

## Term Sheet

1. Eden Medical Center ("**EMC**"), Sutter Health ("**Sutter**"), and Eden Township Healthcare District (the "**District**") shall each conduct due diligence with respect to the legal, financial and operational feasibility of the projects contemplated below; provided that EMC and Sutter shall obtain, at their cost, surveys, plans and feasibility studies and shall conduct such other investigations as may be necessary to reasonably ascertain the overall cost of developing the projects and facilities described below. If the parties determine, based on their due diligence, that they wish to proceed with the transactions contemplated in this Term Sheet, EMC, Sutter and the District shall negotiate in good faith to arrive at definitive agreements ("**Definitive Agreements**") between the parties that embody the terms set forth below.
2. The District will commit an amount not to exceed the amount earmarked in its Building Replacement Fund as of the original affiliation with Sutter Health for the acquisition of San Leandro Hospital from its current owners, Triad Hospitals, Inc. ("**Triad**").
3. Subject to the successful acquisition of San Leandro Hospital by the District, EMC and Sutter will commit to the construction of an acute care hospital facility to replace its existing acute care facility (the "**Replacement Facility**"), currently estimated to cost Two Hundred Sixty Two Million Dollars (\$262,000,000) (including capitalized interest expense). The Replacement Facility will be based on the Institutional Master Plan approved by the EMC Board of Directors and Sutter Board of Directors in November 2001, as updated through the normal planning process. EMC will provide services to residents of the District, including emergency and trauma care services, as needed, in a non-discriminatory manner and will comply with all applicable (and prospectively applicable) seismic safety requirements.
4. Upon execution of the Definitive Agreements, EMC and Sutter will expeditiously and diligently (a) pursue design completion of the Replacement Facility, and (b) commence construction of the Replacement Facility upon securing the requisite permits, entitlements and OSHPD approvals. Notwithstanding the foregoing, construction of the Replacement Facility shall commence no later than January 1, 2006 (the "**Target Date**"); provided, however, that such Target Date may be extended, as mutually agreed by the parties, in the event of (x) an inordinate delay in obtaining the requisite permits, entitlements and OSHPD approvals or (y) an act of God that delays construction of the Replacement Facility.
5. The Replacement Facility shall be located on the site of the existing acute care facility; however, EMC and Sutter shall have an opportunity to present, within thirty (30) days of the execution of this Term Sheet, an alternative Replacement Facility site within the boundaries of the District for consideration and approval by the District Board of Directors. Notwithstanding the above, by mutual agreement of the parties, an alternative Replacement Facility site may be considered at a later date.

6. The parties acknowledge that the project described above, if undertaken, will be undertaken in several phases, and decisions to proceed shall be based on criteria and conditions to be determined by the parties. The following conditions shall be included in any Definitive Agreements between the parties:

- a. EMC shall agree to lease and operate San Leandro Hospital from the District, which lease shall commence upon acquisition of said facility from Triad. The initial lease term shall be twenty (20) years. However, EMC may terminate the lease before the expiration upon completion of construction of the Replacement Facility. The provision of services at San Leandro Hospital during the lease period prior to completion of the Replacement Facility shall be in accordance with subparagraph 6(b) below. Upon expiration or termination of the lease San Leandro Hospital shall cease to provide general acute care hospital services except as otherwise may be agreed by the parties, and the building, including all transferred non-current assets, shall be returned to the District.
- b. During the lease period prior to the completion of the Replacement Facility, it is anticipated that certain of the healthcare services provided at EMC and San Leandro Hospital may be consolidated and relocated as between the two hospital campuses in order to benefit the community by improving access, care, quality of services and cost-efficiencies. Without intending to restrict any subsequent decisions regarding the optimum services configuration at either campus, the initial service configuration for the two hospital campuses during this period is anticipated to be as follows:

**Eden Medical Center:**

Acute Inpatient Medical and Surgical Services  
Inpatient Surgery  
Critical Care  
Trauma and Basic Emergency Services

**San Leandro Hospital:**

Acute and Outpatient Psychiatric Services  
Partial Psychiatric Hospitalization  
ECT  
Acute Rehabilitation  
Physical, Occupational and Speech Therapy  
Outpatient Surgery  
G.I. Laboratory  
Laser Optics

Upper Extremity Clinic  
Cardiac Rehabilitation Program  
Standby Emergency Services

- c. Notwithstanding the provisions of subsection (b) hereof, for the first three (3) years of the initial lease term, EMC shall maintain an acute care license and medical/surgical and basic emergency services, physician on duty, at San Leandro Hospital.

7. The parties specially acknowledge that the acquisition by the District of the San Leandro Hospital is conditioned upon the agreement by EMC and Sutter to construct the Replacement Facility. In the event that the Replacement Facility is not completed by the Target Date, or any extension of said date mutually agreed upon by the parties, EMC and Sutter shall purchase San Leandro Hospital at a cost equal to the District's cost of acquisition less applicable straight-line depreciation (using a thirty (30)-year life) during the term of the lease.

8. If legal action is brought challenging the District's ability to enter into the transactions described in this Agreement, Sutter shall, after consultation with the District, provide a defense of the District and its indemnities at Sutter's own cost and expense; however, nothing herein shall compel Sutter to appeal to the Court of Appeals any adverse decision enjoining the transaction described in this Agreement.

9. In lieu of the payment of rent, EMC shall make annual capital expenditures for capital improvements at San Leandro Hospital equaling at least two percent (2%) of San Leandro Hospital's operating revenues (not counting the value of any major moveable equipment).

10. It is expressly understood that, except for the matters specifically agreed to herein, this Term Sheet is not a Definitive Agreement and that no party shall be entitled to any recourse, in the form of damages, or otherwise, for expenses incurred or benefits conferred or lost before or after the date of this Term Sheet in the event that there is a failure, for any reason, of the parties to agree on a term or on terms and provisions of the Definitive Agreements. The parties will cooperate in negotiating the Definitive Agreements, but each party reserves the right of final approval or disapproval, for any reason, of such Agreements.

11. The District agrees to publicly support the transactions contemplated herein.