



August 29, 2019

Walker County Hospital District
P.O. Box 1267
Huntsville, Texas 77342-1267
Attn: Anne Karr-Woodard, Chair of the Board of Managers

Re: Walker County Hospital District

Dear Anne:

We have been discussing the opportunity for Walker County Hospital District (the "District") and Community Hospital Corporation ("CHC") to enter into an arrangement to acquire and operate certain assets related to the operations of Huntsville Memorial Hospital (the "Hospital"), including the structuring and effectuation of that transition (the "Transaction") in a way in which CHC and the District would work collaboratively to viably operate the Hospital in the best interests of the District and the residents of the community which it serves. While the exact form of the Transaction remains subject to negotiations, the Transaction would involve a new non-profit entity ("NewCo") whose corporate members will be CHC and the District (i) acquiring certain assets currently owned by the Walker County Hospital Corporation (the "WCHC"), and (ii) entering into a new lease of the physical plant and certain other assets owned by the District, pursuant to a mutually agreed arrangement. The District and CHC are hereinafter referred to singularly as "Party" and collectively as "Parties."

This letter of intent ("LOI") does not set forth in detail all matters upon which agreement must be reached for the Transaction to be consummated, but is intended as a statement by the Parties that they will work collaboratively towards effectuating the Transaction. It is understood that this process will involve a number of steps, including reaching mutual agreement on the basic structure of the Transaction; the negotiation and execution of mutually satisfactory corporate documents of NewCo and agreements between the District and CHC (collectively, the "Definitive Agreements"); the satisfactory completion of each Party's due diligence; and the approval or consents of such persons, governing bodies and entities, lenders and regulatory authorities as are necessary or appropriate.

1. Basic Transaction. It is anticipated that the Transaction will be accomplished in the following manner:

(a) CHC and the District will work together to enter into an Asset Purchase Agreement ("APA") with WCHC for the acquisition by NewCo of select business assets and certain contracts of WCHC (the "Purchased Assets"). The District will lead the negotiations with WCHC on the APA pursuant to its own letter of intent with confidentiality provisions. CHC will maintain an active non-disclosure agreement with the WCHC and the District for the purpose of pursuing this Transaction.

(b) Prior to, or contemporaneous with, signing the APA, the District and CHC will jointly form NewCo as a new, Texas nonprofit corporation in which CHC will be the Class A member (broad reserve powers) and the District will be the Class B member (limited reserve powers). The respective reserved powers will be mutually agreed by the District and CHC, but at a minimum would include the concepts described on Exhibit A herein.

(c) It is anticipated that NewCo will acquire the Purchased Assets of WCHC. The Purchased Assets would include equipment and real estate as well as certain intangible assets owned by WCHC that are necessary for the ongoing operation of the Hospital. Additionally, certain contracts of WCHC may be assumed by NewCo as necessary for the ongoing operation of the Hospital (*i.e.*, Medicare Provider Agreement). Certain liabilities of WCHC may be assumed by NewCo and are subject to negotiation between the Parties. Additionally, the District, in its sole discretion, may decide to assume for its own account certain liabilities of WCHC for the benefit of employees of the Hospital or its community constituents.

(d) In connection with the formation of NewCo, the Parties and NewCo will enter into additional Definitive Agreements, including, but not limited to:

- (i) Hospital Operating Agreement;
- (ii) Facility and Equipment Lease;
- (iii) Affiliation Agreement; and
- (iv) Management Agreement.

(e) These agreements will address how the District, CHC and NewCo will jointly support and operate the Hospital and address the following items:

- (i) Commitment of CHC to provide, through NewCo, hospital services in Walker County;
- (ii) Commitment by CHC that NewCo will use the financial resources for the ongoing operation of the Hospital;
- (iii) Provide a means by which the District and NewCo will work together to maximize annual funding of IGT or other governmental payments;
- (iv) Provide access by NewCo to working capital from the District to fund the start-up phase to the extent allowed by law and subject to availability of funds;
- (v) Provide for the funding of capital improvements for the facility;
- (vi) Provide for a monthly management fee to be paid by NewCo in favor of CHC in the amount of Thirty Five Thousand Dollars (\$35,000), to cover all of the services that CHC will provide to NewCo, except for the following pass-through costs and direct expenses: (A) the employment costs and expenses associated with the CEO, CFO, CNO and any other c-suite executives on CHC payroll (to the extent approved by the District as required pursuant to Exhibit

A, which consent shall not be unreasonably withheld, including, without limitation, recruitment, salary and benefits, (b) typical allocations of CHC that are attributable to NewCo and which are consistent with those allocations made by CHC to similarly situated hospitals and are included in the annual operating budget of NewCo or specifically approved by the board of NewCo as discussed during the meeting between the Parties on May 31, 2019 (e.g., insurance, contract repository, compliance and incident tracking, etc.), which allocations will be further delineated in the Definitive Agreements; (C) reasonable travel expenses for CHC corporate staff working at the Hospital from time to time and (D) such other expenses that have been unanimously approved by the board of NewCo;

(vii) Establish the methodology by which CHC and the District will participate in the profitability of the Hospital;

(viii) Provide for the unwinding of the relationship in the event the Parties decide to dissolve NewCo;

(ix) Provide that the agreements may not be terminated by the District during the initial five (5) year term (the "Initial Term") without cause, *provided, however*, that the District may terminate the agreements without cause if the District receives and enters into a binding arrangement with a third party health system or strategic partner to purchase or otherwise affiliate with the Hospital, (a "Third Party Transaction"); *provided, further*, that in the event a Third Party Transaction has been consummated, CHC shall be paid a lump sum equal to the lesser of (A) \$750,000, or (B) the management fees for the remainder of the Initial Term;

(x) Provide that the agreements may be terminated by the District at any time for cause upon ninety (90) days written notice, which term "cause" shall include, without limitation, the failure of the Hospital to meet budget for the second twelve (12) month period after the closing of the Definitive Agreements (ie months 13-24), and the EBIDA for NewCo is not trending positive for the last four quarters of the twenty-four month period, which EBIDA terms and methodology will be specifically defined in the Definitive Agreements; and,

(xi) Subject to approval by the District, provide for the restructuring of the current indigent care program of the Hospital to better align the financial and strategic needs of NewCo while continuing to support the patient community. The payment, extinguishment or other resolution of the debts and liabilities of WCHC that are not assumed through the Transaction will be addressed by WCHC.

(f) NewCo and the District will work cooperatively, in their reasonable discretion and subject to applicable law, to secure the necessary operating capital and facility improvement capital (the "New Capital") in connection with the Transaction and for the first twelve to twenty-four months of the operation of the Hospital following the consummation of the Transaction.

2. Other Terms. The consummation of the proposed Transaction will be subject to and conditioned upon, among other things:

(a) the negotiation, execution and delivery of the Definitive Agreements and related documents with customary and other appropriate representations, warranties, covenants, indemnities, escrows, conditions and other terms;

- (b) the satisfactory completion of a due diligence review by the Parties;
- (c) the approval of the proposed Transaction by the Board of Directors of the District and the Board of Managers of CHC prior to the execution and delivery of the Definitive Agreements;
- (d) the receipt of appropriate funds by NewCo, in the form of a loan or otherwise, in order to pay for various working capital needs and ongoing operations of NewCo;
- (e) receipt by the District and CHC of all necessary rulings, licenses, certifications, approvals and consents for consummation of the Transaction, including contractual, lender and governmental consents; and
- (f) other customary conditions to closing including the truth and accuracy of the representations and warranties of the Parties.

3. Confidentiality of Information. The Parties entered into a Confidentiality Agreement dated December 14, 2018 (the "Confidentiality Agreement") and agree that this LOI is subject to the terms and conditions of the Confidentiality Agreement as through fully set forth herein.

4. Restrictions on Owning or Managing Other Facilities. The Agreements will provide that CHC will be prohibited from providing services or managing any other hospital or similar facilities within a forty (40) mile radius of the Hospital.

5. Fees and Expenses. Each Party to this LOI shall pay its own legal, accounting and other fees and expenses in connection with this LOI and the Transaction.

6. Term and Termination. The term of this LOI is effective until November 1, 2019 (the "Expiration Date"). This LOI may be abandoned or terminated without cause at any time prior to the Expiration Date, but prior to the execution and delivery of the Definitive Agreements, by either Party at its option. Notwithstanding the foregoing and subject to applicable law and to the last sentence of this Section 6, in the event the District terminates this LOI prior to the Expiration Date, or the District enters into an arrangement with a third party to acquire and operate the Hospital within sixty (60) days after the Expiration Date, the District agrees to pay CHC a fee in the amount of Two Hundred Thousand and No/100 Dollars (\$200,000.00). Notwithstanding the foregoing and subject to applicable law (including requiring CHC to provide appropriate documentation for services provided by CHC in pursuit of the transactions contemplated herein in order to support the payment of any fees by the District to CHC), in the event the District enters into an arrangement with a third party to acquire and operate the Hospital in connection with a receivership or similar proceeding, if applicable, with respect to WCHC within sixty (60) days after the Expiration Date, then the District agrees to pay CHC a fee equal to One Hundred Thousand and No/100 Dollars (\$100,000).

7. Amendments; Waivers. No amendment or waiver of any provision of this LOI shall be effective unless it is in writing and signed by each of the District and CHC. Notification or delay on the part of either Party to exercise any right hereunder or under any related document shall operate as a waiver thereof by CHC or the District, nor shall any partial exercise of any right hereunder, or under any related document preclude any future exercise thereof.

8. Survival. Except for the terms and conditions set forth in, and the obligations of CHC and the District pursuant to, Section 3 (Confidentiality of Information), Section 5 (Fees and Expenses), Section

6 (Term and Termination), Section 7 (Amendments; Waivers), this Section 8 (Survival), Section 9 (counterparts), and Section 10 (Governing Law), which are binding obligations, it is agreed that (i) this LOI is not intended to create or constitute a legally binding obligation and (ii) CHC and the District shall have no liability to the other parties until Definitive Agreements and other related documents are prepared, executed and delivered by and between CHC and the District.

9. Counterparts. This LOI may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

10. Governing Law. This LOI and any claim, containing a dispute arising under or related to this LOI shall be governed by, and construed and interpreted in accordance with the laws of the State of Texas. Without giving effect to the choice of laws principals, the obligations, rights and remedies of the Parties hereunder shall be determined in accordance with such laws.

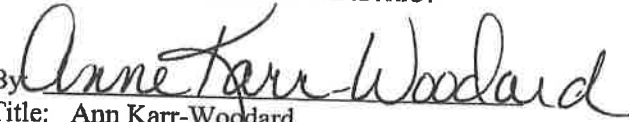
If the foregoing meets with your approval, please indicate your concurrence by returning a signed copy of this Letter of Intent to my attention at jkendrick@communityhospitalcorp.com.

We look forward to continuing our discussions to effectuate a mutually agreeable Transaction for the benefit of the community of Walker County.

Sincerely,
COMMUNITY HOSPITAL CORPORATION

By: 
Jim Kendrick, President & CEO

ACCEPTED AND AGREED:
WALKER COUNTY HOSPITAL DISTRICT

By: 
Title: Ann Karr-Woodard
Chairman of the Board of Managers

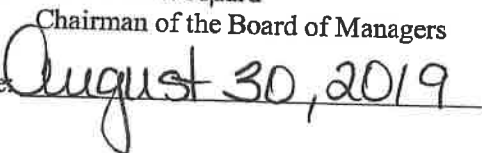
Date: 

EXHIBIT A

1. NewCo's BOD needs approval by unanimous decision of NewCo's Board of Directors (the Class A members (CHC) and Class B member (District)) for the following matters:
 - change of mission/purpose of Hospital, including the provision charity care;
 - major changes with service lines provided by the Hospital;
 - the creation of or investment in, any subsidiary/partnership/venture;
 - any amendment, revision or termination of the partnership agreement or other governing document of any partnership or regulations or any limited liability company. to which NewCo is a party;
 - amendments or revisions to the Articles/bylaws or other governing documents of NewCo or any subsidiaries. if any;
 - the merger, dissolution, or consolidation of NewCo or subsidiary;
 - approval of development campaigns in excess of \$3 million;
 - debt/financing arrangements outside the ordinary course of business;
 - the sale/lease/mortgage etc. of any real property that is owned by NewCo;
 - hiring the CEO, CFO, CNO of NewCo and any other c-suite executives on CHC's payroll that are primarily dedicated to NewCo, such that the dedicated person spends at least 70% of his or her time on matters for NewCo;
 - entering into any agreement that would have a material negative effect on District to meet its statutory or constitutional obligations:
 - entering into agreement that materially negatively effects obligations or bond ratings;
 - Settlement of any claims or litigation involving NewCo in excess of \$500,000;
 - Purchase of real or personal property not provided in the annual budgets, and with a cost in excess of \$100,000; and
 - Sale/lease/mortgage of any personal property equal or exceeding \$500,000, (with the Board deciding by a majority vote only of the sale/lease/mortgage of any personal property exceeding \$100,000 and less than \$500,000).

2. NewCo's BOD needs approval of Class A members for certain matters. i.e.:

- Annual operating and capital budgets of NewCo;
- All expenditure deviations (greater than \$25,000 in any single or series of transactions) from the annual operating budget;
- All expenditure deviations from annual capital budget;
- Settlements/litigation in excess of \$100,000 but less than \$500,000;
- Employment decisions where annual compensation in excess of \$50,000 or aggregate compensation in excess of \$100,000; and
- Debts/grants not approved in annual operating and capital budgets in excess of \$100,000, and no debt over \$100,000 without unanimous approval of BOD.

3. NewCo's 3 BOD:

- 2 directors: Appointed by Class A members for up to 3 year term.
- 1 director: Appointed by Class B members for up to 3 year term.

4. Types of meetings and requirements:

- Regular meeting: no notice required.
- Special meetings: Called upon written request of 3 directors. Written notice at least 3 days before meeting with general statement on purpose.