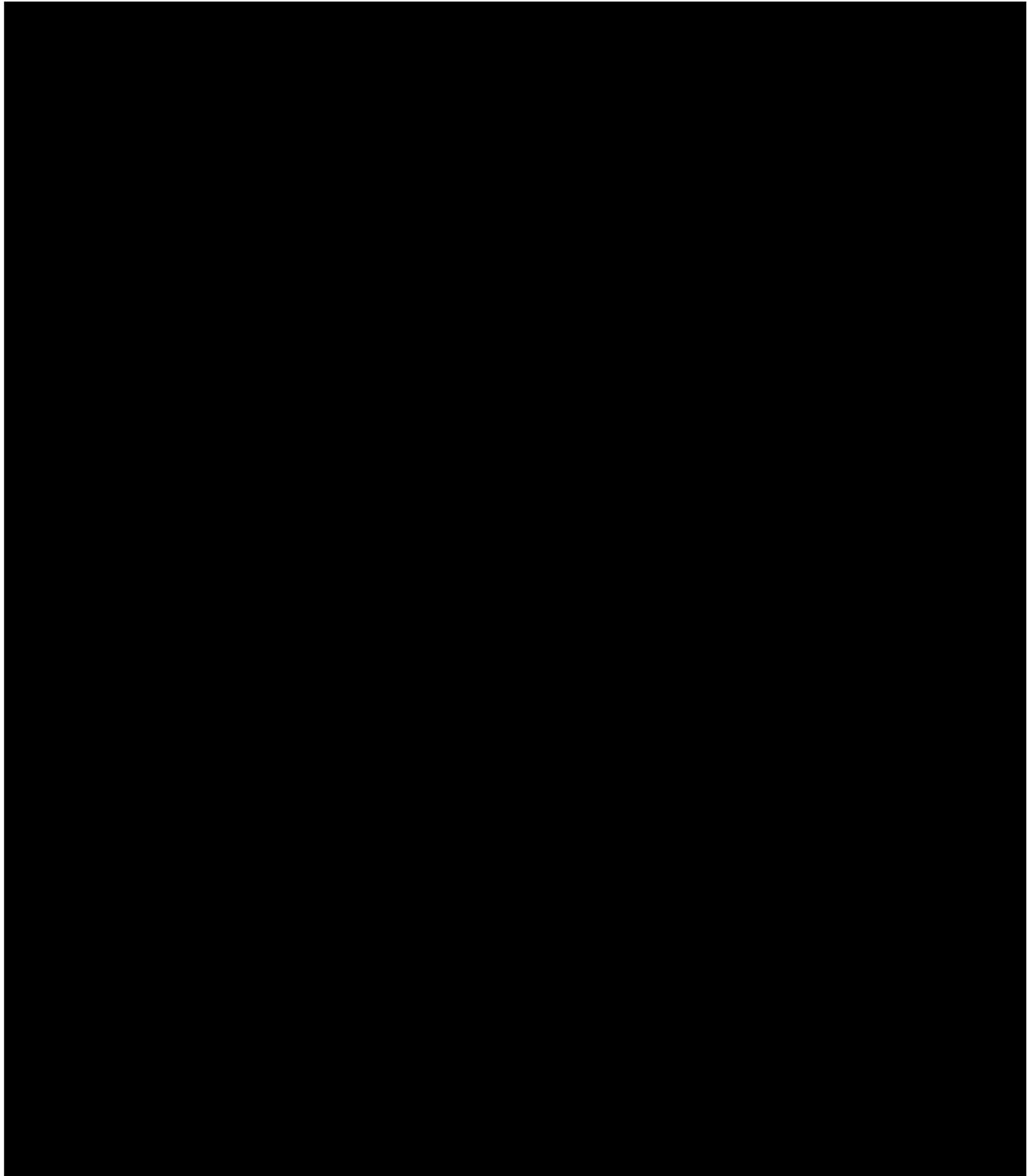




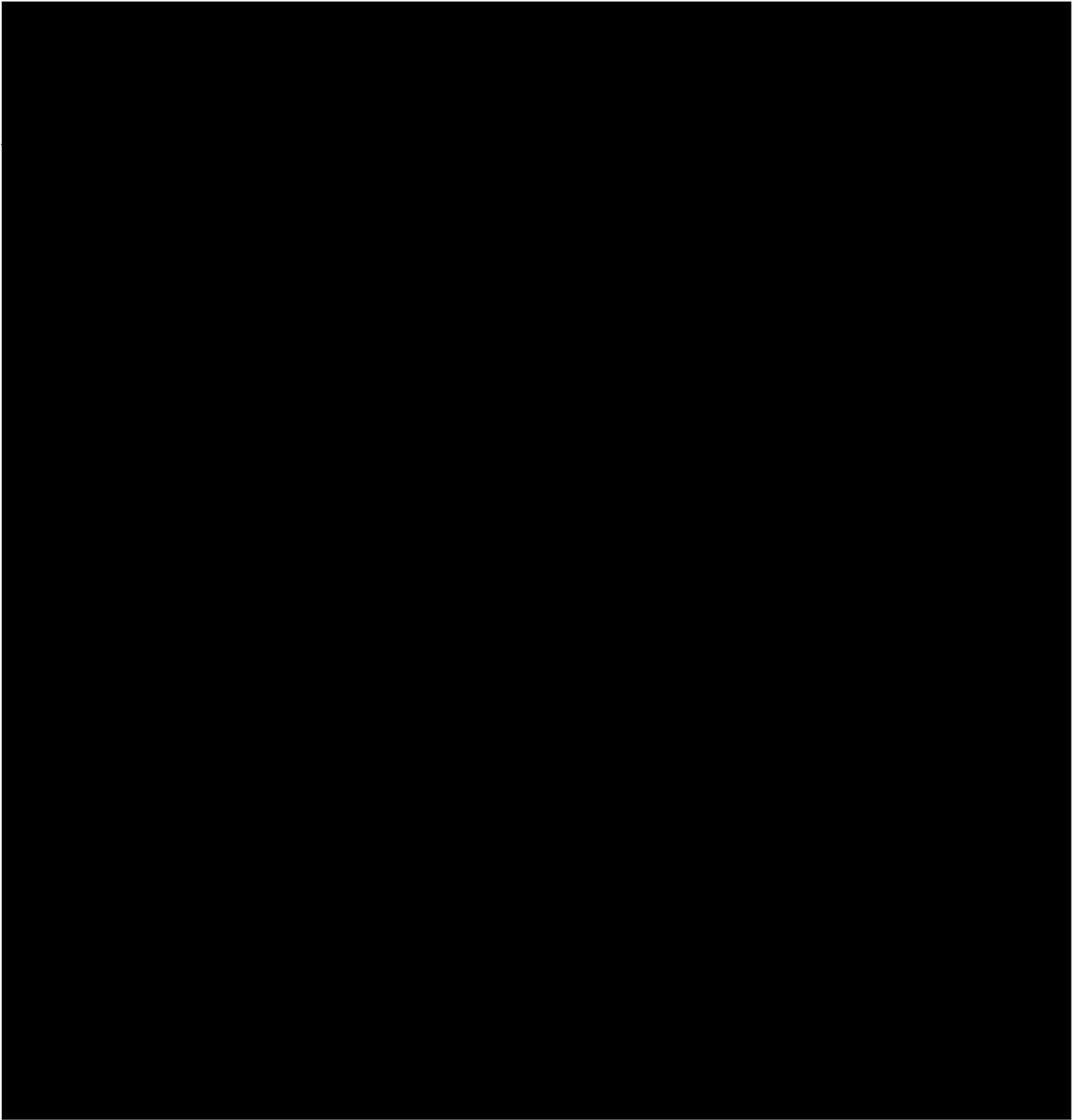


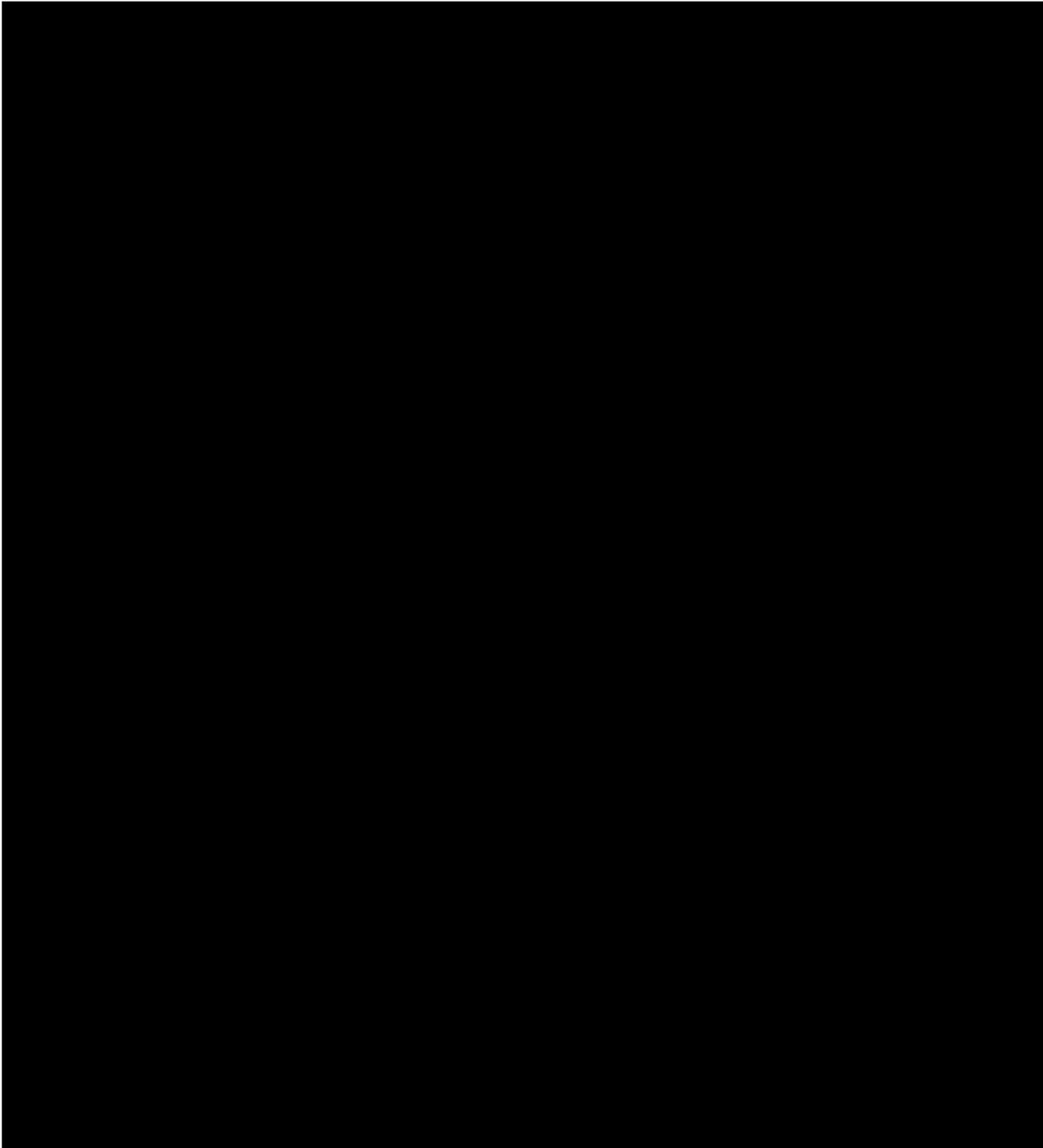




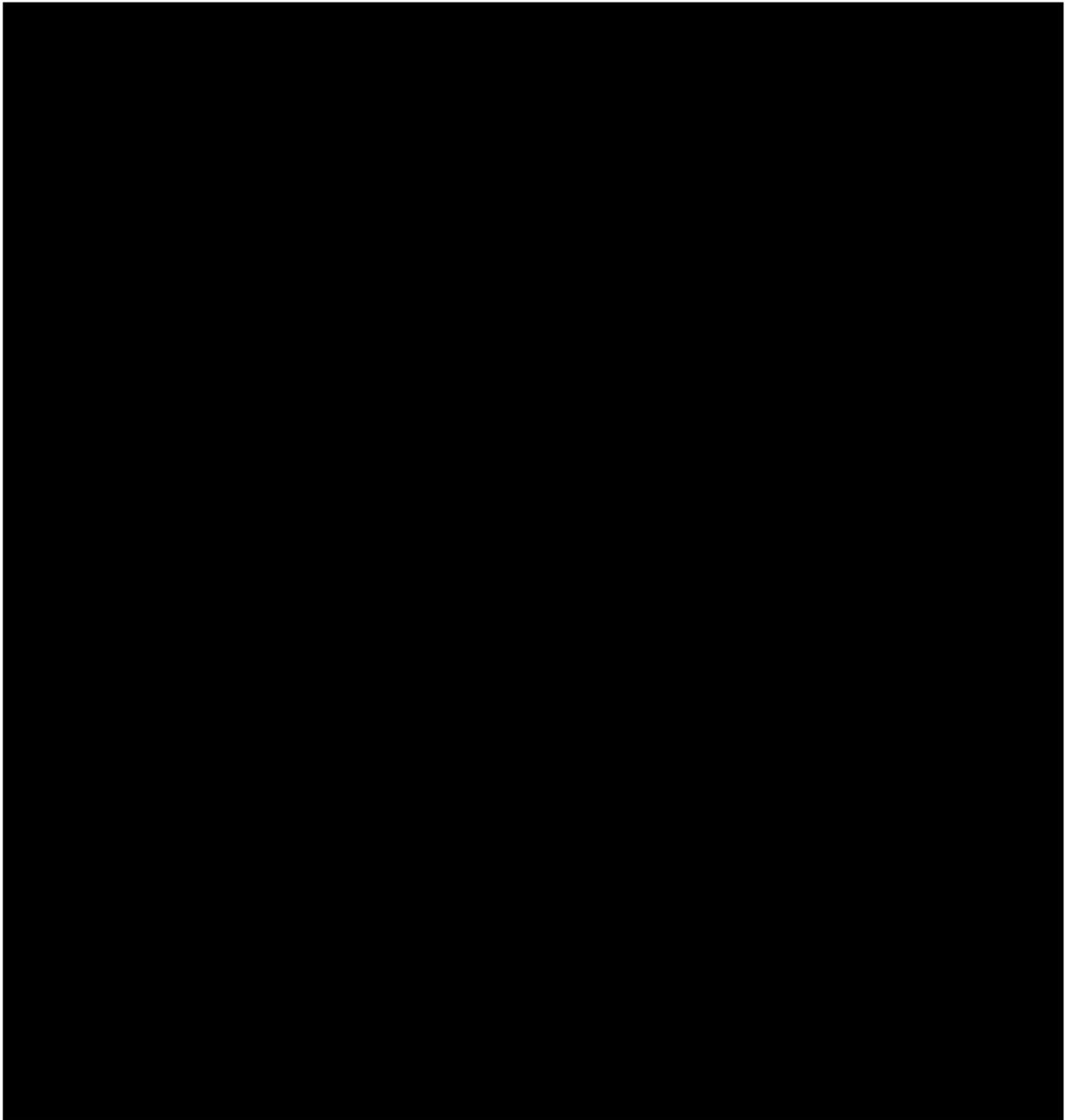


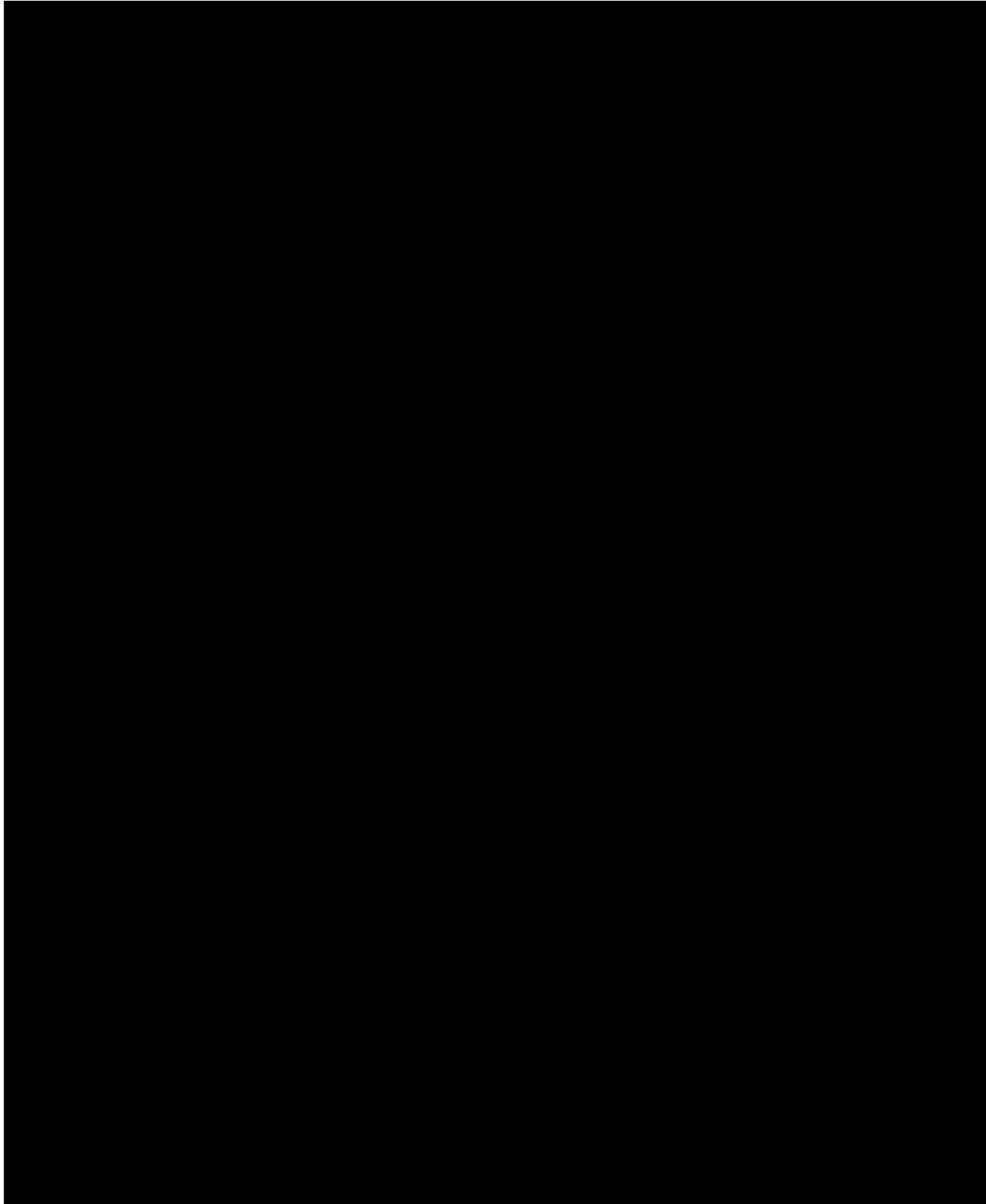
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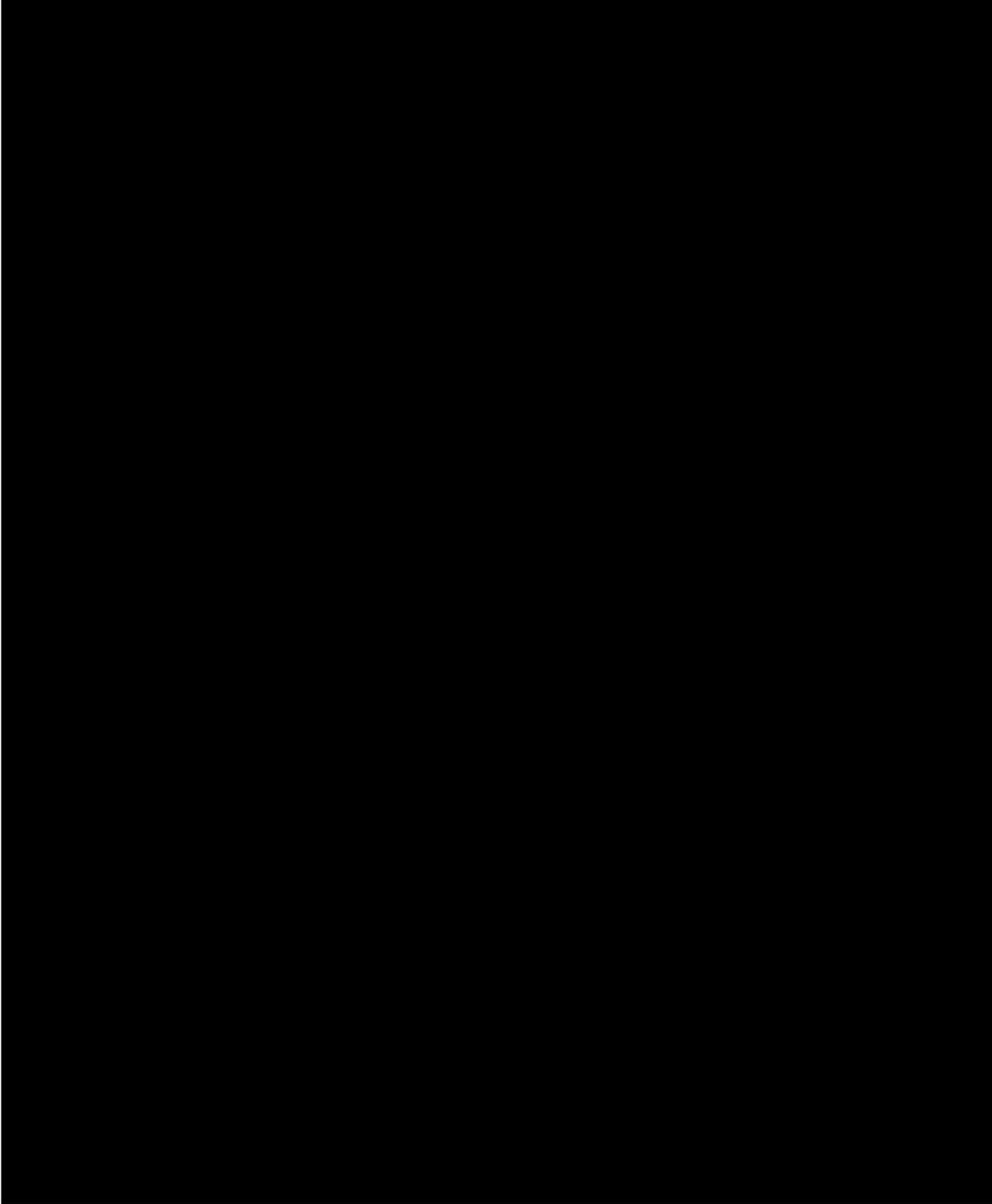


Attachment A
SJHS – City/County Contract List

List of Contracts Between City/County and SJHS Affiliated Hospitals			
Hospital	City / County	Services Covered	Original Eff. Date

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SJHS – City/County Contract List

List of Contracts Between City/County and SJHS Affiliated Hospitals			
Hospital	City / County	Services Covered	Original Eff. Date

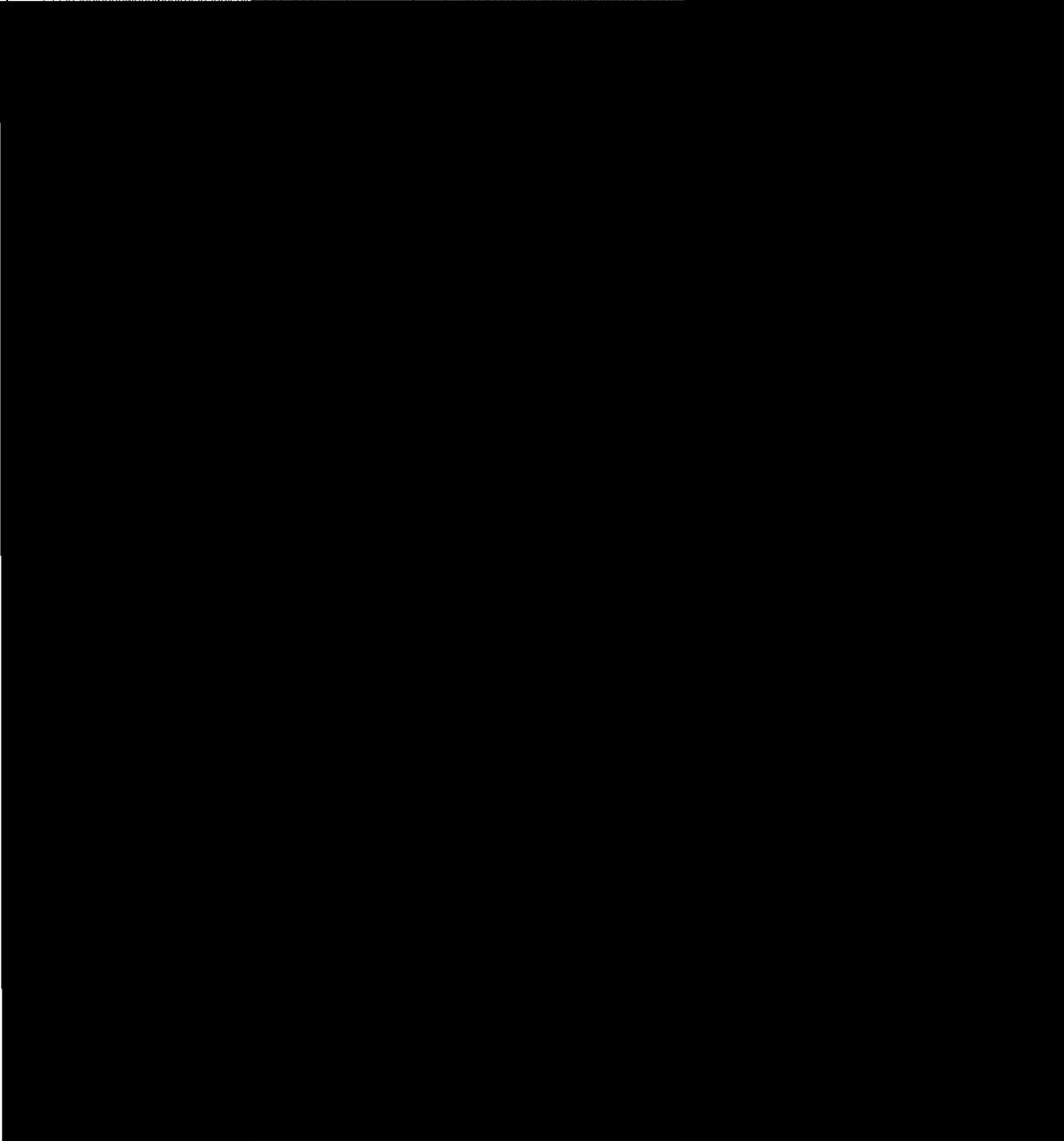


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SJHS – City/County Contract List

List of Contracts Between City/County and SJHS Affiliated Hospitals			
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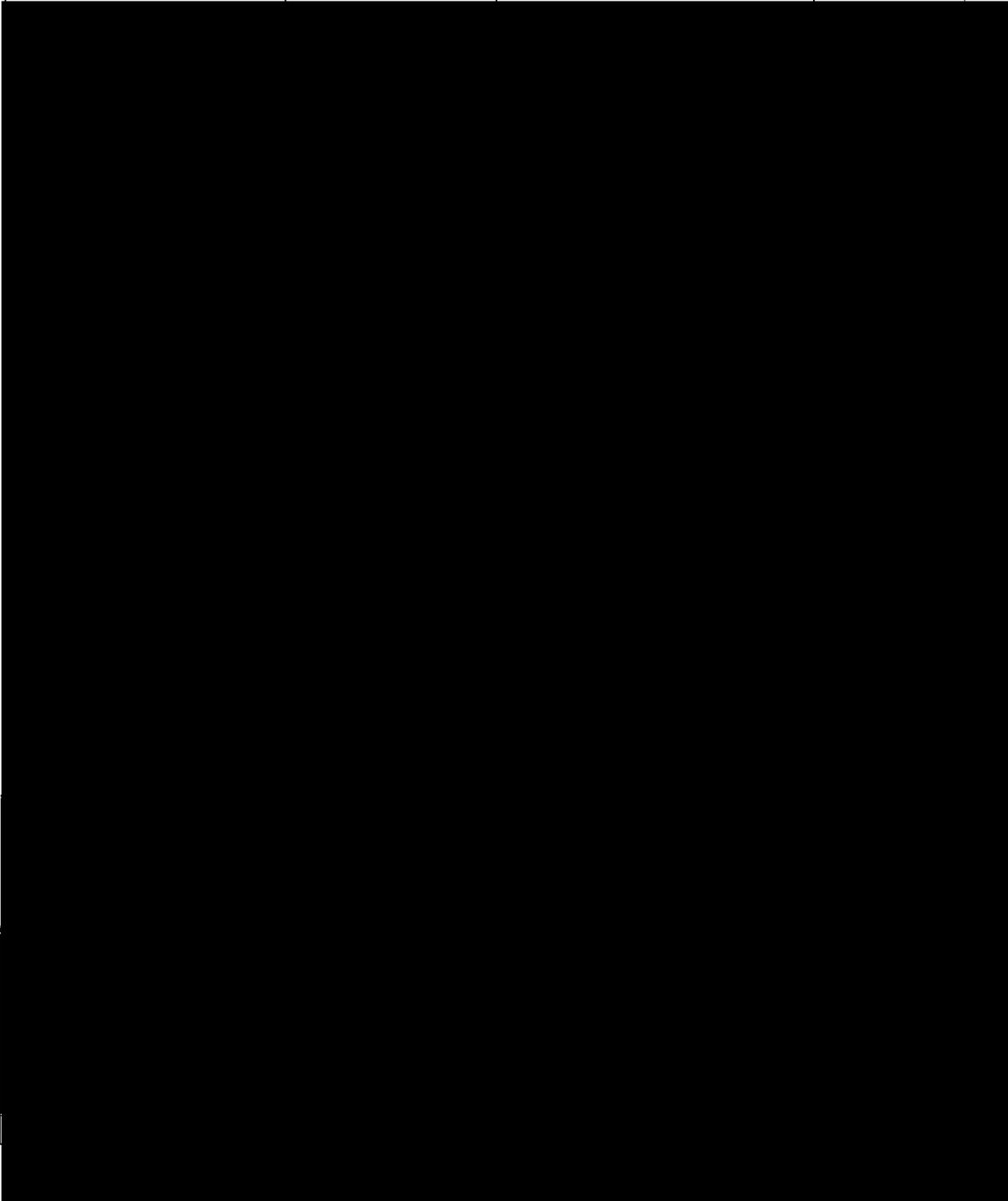
Attachment A
SJHS – City/County Contract List

List of Contracts Between City/County and SJHS Affiliated Hospitals			
Hospital	City / County	Services Covered	Original Eff. Date



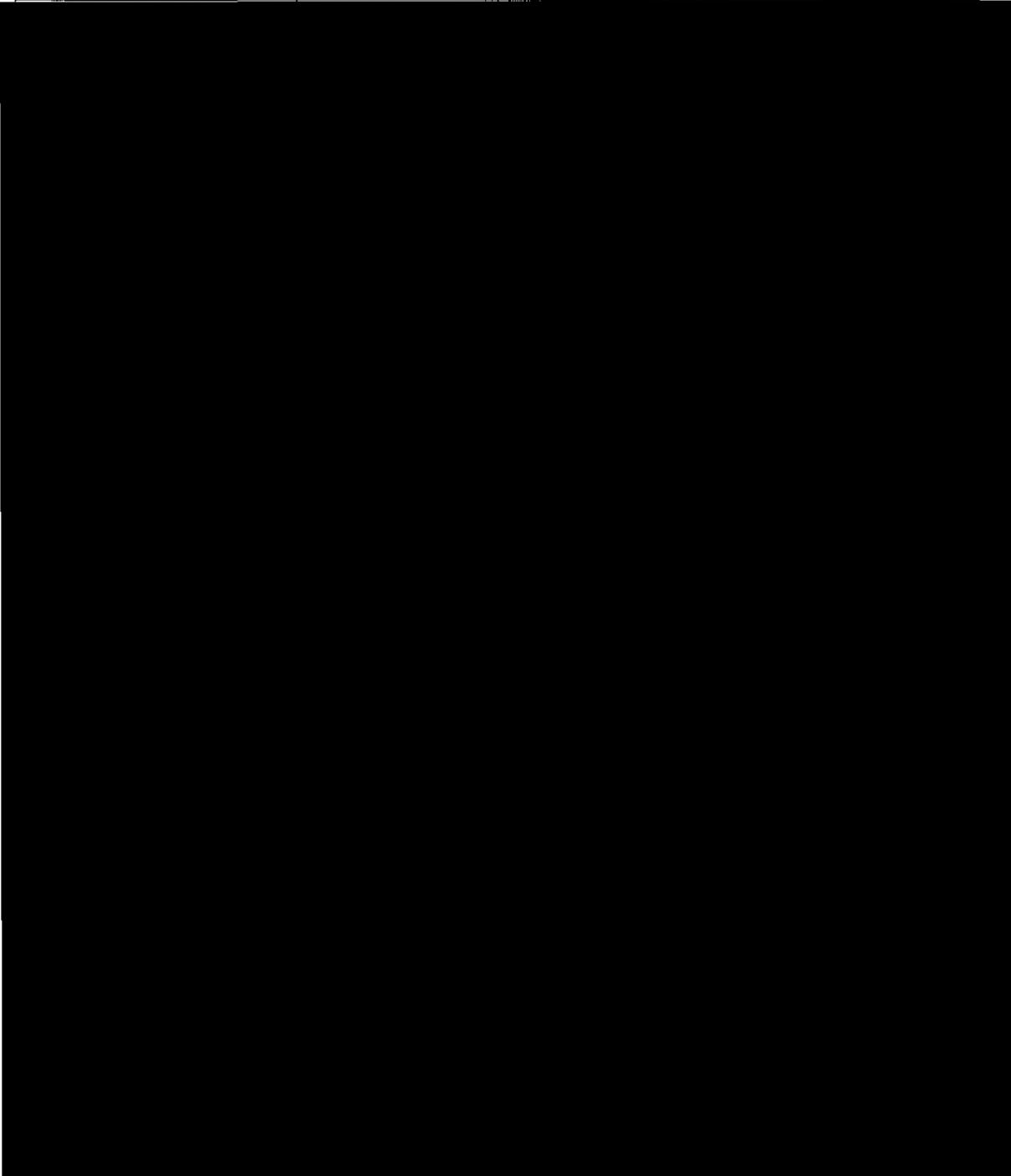
Attachment A
PH&S – City/County Contract List

List of Contracts Between City/County and PH&S Affiliated Hospitals			
Ministry	City / County	Services Covered	Original Eff. Date

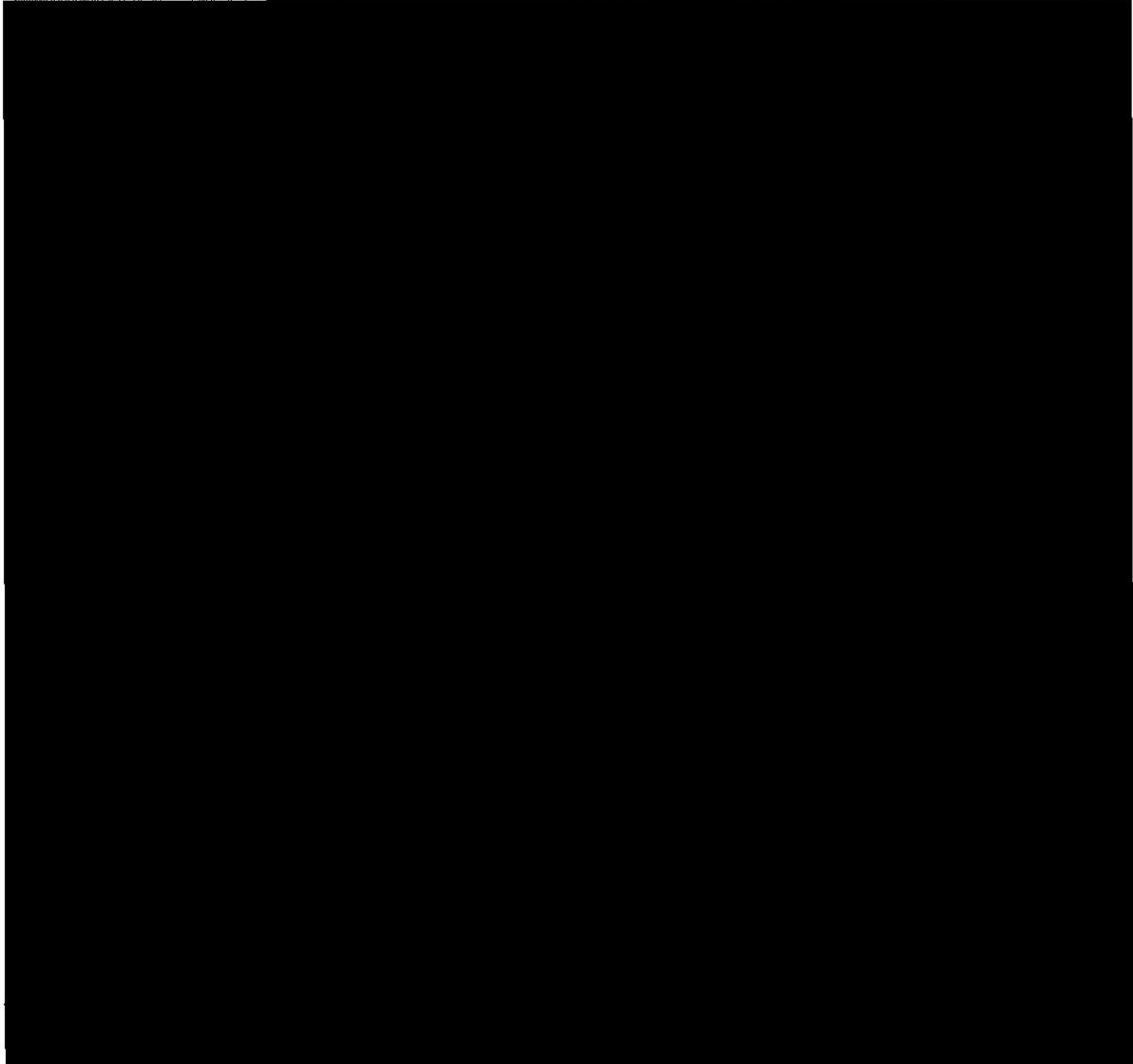


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PH&S – City/County Contract List

List of Contracts Between City/County and PH&S Affiliated Hospitals			
Ministry	City / County	Services Covered	Original Eff. Date



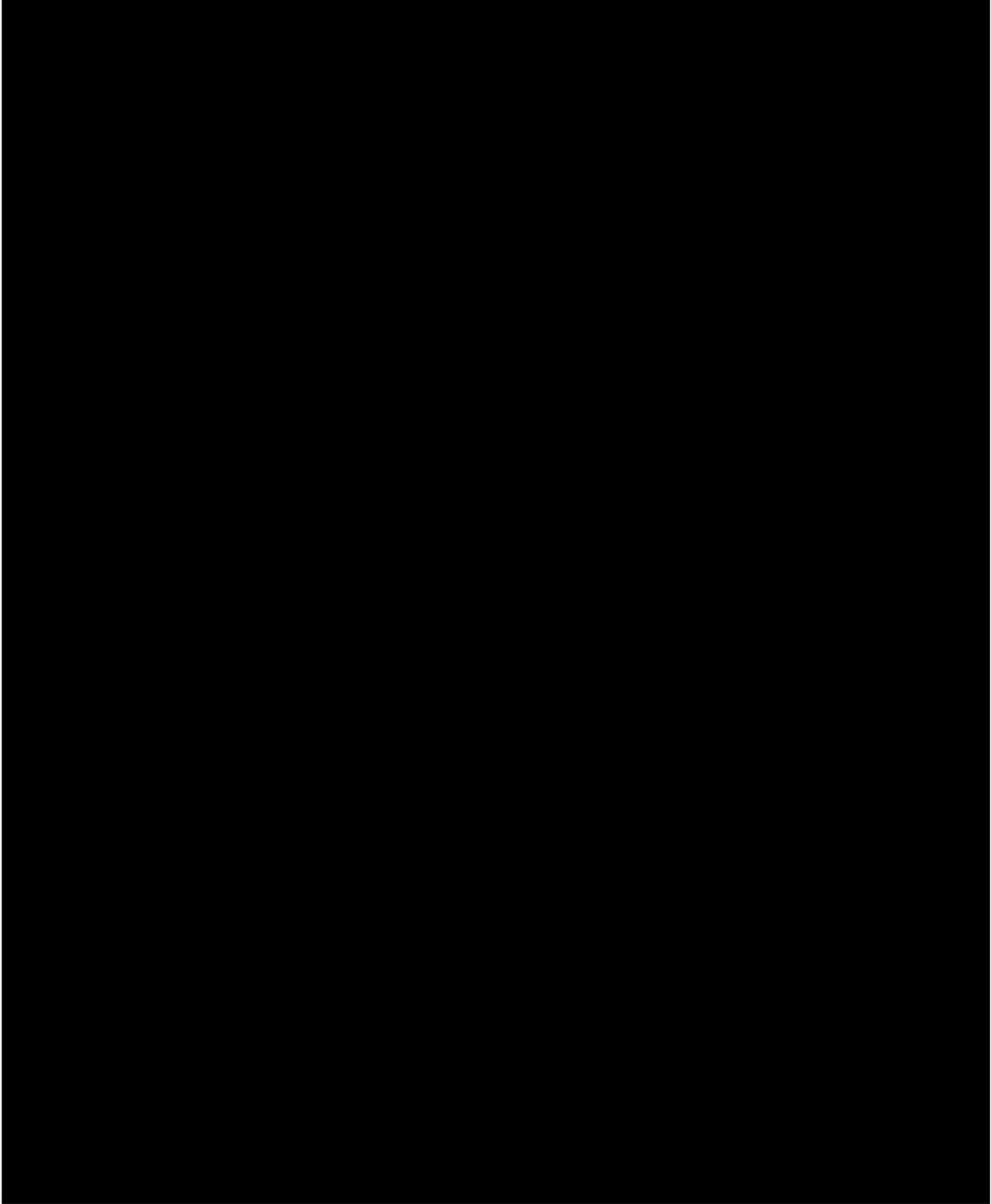
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PH&S – City/County Contract List

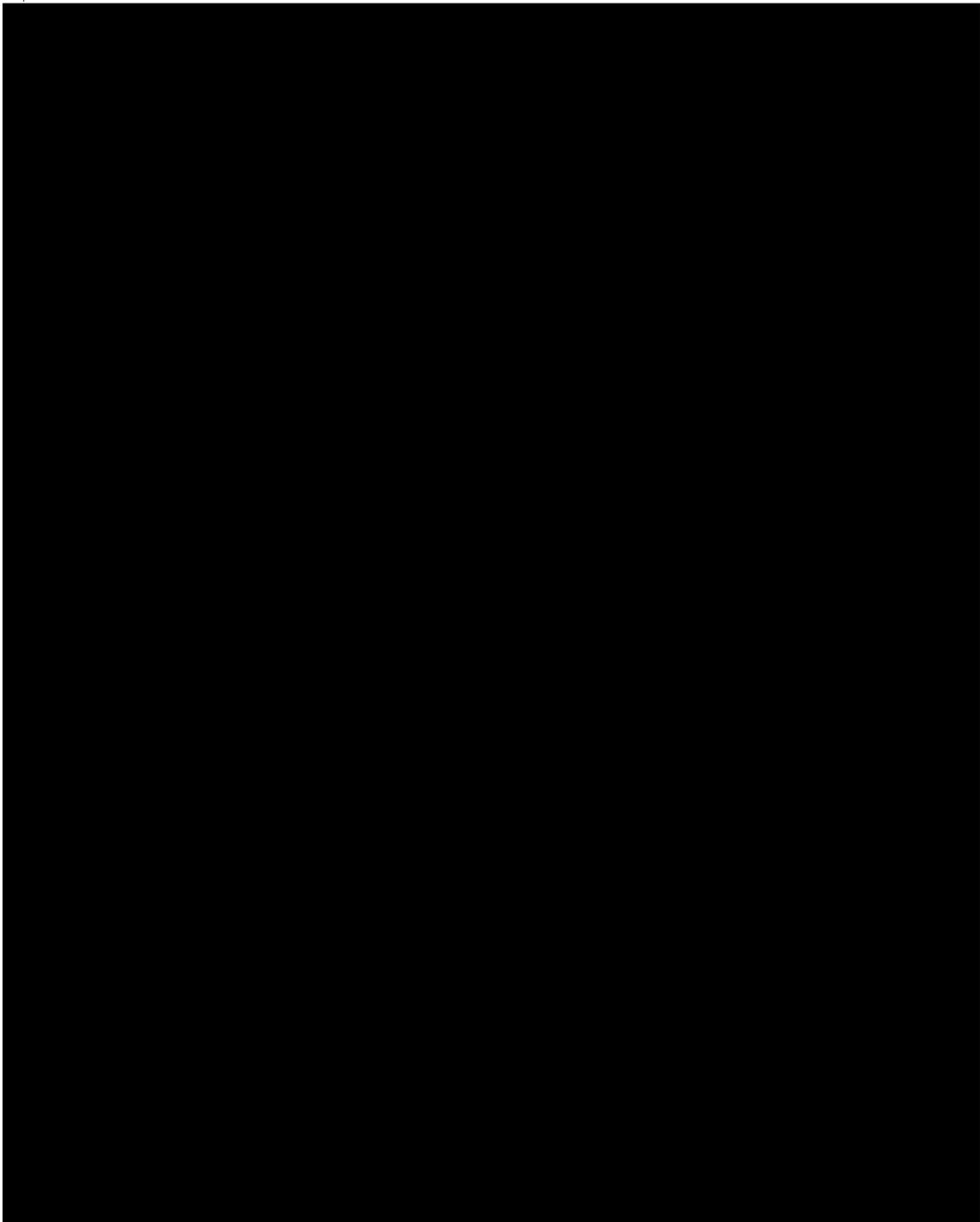
List of Contracts Between City/County and PH&S Affiliated Hospitals			
Ministry	City / County	Services Covered	Original Eff. Date
			

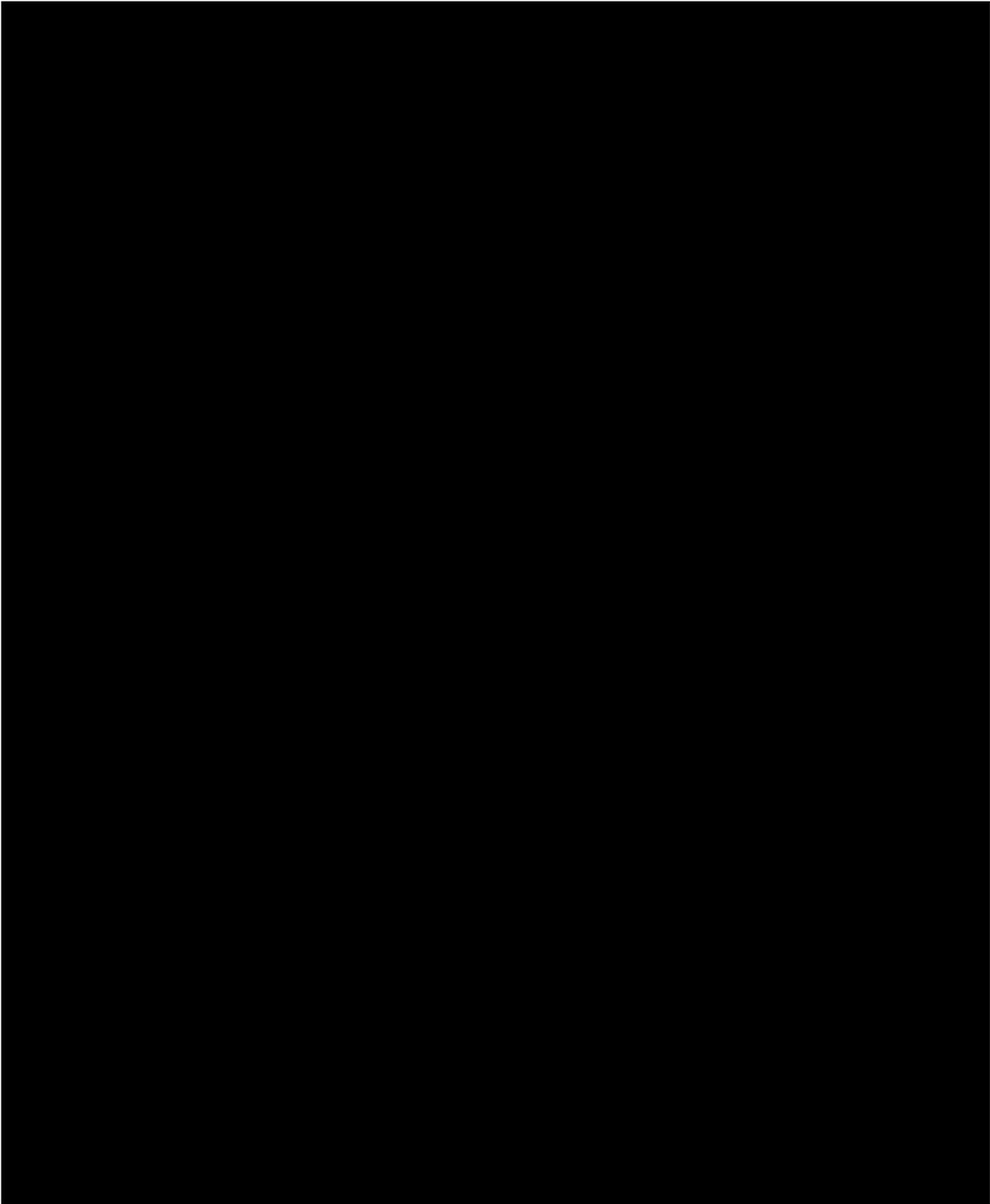
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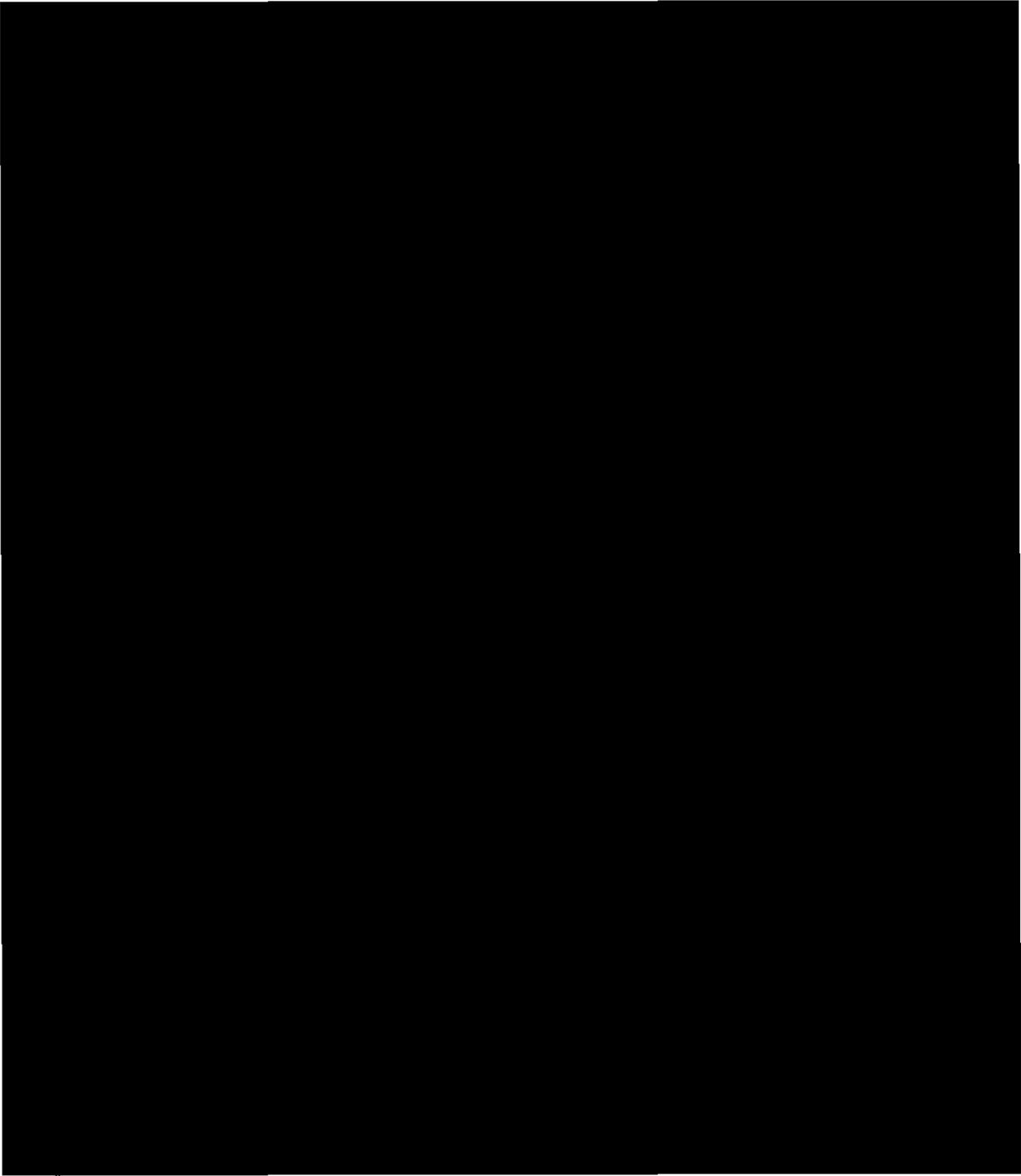
The Hoag Supplemental Agreement.

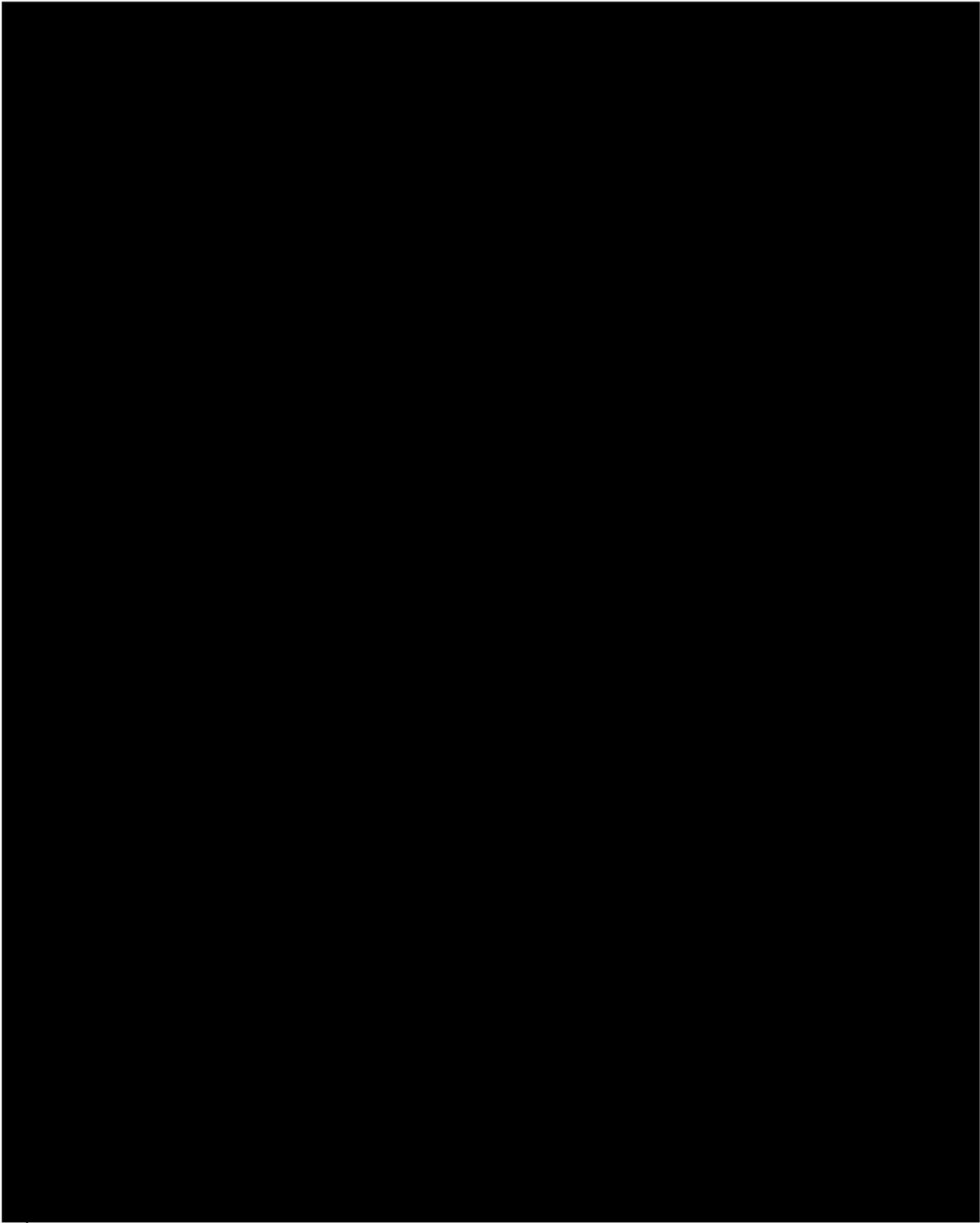
SUPPLEMENTAL AGREEMENT

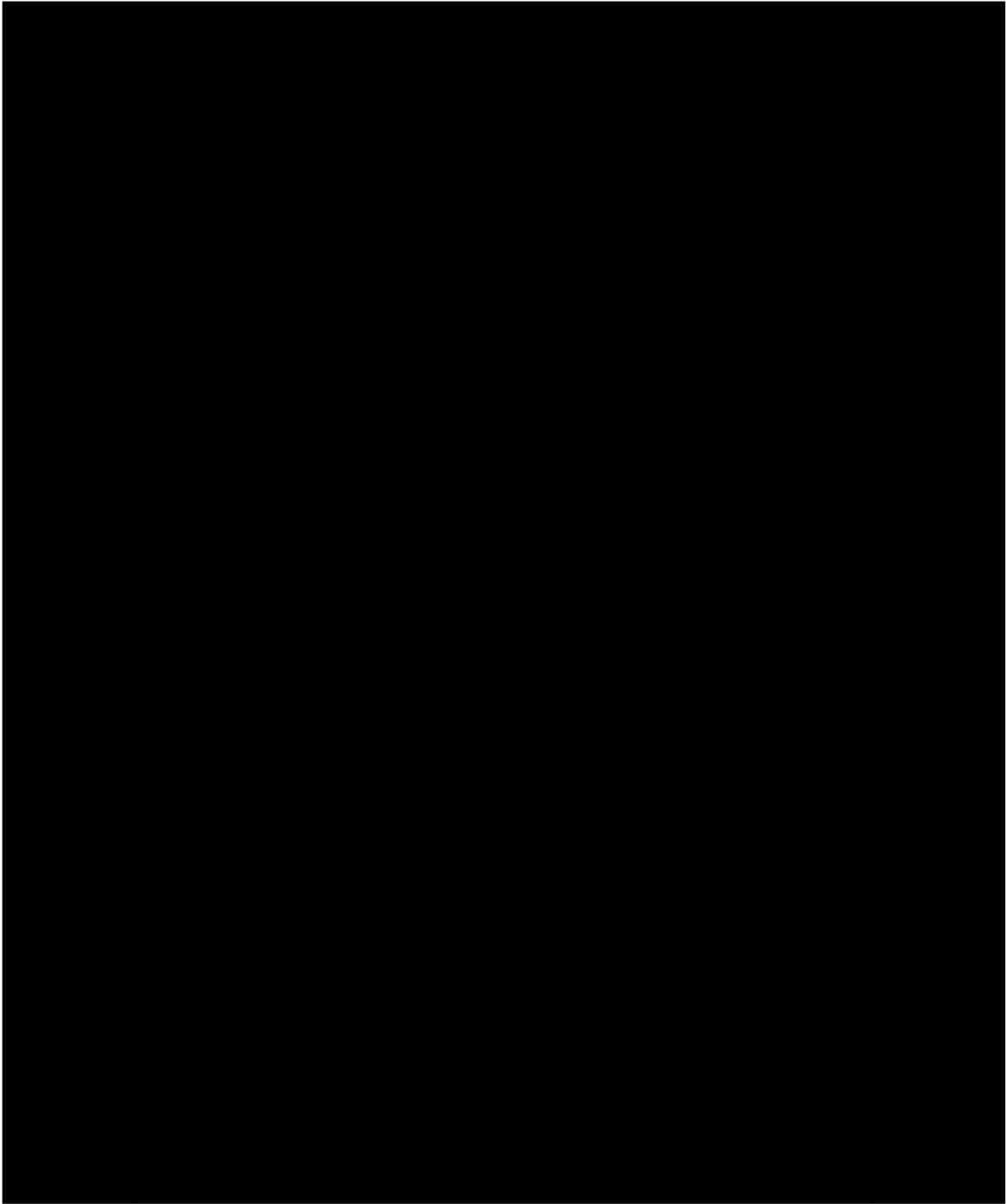


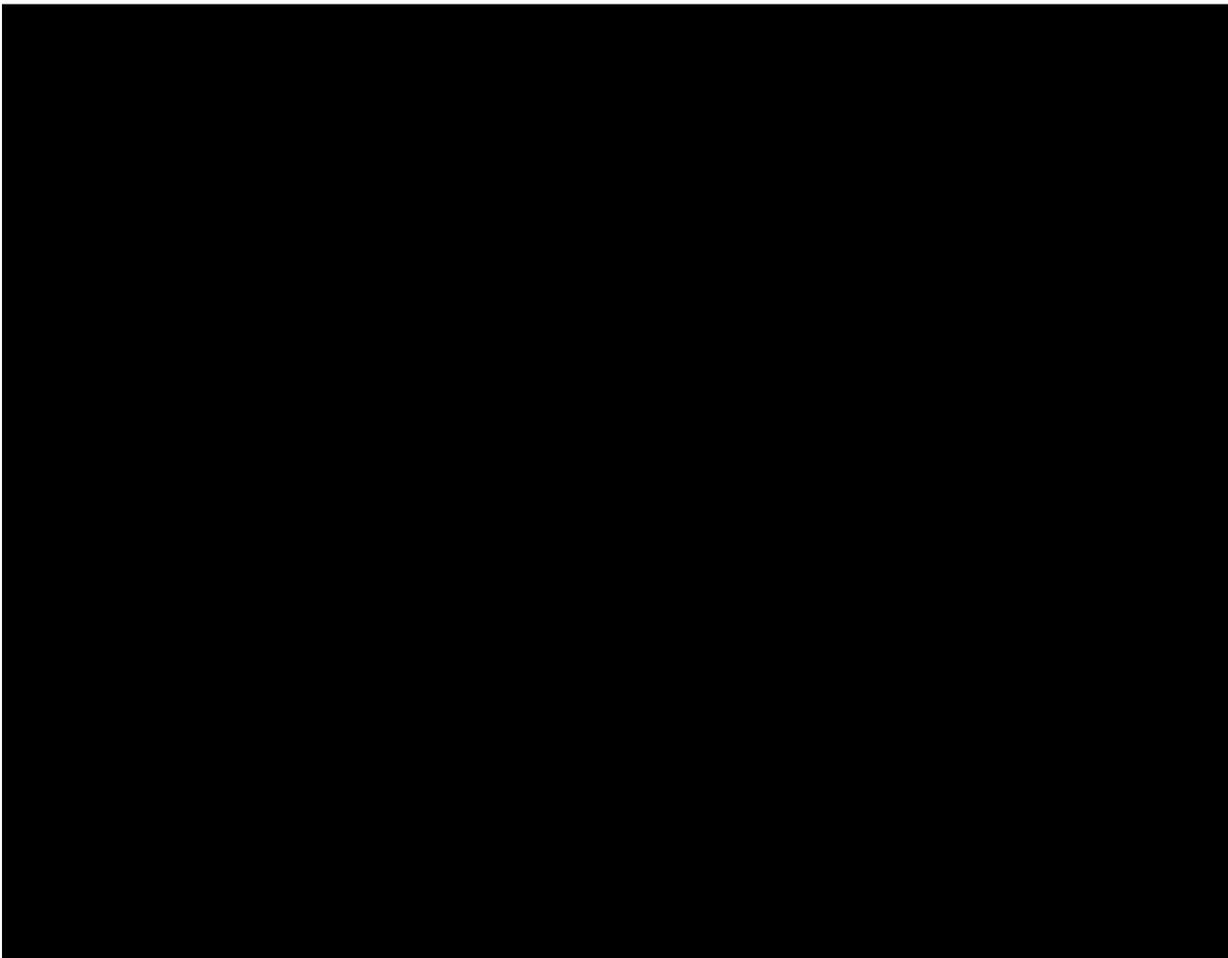












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