

ORIGINAL

MEMORANDUM OF UNDERSTANDING

between

**SEQUOIA HOSPITAL DISTRICT,
HOSPITAL ACQUISITION CORPORATION**

and

CATHOLIC HEALTHCARE WEST

dated as of

May 8, 1996

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MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING ("Agreement") is made and entered into as of the 8th day of May, 1996 to be effective as of the Effective Time hereinafter defined, by and between SEQUOIA HOSPITAL DISTRICT, a California hospital district ("District"), HOSPITAL ACQUISITION CORPORATION, a California nonprofit public benefit corporation ("HAC"), and CATHOLIC HEALTHCARE WEST, a California nonprofit public benefit corporation ("CHW") (together, the "Parties").

This Agreement is made and entered into with reference to the following facts:

A. District is a local hospital district organized under the laws of the State of California, which operates a general acute care hospital located in Redwood City, California known as Sequoia Hospital ("Hospital").

B. HAC is a California nonprofit public benefit corporation which has applied or will apply for recognition of its exemption from federal income and state franchise tax under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code.

C. CHW is a California nonprofit public benefit corporation which is organized and operated to own or control licensed health care facilities, health management services organizations and other health care services organizations, and is the sole corporate member of HAC.

D. CHW and District have entered into a Management Services Agreement effective as of April 23, 1996 ("Management Services Agreement") by which CHW has undertaken the management of the Hospital and the assets to be transferred under this Agreement.

E. District, HAC and CHW wish by this Memorandum of Understanding to effect a transaction by which District will transfer to HAC and HAC will receive from District certain hereinafter described assets owned and used by District in connection with the operation of the Hospital and assume the liabilities of District related thereto.

NOW, THEREFORE, in consideration of the recitals, covenants, conditions and promises herein contained, the Parties do hereby agree as follows:

Article 1 - TRANSFER

District hereby agrees to transfer to HAC and HAC agrees to receive from District, the following described assets (collectively the "Assets") for the consideration hereinafter set forth:

1.1 Real Property. All interests in real property described on Exhibit 1.1.a (Schedule of Real Property) approved by the Parties and attached hereto ("Real Property"), excluding certain real property to be retained by District as described on Exhibit 1.1.b (Schedule of Retained Real Property) approved by the Parties and attached hereto..

1.2 Tangible Personal Property. All equipment, machinery, furnishings, furniture, fixtures, appliances, tools, instruments and other tangible personal property described on Exhibit 1.2.a (Schedule of Tangible Personal Property) approved by the Parties and attached hereto ("Personal Property"), excluding personal property of employees and excluding other personal property to be retained by District as described on Exhibit 1.2.b (Schedule of Retained Personal Property) approved by the Parties and attached hereto.

1.3 Leasehold Improvements. All leasehold improvements described on Exhibit 1.3 (Schedule of Leasehold Improvements) approved by the Parties and attached hereto ("Leasehold Improvements").

1.4 Current Assets. District's current assets (less the sum of ten million dollars (\$10,000,000) in cash, cash equivalents and other assets limited as to use) including the cash, accounts receivable (other than receivables under government programs that cannot be assigned to HAC under applicable law), proceeds of all rights to payment and notes receivable related to the operation of the Assets as described on Exhibit 1.4 (Schedule of Current Assets) approved by the Parties and attached hereto ("Current Assets").

1.5 Other Intangible Property. District's other intangible personal property, including those rights of action, rights to payment, executory contracts, leases, insurance policies, books, records, patient records, goodwill, if any, and the rights to proceeds thereof, described on Exhibit 1.5 (Schedule of Other Intangible Property) approved by the Parties and attached hereto ("Other Intangible Property").

1.6 Security Deposits and Prepaid Expenses. District's security deposits and prepaid expenses described on Exhibit 1.6 (Schedule of Prepaid Expenses) approved by the Parties and attached hereto ("Prepaid Expenses").

1.7 License of Intellectual Property. A perpetual royalty free license to use all intellectual property not included in the Assets that belongs to District.

1.8 Allocation of Consideration. The value of the Consideration shall be allocated among the various categories of Assets described in this Article 1 (Transfer) in accordance with the allocation set forth on Exhibit 1.8 (Allocation) approved by the Parties and attached hereto.

Article 2 - CONSIDERATION

The total consideration for District's transfer of the Assets to HAC ("Consideration") shall be Twenty Million Dollars (\$20,000,000) the adoption of HAC's Amended and Restated Articles of Incorporation and Amended and Restated Bylaws pursuant to Section 5.1 (Memberships in HAC), and HAC's assumption of liabilities and obligations of the District described in Section 3.1 (Assumption of Liabilities and Obligations).

Article 3 - DELIVERY OF CONSIDERATION

3.1 Assumption of Liabilities and Obligations. HAC shall assume, perform and agrees to pay the obligations and liabilities of District described in an Assumption Agreement ("Assumption Agreement") in the form thereof approved by the Parties and attached hereto as Exhibit 3.1 (Assumption Agreement).

3.2 Delivery at Closing. HAC shall deliver the Total Consideration to District at the Closing.

Article 4 - CLOSING DATE; EFFECTIVE TIME

4.1 Closing Date. The Closing of the transfer of Assets to be effected hereunder shall take place on a date ("Closing Date") mutually to be agreed to in writing by District, HAC and CHW, which shall be no later than on the twentieth (20th) day after satisfaction of the conditions precedent to Closing described in Section 15.1 hereof. HAC's delivery to District of the Total Consideration, and District's transfer to HAC of possession of and title to the Assets hereunder, shall take place at the Closing. At the Closing, the President and Secretary of the District's Board, and the duly authorized officers of HAC and CHW, respectively, shall execute and deliver such instruments and documents, including without limitation certificates, schedules and exhibits hereto, and such supplements and amendments to this Memorandum of Understanding and/or the agreements, schedules, exhibits, instruments and documents described herein, that they deem necessary and appropriate to effect the transactions contemplated hereby.

4.2 Effective Time. All transactions consummated pursuant to this Agreement shall be deemed to have been consummated at 11:59 p.m. Pacific Time on the Closing Date (the "Effective Time").

Article 5 - ORGANIZATION OF HAC

5.1 Memberships in HAC. Prior to the Closing, HAC and CHW shall cause the Articles of Incorporation and Bylaws of HAC to be amended to conform to the forms of Amended and Restated Articles of Incorporation of HAC ("Amended and Restated Articles of Incorporation of HAC") and Amended and Restated Bylaws of HAC ("Amended and Restated Bylaws of HAC") in the forms thereof approved by the Parties and attached hereto as Exhibit 5.1.a (Amended and Restated Articles of Incorporation of HAC) and Exhibit 5.1.b (Amended and Restated Bylaws of HAC).

5.2 Articles of Incorporation and Bylaws of HAC. The Amended and Restated Articles of Incorporation of HAC and the Amended and Restated Bylaws of HAC shall provide without limitation for all of the following:

(a) There shall be two (2) classes of corporate members of HAC, which classes shall consist of District and CHW or an Affiliate of CHW (the "CHW Member"), respectively; provided, that for the purposes hereof, an "Affiliate" shall be any corporation or other legal person or entity with a principal executive office located in the San Francisco Bay Area, and which is controlled by, controlling or under common control with, CHW; and provided further, that for the purposes hereof, "control" shall be the power to elect or appoint a majority of the board or other governing body of a corporation or other legal person or entity;

(b) The Board of Directors of HAC shall be composed of ten (10) Directors, five (5) of whom shall be appointed by District, including at least one (1) physician from the Sequoia Hospital Professional Staff, and five (5) of whom shall be appointed by the CHW Member, including at least one (1) physician; provided, that the CHW Member's appointment of its initial five (5) directors shall be subject to ratification by District.

(c) District and the CHW Member shall each be entitled to remove any and all Directors it appoints, respectively, for any reason at any time, and to appoint the successors or replacements to any such Directors;

(d) The following actions of the Board of Directors of HAC shall require a majority vote of the Board of Directors that includes the affirmative vote of at least two (2) Directors appointed by District and two (2) Directors appointed by the CHW Member:

- (i) Approval of operating and capital budgets of HAC;
- (ii) Unbudgeted expenditures in excess of one million dollars (\$1,000,000);
- (iii) Approval of strategic plans;
- (iv) Any change in the Articles of Incorporation or Bylaws of HAC;

- (v) The adoption of and any change in the mission statement of HAC;
- (vi) The adoption of and any change in the charity care policy of HAC;
- (vii) New indebtedness of HAC in excess of ten million dollars (\$10,000,000) in the aggregate;
- (viii) Closure of Hospital or discontinuance of Hospital's cardiovascular or women's health/obstetrics programs;
- (ix) Addition of any material clinical service to be provided by Hospital;
- (x) Selection of the Hospital's administrator;
- (xi) Discretionary grants by HAC to the CHW Member or District;
- (xii) Transfer by the CHW Member of its membership in HAC; provided, however, that the CHW Member may upon notice to HAC transfer its membership in HAC to an Affiliate of CHW;
- (xiii) Transfer by District of its membership in HAC; provided, however, that District may upon notice to HAC transfer its membership in HAC to the County of San Mateo or to any other party as and to the extent permitted by law;
- (xiv) Except as contemplated by subparagraphs (xii) and (xiii), disposition of all or substantially all of the assets of HAC; or
- (xv) Reorganization, dissolution, merger, consolidation, change of control or similar affiliation of HAC.

(e) If HAC's Board of Directors is deadlocked with respect to any vote or issue, other than those described in paragraph (d) above, the Board, or any two of its members, may request the intervention of the President and Chief Executive Officer of CHW who shall be empowered to break that deadlock.

(f) HAC may from time to time make discretionary grants to District and CHW out of HAC's cash flow to be used for health care purposes in the communities served by District. Such grants shall be made with the approval of HAC's Board of Directors.

(g) Upon any dissolution of HAC, its net assets remaining after payment or provision for payment of its outstanding liabilities shall be distributed to District.

(h) HAC's Board of Directors shall establish a medical advisory board consisting of members of the professional staff of Hospital. HAC shall abide by the governing principles of the professional staff of Hospital dated March 4, 1996, which are set forth on Exhibit 5.1(g) (Governing Principles of Professional Staff) attached hereto and which shall be incorporated into the Amended and Restated Bylaws of HAC.

(i) HAC shall adopt and carry out Hospital's mission statement and charity care policies, as set forth in Exhibit 5.2(i) (Mission Statement of Sequoia Hospital).

(j) HAC shall operate the Hospital in accordance with the Common Values for Community Sponsorship ("Common Values for Community Sponsorship") described on Exhibit 5.2.i (Common Values for Community Sponsorship) attached hereto.

5.3 Management Agreement. HAC and the CHW Member shall enter into a long term comprehensive Management Agreement (the "Management Agreement") in the form thereof approved by the Parties.

5.4 Debt and Funds Management Agreement. HAC and CHW shall enter into a Debt and Funds Management Agreement (the "Debt and Funds Management Agreement") in the form thereof approved by the Parties and attached hereto as Exhibit 5.4 (Debt and Funds Management Agreement).

5.5 Membership Agreement. HAC, the District and CHW shall enter into a membership agreement ("Membership Agreement") in the form thereof approved by the Parties and attached hereto as Exhibit 5.5 (Membership Agreement).

Article 6 - REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF DISTRICT

The following representations, warranties and agreements are made by District for the purpose of inducing HAC to enter into this Agreement and consummate the transactions contemplated hereby. By "Material" in this Article 6 (Representations, Warranties and Agreements of District) is meant, (a) with respect to any contractual obligation, any such obligation of District that involves the payment or receipt of \$250,000 or more in any one year, (b) with respect to the breach or violation of any contractual obligation by District, any such breach or violation having potential consequences that could materially adversely affect District's business, operations, assets or financial condition, District's ability to perform its obligations under this Agreement or HAC's acquisition of District's business and Assets or the ownership or use thereof by HAC, or (c) with respect to any legal obligation, any such obligation of District, the violation of, or noncompliance with, by District could result in the imposition of fines, penalties, sanctions or other consequences involving \$250,000 or more, depriving District or any successor to District of the right to conduct the business of District as conducted on the date the Parties have entered into this Agreement, or limiting the right of District or a successor to District to be compensated for services rendered or goods sold, or materially adversely affecting District's business, operations, assets or financial condition, District's ability to perform its obligations under this Agreement or HAC's acquisition of District's business and

Assets or the ownership or use thereof by HAC. By "to District's knowledge" herein means the actual collective and individual knowledge of the Chief Executive Officer, the Senior Executive for Strategy and Integration, and each member of the Board of Directors of District. With respect to the knowledge of such person, District covenants, represents and warrants to HAC that it maintains and regularly complies with reasonable routines for communicating significant information to its Chief Executive Officer, the Senior Executive for Strategy and Integration, and each member of the Board of Directors of District.

6.1 Organization and Standing. District is a California local hospital district, duly organized and existing under and by virtue of the laws of the State of California and has not been dissolved. District possesses all requisite power to own and operate the Hospital and carry on the Hospital's business as the same is now being conducted, and to enter into this Agreement and consummate the transactions contemplated hereby.

6.2 Accreditation. Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") and to District's knowledge it has not received any notice of any loss or suspension of such accreditation.

6.3 Authority; Binding Effect. The execution and delivery of this Agreement, and each of the documents to be executed by or on behalf of District pursuant to this Agreement have been duly authorized by the District. District has full power and authority to enter into and perform this Agreement and to carry out all of the terms and provisions hereof, subject to the approval of the transactions contemplated hereby by the voters of the District in an election as described in Section 15.1.1.b and receipt of consents from third parties as described in Section 6.5. This Agreement is a valid and binding obligation of District, enforceable against District in accordance with its terms, except insofar as enforcement thereof may be limited by bankruptcy, insolvency or similar laws and all general equitable principles, including the availability of any specific equitable remedy.

6.4 No Violation or Bar. District is not a party to any Material contract or agreement or subject to any restrictions respecting the Assets, or otherwise, which would prevent or restrict the power or authority of District to enter into this Agreement and to consummate the transactions contemplated hereby, except such contracts or agreements for which consent to the transfer of Assets contemplated hereby will be obtained prior to the Closing Date or which are described on Exhibit 6.4 (Excepted Contracts and Agreements) approved by the Parties and attached hereto. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will violate any provisions of the organizational documents of District or, (i) violate, or be in conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of or acceleration of the performance required, or cause the acceleration of the maturity of any Material debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any of District's real or personal property under any agreement or commitment to which District is a party or to which District is bound, or to which said real or personal property are subject, or (ii) violate any order of any governmental or regulatory authority, any judgment, decree, order or award of any court,

arbitrator, administrative agency or governmental authority or, to the best knowledge of District, any Material license, consent, permit, order, approval or any other authorization of any governmental or regulatory authority, or any Material statute, law, ordinance, rule or regulation.

6.5 Required Governmental Consents. Except as set forth in Exhibit 6.5 (Required Government Consents) approved by the Parties and attached hereto, no consent, approval or authorization of, or filing or registration with any governmental authority (federal, state or local) is required to be obtained or made by District in order for District to consummate the transactions to be effected pursuant to this Agreement.

6.6 Litigation and Related Proceedings. District has not been served with any summons, complaint or notice to arbitrate and there is no suit, litigation, claim, equitable, legal, administrative arbitration or other proceeding pending or, to the best knowledge of District, threatened against District which would materially adversely affect District's ability to perform its obligations hereunder and consummate the transactions contemplated hereby, except as described on Exhibit 6.6 (Litigation and Related Proceedings) approved by the Parties and attached hereto.

6.7 Orders, Decrees, Rulings and Contracts. District is not a party to any order, decree or ruling of any court or administrative agency, federal, state or local, nor has District any contracts, formal or informal with such agency which could materially and adversely affect the ability of District to perform its obligations hereunder or conduct its business.

6.8 Financial Statements. True and complete copies of District's audited financial statements for the years ended June 30, 1993, June 30, 1994 and June 30, 1995, and the audited financial statements of District for the period July 1, 1995 to April 30, 1996, are attached as Exhibit 6.8 (District Financial Statements) hereto ("District Financial Statements"), supplemented by an interim financial statement of District for the last full calendar month which ends at least fifteen (15) days prior to the Closing Date.

6.9 Professional Staff. Except as described on Exhibit 6.9 (Professional Staff Actions) approved by the Parties and attached hereto, to District's knowledge it has received no notice of any pending appeals, challenges, disciplinary or corrective actions, or disputes involving applicants to the Hospital's professional staff, current members of Hospital's professional staff or affiliated health care professionals.

6.10 Compliance with Laws. Except as described on Exhibit 6.10 (Compliance with Laws) approved by the Parties and attached hereto, to District's knowledge it has not received notice of any current violation by District of applicable laws, rules, regulations, ordinances or orders of any court or federal, state, county, municipal or other governmental department, commission, board, bureau, agency or instrumentality.

6.11 Tax Information Returns. Except as described on Exhibit 6.11 (Tax Information Returns) approved by the Parties and attached hereto, to District's knowledge it has filed or caused to be filed all annual reports and returns which, to the knowledge of District, are

required to be filed, and has paid all taxes shown to be due and payable on said annual reports and returns or any assessments made against it, except for returns which have been appropriately extended and, to the best knowledge of District, all other taxes, fees or charges imposed on District by any other governmental authority, agency or instrumentality which have become due and payable (other than those the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with generally accepted accounting principles have been provided on the books of District) and no tax liens have been filed.

6.12 Negative Covenants. During the period from the date the parties have entered into this Agreement until the Closing Date, District has not and will not, without HAC's and CHW's consent:

6.12.1 Transfer, sell or otherwise dispose of any of Assets other than in the ordinary and usual course of business as heretofore conducted, except for such items as are no longer useful, or obsolete, worn out or incapable of any further use, and as will be replaced in accordance with District's usual practices with other items of substantially the same value and utility as the items transferred, sold, exchanged or otherwise disposed of.

6.12.2 Create, participate in or agree to the creation of any liens, encumbrances or hypothecations of any of the Assets, except any liens for current taxes and liens created in the ordinary and usual course of its business as heretofore conducted.

6.12.3 Enter into any leases, contracts or agreements of any kind or character with respect to the Hospital's business, or incur any liabilities in connection therewith, save and except (i) those which will terminate or expire prior to the Closing Date, and (ii) those to which it is presently committed or arise in the ordinary course of business as heretofore conducted.

6.12.4 Terminate any license concerning the Hospital's operations.

6.12.5 Authorize or undertake any capital projects with respect to the Hospital's business, except equipment purchases, repairs, replacements, and remodeling occurring in the ordinary course of business as heretofore conducted and not exceeding Twenty-five Thousand Dollars (\$25,000) for any single item or an aggregate of One Hundred Thousand Dollars (\$100,000) for all such items.

6.12.6 Waive or release any right or claim of District with respect to the Hospital except in the ordinary course of business.

6.12.7 Enter into any Agreement to do any of the acts previously described in this Section 6.12.

6.13 Insurance. District has maintained in force and will continue to maintain in force through the Closing Date all of the insurance policies (or renewals thereof) described on Exhibit 6.13 (Insurance Policies).

6.14 Material Adverse Change. During the period from the date of this Agreement to the Closing Date, District shall promptly notify HAC in writing of any event of which District obtains knowledge which has caused or might reasonably be expected to cause any representation or warranty hereunder to be untrue or inaccurate in any material respect.

6.15 Truth of Representations and Warranties. No representation or warranty of District contained in this Agreement, or any statement, document or certificate furnished or to be furnished by District in connection with the transactions contemplated hereby, will contain any untrue statement of any material fact known to District.

6.16 Survival of Warranties, Representations and Agreements. The aforescribed warranties, representations and agreements by District set forth in this Article 6 (Representations, Warranties and Agreements of District) shall be true on and as of the Closing Date as though such representations, warranties and agreements were made on and as of such time and shall survive the closing of the transaction herein provided for and any investigation or review by HAC of District's ownership and operation of the Hospital and Assets.

Article 7 - REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF HAC

The following representations, warranties and agreements are made by HAC for the purpose of inducing District to enter into this Agreement and consummate the transactions contemplated hereby. By "Material" in this Article 7 (Representations, Warranties and Agreements of HAC) is meant, (a) with respect to any contractual obligation, any such obligation of HAC that involves the payment or receipt of \$250,000 or more in any one year, (b) with respect to the breach or violation of any contractual obligation by HAC, any such breach or violation having potential consequences that could materially adversely affect HAC's business, operations, assets or financial condition, HAC's ability to perform its obligations under this Agreement or to own or use the Assets, or (c) with respect to any legal obligation, any such obligation of HAC, the violation of, or noncompliance with, by HAC could result in the imposition of fines, penalties, sanctions or other consequences involving \$250,000 or more, depriving HAC or any successor to HAC of the right to conduct the business of HAC, or limiting the right of HAC or a successor to HAC to be compensated for services rendered or goods sold, or materially adversely affecting HAC's business, operations, assets or financial condition, HAC's ability to perform its obligations under this Agreement or its ownership or use of the Assets. By "to HAC's knowledge" herein means the actual collective and individual knowledge of the chief executive officer, chief financial officer and each member of the Board of Directors of HAC. With respect to the knowledge of such person, HAC covenants, represents and warrants to District that it maintains and regularly complies with reasonable routines for communicating significant information to its chief executive officer, chief financial officer and each member of the Board of Directors of HAC.

7.1 Organization and Standing. HAC is a corporation, duly organized, existing and in good standing under and by virtue of the laws of the State of California. HAC possesses all requisite power to own and operate its property and carry on its business as the same are now

being conducted, and to enter into this Agreement and consummate the transactions contemplated hereby.

7.2 Authority; Binding Effect. The execution and delivery of this Agreement, and each of the documents to be executed by or on behalf of HAC pursuant to this Agreement, and the performance of the transactions contemplated hereby have been duly authorized by the Board of Directors of HAC. HAC has full power and authority to enter into and perform this Agreement and to carry out all of the terms and provisions hereof. This Agreement is a valid and binding obligation of HAC, enforceable against HAC in accordance with its terms, except insofar as enforcement thereof may be limited by bankruptcy, insolvency or similar laws and all general equitable principles, including the availability of any specific equitable remedy.

7.3 No Violation or Bar. HAC is not a party to any Material contract or agreement or subject to any restrictions respecting the Assets, or otherwise, which would prevent or restrict the power or authority of HAC to enter into this Agreement and to consummate the transaction contemplated hereby, except such contracts or agreements for which consent to the transactions contemplated hereby will be obtained prior to the Closing Date. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will violate any provisions of the Articles of Incorporation and Bylaws of HAC or, (i) violate, or be in conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of or accelerate the performance required, or cause the acceleration of the maturity of any Material debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any of HAC's real or personal property under any agreement or commitment to which HAC is a party or to which HAC is bound, or to which said real or personal property are subject, or (ii) violate any order of any governmental or regulatory authority, any judgment, decree, order or award of any court, arbitrator, administrative agency or governmental authority or, to the best knowledge of HAC, any Material license, consent, permit, order, approval or any other authorization of any governmental or regulatory authority, or any Material statute, law, ordinance, rule or regulation.

7.4 Consents. HAC will have, prior to the Closing Date, obtained all consents, releases and permissions of every kind or nature, whether from public authorities, or otherwise, which may be required of HAC in connection with the transfer of the Assets or any part thereof under this Agreement and with respect to the performance by HAC of its obligations hereunder.

7.5 Litigation and Related Proceedings. HAC has not been served with any summons, complaint or notice to arbitrate and there is no suit, litigation, claim, equitable, legal, administrative arbitration or other proceeding pending or, to the best knowledge of HAC, threatened against HAC which would materially adversely affect HAC's ability to perform its obligations hereunder and consummate the transactions contemplated hereby.

7.6 Orders, Decrees, Rulings and Contracts. HAC is not a party to any order, decree or ruling of any court or administrative agency, federal, state or local, nor has HAC any

contracts, formal or informal with such agency which could materially and adversely affect the ability of HAC to perform its obligations hereunder or conduct its business.

7.7 Directors and Officers. All the members of the Board of Directors of HAC, and all officers of HAC, shall be identified on Exhibit 7.7 (Directors and Officers) attached hereto.

7.8 Material Adverse Changes. During the period from the date of this Agreement to the Closing Date, HAC shall promptly notify District in writing of any event of which HAC obtains knowledge which has caused or might reasonably be expected to cause any representation or warranty to be untrue or inaccurate in any material respect or to have a material adverse effect on HAC's ability to consummate any of the transactions contemplated by this Agreement.

7.9 Truth of Representations and Warranties. No representation or warranty of HAC contained in this Agreement, or any statement, document or certificate furnished or to be furnished by HAC in connection with the transactions contemplated hereby, will contain any untrue statement of any material fact known to HAC.

7.10 Survival. The aforescribed warranties, representations and agreements of HAC set forth in this Article 7 (Representations, Warranties and Agreements of HAC) shall be true on and as of the Closing Date as though such representations, warranties and agreements were made on and as of such time and shall survive the closing of the transaction herein provided for and any investigation or review by District of HAC.

Article 8 - REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF CHW

The following representations, warranties and agreements are made by CHW for the purpose of inducing District to enter into this Agreement and consummate the transactions contemplated hereby. By "Material" in this Article 8 (Representations, Warranties and Agreements of CHW) is meant, (a) with respect to any contractual obligation, any such obligation of CHW that involves the payment or receipt of \$1,000,000 or more in any one year, (b) with respect to the breach or violation of any contractual obligation by CHW, any such breach or violation having potential consequences that could materially adversely affect CHW's business, operations, assets or financial condition, CHW's ability to perform its obligations under this Agreement, or (c) with respect to any legal obligation, any such obligation of CHW, the violation of, or noncompliance with, by CHW could result in the imposition of fines, penalties, sanctions or other consequences involving more than \$1,000,000, depriving CHW or any successor to CHW of the right to conduct the business of CHW, or limiting the right of CHW or a successor to CHW to be compensated for services rendered or goods sold, or materially adversely affecting CHW's business, operations, assets or financial condition, or CHW's ability to perform its obligations under this Agreement. By "to CHW's knowledge" herein means the actual collective and individual knowledge of the chief executive officer, chief financial officer and each member of the Board of Directors of CHW. With respect to the knowledge of such person, CHW covenants, represents and warrants to District that it maintains and regularly complies with reasonable routines for communicating significant information to its chief executive officer, chief financial officer and each member of the Board of Directors of CHW.

8.1 Organization and Standing. CHW is a corporation, duly organized, existing and in good standing under and by virtue of the laws of the State of California. CHW possesses all requisite power to own and operate its property and carry on its business as the same are now being conducted, and to enter into this Agreement and consummate the transactions contemplated hereby.

8.2 Authority: Binding Effect. The execution and delivery of this Agreement, and each of the documents to be executed by or on behalf of CHW pursuant to this Agreement, and the performance of the transactions contemplated hereby have been duly authorized by the Board of Directors of CHW. CHW has full power and authority to enter into and perform this Agreement and to carry out all of the terms and provisions hereof. This Agreement is a valid and binding obligation of CHW, enforceable against CHW in accordance with its terms, except insofar as enforcement thereof may be limited by bankruptcy, insolvency or similar laws and all general equitable principles, including the availability of any specific equitable remedy.

8.3 No Violation or Bar. CHW is not a party to any Material contract or agreement or subject to any restrictions that would prevent or restrict the power or authority of CHW to enter into this Agreement and to consummate the transactions hereby, except such contracts or agreements for which consent to the transactions contemplated hereby will be obtained prior to the Closing Date. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will violate any provisions of the Articles of Incorporation and Bylaws of CHW or, (i) violate, or be in conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, or result in the termination of or accelerate the performance required, or cause the acceleration of the maturity of any Material debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any of CHW's real or personal property under any agreement or commitment to which CHW is a party or to which CHW is bound, or to which said real or personal property are subject, or (ii) violate any order of any governmental or regulatory authority, any judgment, decree, order or award of any court, arbitrator, administrative agency or governmental authority or, to the best knowledge of CHW, any Material license, consent, permit, order, approval or any other authorization of any governmental or regulatory authority, or any Material statute, law, ordinance, rule or regulation.

8.4 Consents. CHW will have, prior to the Closing Date, obtained all consents, releases and permissions of every kind or nature, whether from public authorities, or otherwise, which may be required in connection with the performance by CHW of its obligations hereunder.

8.5 Litigation and Related Proceedings. CHW has not been served with any summons, complaint or notice to arbitrate and there is no suit, litigation, claim, equitable, legal, administrative arbitration or other proceeding pending or, to the best knowledge of CHW, threatened against CHW which would materially adversely affect CHW's ability to perform its obligations hereunder and consummate the transactions contemplated hereby.

8.6 Orders, Decrees, Rulings and Contracts. CHW is not a party to any order, decree or ruling of any court or administrative agency, federal, state or local, nor has CHW any

contracts, formal or informal with such agency which could materially and adversely affect the ability of CHW to perform its obligations hereunder or conduct its business.

8.7 Material Adverse Changes. During the period from the date of this Agreement to the Closing Date, CHW shall promptly notify District in writing of any event of which CHW obtains knowledge which has caused or might reasonably be expected to cause any representation or warranty to be untrue or inaccurate in any material respect or to have a material adverse effect on CHW's ability to consummate any of the transactions contemplated by this Agreement.

8.8 Truth of Representations and Warranties. No representation or warranty of CHW contained in this Agreement, or any statement, document or certificate furnished or to be furnished by CHW in connection with the transactions contemplated hereby, will contain any untrue statement of any material fact known to CHW.

8.9 Survival. The aforescribed warranties, representations and agreements of CHW set forth in this Article 8 (Representations, Warranties and Agreements of CHW) shall be true on and as of the Closing Date as though such representations, warranties and agreements were made on and as of such time and shall survive the closing of the transaction herein provided for and any investigation or review by District of CHW.

Article 9 - TAXES AND CLOSING COSTS

9.1 Sales and Use Taxes. HAC shall pay all sales and use taxes arising as a result of this transaction. Notwithstanding the foregoing, HAC shall have the right to assert the right and claim that this transaction is not subject to any sales or use tax and District agrees to cooperate fully with HAC with respect to such rights and claims.

9.2 Closing Costs. Except as otherwise specifically set forth herein or agreed by the parties in writing, each party shall bear its own legal, accounting and consulting expenses incurred in connection with the transactions contemplated by this Agreement.

Article 10 - CLOSING TAX RETURNS, AND OTHER NOTICES AND REPORTS

10.1 Returns, Notices and Reports. Each of the Parties shall promptly file all closing returns, notices and reports of every kind and nature required by federal, state, county and municipal governments or any subdivision thereof, in respect to the transfer of the Assets hereunder, and pay all sums payable in connection therewith and shall cooperate fully with the other party in the preparation of all such returns, notices and reports and shall provide, or cause to be provided at the requesting party's sole cost and expense, to the other party, any records and other information requested by such party in connection therewith.

10.2 Tax and Fiscal Reporting. The Parties shall report this transaction to the appropriate agencies and other parties for federal and state income tax purposes and for government reimbursement program purposes, and file all other reports required by appropriate governmental agencies and authorities in accordance with the allocations set forth in this

Agreement. District shall cooperate fully with HAC after the Closing in connection with any tax investigation, audit or other proceeding relating to events occurring prior to the Effective Time.

10.3 Final Cost Report. Without limiting the generality of Section 10.2, District shall prepare and file, or cause HAC to prepare and file on District's behalf, with the government reimbursement fiscal intermediary District's final cost report for Hospital.

Article 11 - INDEMNITY BY DISTRICT

Except for any agreements, liabilities or obligations of District assumed by HAC pursuant to Section 3.1 (Assumption of Liabilities and Obligations) and Article 16 (Employees) hereof, District agrees to protect, indemnify, defend and hold HAC and CHW, their respective officers, directors, legal representatives, successors and assigns (each an "Indemnitee"), and each of them, free and harmless from and against any and all debts, liabilities, obligations, losses, damages, costs or expenses (including, but not limited to attorneys' fees), and settlements in respect thereof, liens or encumbrances (individually a "Loss" and, collectively "Losses") accruing or based upon or arising out of (i) any breach or violation of any representation or warranty by District set forth in Article 6 (Representations, Warranties and Agreements of District) hereof, or (ii) the breach by District of any other term or provision of this Agreement. The aforescribed obligation of District to indemnify, defend and hold harmless each Indemnitee shall be subject to any limitations set forth in Section 6.16 (Survival of Warranties, Representations and Agreements) hereof.

Article 12 - INDEMNITY BY HAC

HAC agrees to protect, indemnify, defend and hold District, its Directors, legal representatives, successors and assigns, and each of them, free and harmless from and against any and all debts, liabilities, obligations, losses, damages, costs or expenses (including, but not limited to attorneys' fees), and settlements in respect thereof, liens or encumbrances accruing or based upon or arising out of (i) any breach or violation by HAC of any representation or warranty set forth in Article 7 (Representations, Warranties and Agreements of HAC) hereof, or (ii) the breach by HAC of any other term or provision of this Agreement, or (iii) any breach by HAC of any agreements, liabilities and obligations assumed by HAC pursuant to Section 3.1 (Assumption of Liabilities and Obligations) and Article 16 (Employees) hereof, (iv) any breach by HAC of the Assumption Agreement, or (v) any facts or events occurring after the Closing Date and connected with the assets transferred hereunder, the transfer of those assets and HAC's assumption of liabilities hereunder, or HAC's operation of its business; provided, however, said indemnity shall not apply to any liability arising from a breach or other act or omission by District occurring prior to the Closing Date and creating any liability outside of the ordinary and basic obligation to perform or make any payments becoming due after said date in accordance with the agreements, liabilities and obligations assumed by HAC pursuant to Section 3.1 (Assumption of Liabilities and Obligations) and Article 16 (Employees) hereof.

Article 13 - INDEMNITY BY CHW

CHW agrees to protect, indemnify, defend and hold District, its Directors, legal representatives, successors and assigns, and each of them, free and harmless from and against any and all debts, liabilities, obligations, losses, damages, costs or expenses (including, but not limited to attorneys' fees), and settlements in respect thereof, liens or encumbrances accruing or based upon or arising out of (i) any breach or violation by CHW of any representation or warranty set forth in Article 8 (Representations, Warranties and Agreements of CHW) hereof, or (ii) the breach by CHW of any other term or provision of this Agreement, or (iii) any facts or events occurring after the Closing Date and connected with the Assets transferred hereunder, or any matters arising out of or with respect to HAC's adoption of or compliance with the Common Values for Community Sponsorship or any other ethical guidelines or policies required by CHW.

Article 14 - THIRD PARTY CLAIMS: SETTLEMENT AND DEFENSE OF CLAIMS

14.1 Notice of Claims. Any person wishing to claim indemnification under the terms of this Agreement upon learning of any claim, action, suit, proceeding or investigation as to which it wishes to be indemnified by another one of the Parties hereunder ("Indemnified Party"), shall notify the party from whom indemnification is sought ("Indemnifying Party"); provided, however, that no failure to so notify the Indemnifying Party will relieve the Indemnifying Party, or any guarantor of the obligations of the Indemnifying Party, to indemnify the Indemnified Party or of any other obligation imposed pursuant to this Agreement.

14.2 Selection of Counsel. The selection of all counsel defending all claims and legal actions that are the subject of the Indemnifying Party's obligations to indemnify pursuant to this Agreement shall be by written agreement of the Indemnifying Party and the Indemnified Party, subject to any applicable restrictions of the insurance carrier or carriers. In the event the Indemnifying Party and the Indemnified Party are unable to agree to the selection of said counsel within thirty (30) calendar days of the date of service of any notice of claim or within fifteen (15) calendar days after the service of a complaint, the aforescribed counsel shall be selected by the insurance carrier or carriers. In the event the parties are unable to agree to selection of said counsel within the periods specified above in this Section 14.2, and the applicable claim or legal action is not covered by insurance or insurance coverage is disputed by the insurance carrier or carriers, then the Indemnifying Party and the Indemnified Party shall each select and retain their own counsel, at their own respective cost and expense.

14.3 Settlement Proposals. Any Settlement Proposal (as hereinafter defined) that either the Indemnifying Party or the Indemnified Party wishes to accept shall be submitted in writing to the other party by the party desiring to accept such Settlement Proposal. For purposes of this Agreement, "Settlement Proposal" shall mean an oral or written offer made to a party by the person or persons making a claim against that party to settle or compromise such claim, made at any time before a judgment is entered by the court.

14.4 Acceptance of Proposals. In the event the Indemnifying Party and the Indemnified Party mutually agree in writing to accept the Settlement Proposal, then the Settlement Proposal, unless rejected by the insurance carrier under the applicable insurance policy or policies, shall be accepted in accordance with such agreement and shall be final and binding on the parties and the insurance carrier or carriers covering such claim.

14.5 Failure to Agree to Proposals. In the event that the Indemnifying Party and the Indemnified Party are unable to mutually agree in writing to accept the Settlement Proposal within ten (10) calendar days from the date it is submitted to them, the Settlement Proposal shall be deemed rejected and such rejection shall be final and binding upon the parties and the insurance carrier or carriers covering such claim. In the event the amount of any final judgment or award exceeds the amount of the rejected Settlement Proposal, then the party rejecting said Settlement Proposal shall, if the other party accepted said proposal, pay the difference between the final judgment or award and the Settlement Proposal and all attorneys' fees and costs incurred by said other party after the date said Settlement Proposal was rejected and shall indemnify and hold harmless the other party from any and all costs and expenses incurred by the other party related thereto; provided, however, the foregoing obligation of the party rejecting said Settlement Proposal shall be limited to that portion of any judgment, award or settlement and costs and expenses that exceed the amount of any insurance coverage. All such claims, costs and expenses paid by the party rejecting the Settlement Proposal in accordance with the foregoing shall be borne solely by such rejecting party. Except as provided in this Section 14.5, any settlement, judgment or award and all attorneys' fees and costs of any one of the Parties relating thereto shall, to the extent not covered by insurance, be the sole cost and expense of that party.

Article 15 - CONDITIONS PRECEDENT

15.1 Conditions. The Closing and the consummation of the transaction contemplated hereby is conditioned and contingent upon each of the following ("Conditions Precedent"):

15.1.1 General Conditions. The following Conditions Precedent shall be deemed to be for the benefit of all of the Parties.

a. No law or court order shall have been enacted, promulgated or enforced by any governmental agency, nor shall any legal or regulatory action have been instituted and remain pending and threatened that prohibits or restricts the transactions contemplated hereby.

b. The Clerk of the County of San Mateo, California shall have certified the results of an election in which the voters of the District shall have approved the transactions contemplated hereby.

c. The Parties shall have approved all the Exhibits and Schedules to this Agreement described herein.

d. The Parties shall have approved a capital expenditures budget and timetable for the first three (3) years of Hospital's operation following the Closing, for routine expenditures for the cardiovascular and women's health programs, subject to annual review of the Board of Directors of HAC.

e. All consents of regulatory and other governmental agencies required for the consummation of the transactions contemplated hereunder shall have been obtained, and the waiting periods required thereby, if any, shall have expired or terminated.

f. All consents of other third parties, including without limitation consents to assignments of contracts and interests in assets, required for the consummation of the transactions contemplated hereunder shall have been obtained, and the waiting periods required thereby, if any, shall have expired or terminated.

g. The CHW Member and HAC shall have entered into the Management Agreement.

h. CHW and HAC shall have entered into the Debt and Funds Management Agreement.

i. The Parties shall have entered into the Membership Agreement.

j. The Parties shall have approved an implementation plan for the transactions contemplated hereby, which shall be attached as Exhibit 15.1.1.j (Implementation Plan) hereto ("Implementation Plan").

k. The Parties shall have memorialized their mutual agreement to provide for CHW and HAC to represent Hospital's programs for purposes of managed care contracting without bias toward wholly-owned hospital programs of CHW, and to include Hospital in all regional managed care contracting opportunities.

l. The Parties shall have memorialized their mutual agreement to provide for HAC to permit District to use HAC's facilities for meetings and other proper uses related to District's performance of its continuing purposes.

m. The District shall have received from an independent consultant, with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, its determination in writing that fair and reasonable consideration is to be received by the District for the Assets.

n. The Parties shall have performed such due diligence investigations of each other as they shall deem necessary, and shall have determined, in their reasonable discretion, that they are satisfied with the results of their respective due diligence investigations.

o. HAC shall have received written acknowledgment from the United States Internal Revenue Service and California Franchise Tax Board of HAC's exemption from federal income and California franchise taxation.

p. District shall have received adequate assurances that it has complied with the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976 with respect to the transactions contemplated hereby or that it is exempt from those requirements.

15.1.2 Conditions for the Benefit of HAC and CHW.

a. District's performance of and compliance with all covenants, agreements, conditions, terms and provisions required by this Agreement to be performed or complied with by District on or prior to the Closing.

b. The accuracy and completeness of all representations and warranties made by District pursuant to Article 6 (Representations, Warranties and Agreements of District) hereof.

c. HAC shall have procured and approved an American Land Title Association ("ALTA") policy of title insurance with respect to all of the Real Property.

d. HAC shall have procured and approved reports of financing statements filed with respect to the Assets.

e. District shall as of the Closing Date not have received notice of any action or event that has or is likely to cause a loss of the Hospital's status as a provider pursuant to either of the Medicare, CHAMPUS or Medi-Cal programs or loss of Hospital's accreditation by JCAHO.

f. HAC shall have procured and approved reasonable and appropriate reports of surveyors and other consultants with respect to the seismic condition of the Real Property and with respect to the presence of environmental hazards within the Hospital's premises.

15.1.3 Conditions for the Benefit of District.

a. HAC's performance and compliance with all covenants, agreements, conditions, terms and provisions required by this Agreement to be performed or complied with by HAC prior to the Closing.

b. The accuracy and completeness of all representations and warranties made by HAC pursuant to Article 7 (Representations, Warranties and Agreement of HAC) hereof.

c. CHW's performance and compliance with all covenants, agreements, conditions, terms and provisions required by this Agreement to be performed or complied with by CHW prior to the Closing.

d. The accuracy and completeness of all representations and warranties made by CHW pursuant to Article 8 (Representations, Warranties and Agreement of CHW hereof).

e. The absence of the occurrence, during the period from the date of HAC's incorporation, of any event or occurrence regarding the organization, operation or business of HAC other than reasonably related to the consummation of the transactions contemplated hereunder. The foregoing condition shall be conclusively deemed satisfied unless District, prior to the Closing, gives HAC written notice of the failure of this condition.

f. HAC shall have adopted the Amended and Restated Articles of Incorporation of HAC and the Amended and Restated Bylaws of HAC.

g. HAC shall have affirmed the memberships of all members of Hospital's professional staff, with no change in those members' respective rights, privileges and statuses, and HAC shall have adopted the bylaws of Hospital's professional staff as the professional staff bylaws of HAC.

h. HAC shall have made offers of employment to all persons other than those individuals named on Exhibit 15.1.3.h (Excluded Employees) who, on or before the date of this Agreement, were employed by District; provided, however, HAC shall have the right, but not the obligation, to offer such persons such benefits as are otherwise made available to employees of reasonably equivalent rank and seniority of HAC, CHW or CHW's subsidiaries and, for the purpose of calculating seniority and vesting relating to such benefits, such employees shall be deemed credited for the time employed by District.

i. HAC shall have discharged the Sequoia Hospital District Revenue Bonds, Series 1993.

15.2 Waiver of Conditions. The conditions set forth in Section 15.1.2 are for the benefit of HAC and CHW and may be waived in writing by HAC and CHW at any time. The conditions set forth in Sections 15.1.3 are for the benefit of District and may be waived in writing by District at any time. The conditions set forth in Section 15.1.1 are for the mutual benefit of all the Parties, and may be waived only in writing signed by each of the Parties.

15.3 Satisfaction of Conditions. The parties hereto agree to use all reasonable effort and due diligence to timely satisfy all of the foregoing conditions and contingencies. If on the Closing Date, the conditions set forth in Section 15.1.1 hereof have not been satisfied or waived in accordance with the foregoing, this Agreement shall automatically and immediately terminate and be deemed null and void and of no force or effect and each party shall be fully and forever discharged and released from all obligation and liability hereunder. In the event that at the

Closing Date hereof, the conditions set forth in Section 15.1.2 have not been satisfied or waived by HAC and CHW, this Agreement may thereupon be terminated by HAC and CHW, at their joint option, and upon such termination, District shall be liable to HAC and CHW for all damages incurred or sustained by HAC and CHW; provided, however, if any such condition fails because of the refusal of a third party to provide a consent necessary to make the representations and warranties contained in Section 6.5 (Required Governmental Consents) true at the Closing Date, District shall not be liable in damages to HAC or CHW if District used its best efforts to obtain such consent. In the event that at the Closing Date, the conditions set forth in Section 15.1.3 have not been satisfied or waived by District, this Agreement may thereupon be terminated by District, at its option, and upon such termination, HAC and CHW shall be liable to District for all damages incurred or sustained by District; provided, however, if any such condition fails because of the refusal of a third party to provide a consent necessary to make the representations and warranties contained in Section 7.4 (Consents) or Section 8.4 (Consents) true at the Closing Date, HAC and CHW shall not be liable in damages to District if HAC and CHW used their respective best efforts to obtain such consents.

Article 16 - EMPLOYEES

District shall, at least thirty (30) calendar days prior to the Closing Date, deliver to HAC a written list of all of Hospital's employees employed by District and their rates of pay. District shall concurrently deliver to HAC a written statement setting forth the accrued compensation for vacation, holiday, bonus, profit sharing, retirement, pension, severance, illness and all other benefits payable to such nonphysician employees as of the Effective Time. HAC assumes full and sole responsibility for payment of all of the aforescribed benefits payable to District's nonphysician employees (limited to those set forth on the aforescribed written list provided by District) as accrued to the Effective Time. HAC shall recognize and honor District's existing agreements with employee organizations, and shall negotiate in good faith with those employee organizations for the purpose of entering into its own agreements therewith.

Article 17 - CONFIDENTIAL INFORMATION

Except insofar as data and information may be required by law to be disclosed or is available to the public, each of the parties hereto agrees at all times to hold in strict confidence all data and information obtained in connection with this transaction and Agreement which relates to the business of either of the parties hereto. If the transactions contemplated by this Agreement are not consummated, each party shall return to the other party all data and information received from such other party and any copies, summaries or analyses drawn from such data and information received from such other party.

Article 18 - BROKERAGE FEE

Each party hereto represents, warrants and agrees that all negotiations relative to this Agreement have been carried on by its representative directly with the other party without the intervention of any person; that no broker brought about or participated in the transaction on its behalf; each party will and hereby does agree to indemnify and hold the other party free and

harmless from any and all claims, suits and actions for brokerage or other commissions and from and against all expenses of any character, including reasonable attorneys' fees, incurred by the other party by reason of any claims by any person or broker claiming to have been engaged by, or on behalf of, the indemnifying party, or with whom the indemnifying party is claimed to have made an agreement for compensation.

Article 19 - DOCUMENTS

The parties hereto shall execute and deliver all documents, papers and instruments necessary or convenient to carry out the terms of this Agreement. Without limiting the generality of the foregoing and subject to the conditions set forth in this Agreement, the following documents are to be delivered by the indicated party on or before the Closing Date:

19.1 Documents Requested by HAC. All evidence and documents as the attorney for HAC may reasonably require as to District's compliance with its agreements hereunder and the fulfillment of the conditions to HAC's obligation to consummate the transaction contemplated hereby.

19.2 Documents Requested by District. All evidence and documents as the attorney for District may reasonably require as to HAC's and CHW's compliance with their respective agreements hereunder and the fulfillment of the conditions to District's obligation to consummate the transaction contemplated hereby.

19.3 Documents Requested by CHW. All evidence and documents as the attorney for CHW may reasonably require as to District's compliance with its agreements hereunder and the fulfillment of the conditions to CHW's obligation to consummate the transaction contemplated hereby.

19.4 Assignment of Agreements, Liabilities, Obligations, Consents. Written assignment to HAC, or to any designated assignee of HAC, including all obtained consents to such assignments, of all of District's right, title and interest in all agreements, liabilities and obligations assumed by and assigned to HAC pursuant to Section 3.1 (Assumption of Liabilities and Obligations) hereof. District shall, concurrently with the execution of this Agreement, deliver to HAC copies of all agreements, liabilities and obligations to be assumed by HAC hereunder. Concurrently with the Closing Date, District shall deliver to HAC the originals, or photocopies of originals if such originals are not available to District, of all such agreements, liabilities and obligations.

19.5 District's Certificate. A certificate by District, executed by its duly authorized Chief Executive Officer, confirming the truthfulness in all material respects of the representations, warranties and covenants made herein as of the Closing Date.

19.6 HAC's Certificate. A certificate by HAC, executed by any of its authorized officers, confirming the truthfulness in all material respects of the representations, warranties and covenants made herein as of the Closing Date.

19.7 CHW's Certificate. A certificate by CHW, executed by any of its authorized officers, confirming the truthfulness in all material respects of the representations, warranties and covenants made herein as of the Closing Date.

19.8 Management Agreement. The Management Agreement, duly executed by the CHW Member and HAC, dated as of the Closing Date.

19.9 Debt and Funds Management Agreement. The Debt and Funds Management Agreement, duly executed by CHW and HAC, dated as of the Closing Date.

19.10 Membership Agreement. The Membership Agreement, duly executed by the Parties, dated as of the Closing Date.

Article 20 - OPINION OF DISTRICT'S COUNSEL

20.1 Basic Opinion. On the Closing Date, District shall cause to be delivered to HAC and CHW an opinion of legal counsel to District, dated as of the Closing Date, in a form reasonably satisfactory to HAC, CHW and their legal counsel, and which shall be attached hereto as Exhibit 20.1 (District's Legal Counsel Opinion).

20.2 Reliance. In rendering the aforescribed opinion, legal counsel for District may rely upon certificates of officers of District, opinion of associate counsel, certificates and reports of District's independent certified public accountants and such other evidence deemed necessary or desirable, provided copies thereof are appended to such opinion and reference thereto is made in such opinion.

Article 21 - OPINION OF HAC'S COUNSEL

21.1 Basic Opinion. On the Closing Date, HAC shall cause to be delivered to District an opinion of legal counsel to HAC, dated as of the Closing Date, in a form reasonably acceptable to District and its legal counsel, and which shall be attached hereto as Exhibit 21.1 (HAC's Legal Counsel Opinion).

21.2 Reliance. In rendering the aforescribed opinion, legal counsel for HAC may rely upon certificates of officers of HAC, opinion of associate counsel, certificates and reports of HAC's independent certified public accountants and such other evidence deemed necessary or desirable, provided copies thereof are appended to such opinion and reference thereto is made in such opinion.

Article 22 - OPINION OF CHW's COUNSEL

22.1 Basic Opinion. On the Closing Date, CHW shall cause to be delivered to District an opinion of legal counsel to CHW, dated as of the Closing Date, in a form reasonably acceptable to District and its legal counsel, and which shall be attached hereto as Exhibit 22.1 (CHW's Legal Counsel Opinion).

22.2 Reliance. In rendering the aforescribed opinion, legal counsel for CHW may rely upon certificates of officers of CHW, opinion of associate counsel, certificates and reports of CHW's independent certified public accountants and such other evidence deemed necessary or desirable, provided copies thereof are appended to such opinion and reference thereto is made in such opinion.

Article 23 - NOTICES

All notices required to be given hereunder shall be given in writing and shall be personally delivered or deemed delivered if dispatched by certified or registered mail, return receipt requested, postage prepaid, addressed to the parties as set forth opposite their respective names below:

District: Sequoia Hospital District
170 Alameda de Las Pulgas
Redwood City, California 94062
Attention: Arthur J. Faro
Chief Executive Officer
Phone: 415-367-5561
Fax: 415-367-5288

With copy to:

Sequoia Hospital District
170 Alameda de Las Pulgas
Redwood City, California 94062
Attention: Eric Poole,
General Counsel
Phone: 415-367-5561
Fax: 415-367-5288

and:

Davis Wright Tremaine
235 Pine Street, Suite 1500
San Francisco CA 94104
Attention: Gerald M. Hinkley
Phone: (415) 693-4630
Fax: (415) 693-4699

HAC: Hospital Acquisition Corporation
c/o Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Anna Mullins
Senior Vice President
Phone: 415-438-5500
Fax: 415-438-5727

with a copy to:

Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Diane W. Carter
Corporate Counsel
Phone: 415-438-5500
Fax: 415-438-5726

CHW: Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Anna Mullins
Senior Vice President
Phone: 415-438-5500
Fax: 415-438-5727

with a copy to:

Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Diane W. Carter
Corporate Counsel
Phone: 415-438-5500
Fax: 415-438-5726

A notice shall be deemed given on the date it is deposited in the mail in accordance with the foregoing. Any party may change the address at which to send notices by notifying the other party of such change of address in writing in accordance with the foregoing.

Article 24 - GENERAL PROVISIONS

24.1 Governing Law. This Agreement and all rights, duties and obligations hereunder shall be construed and interpreted in accordance with the laws of the State of California.

24.2 Exhibits and Schedules. All Exhibits and Schedules described herein shall, upon approval thereof by the Parties, be attached hereto and incorporated herein by reference, subject to such supplements, revisions and amendments to which the Parties mutually agree.

24.3 Entire Agreement. This Agreement supersedes all prior oral and written understandings and agreements between the parties hereto relating to the subject of this Agreement. This document, together with its Exhibits and Schedules attached hereto and incorporated herein in their entirety by this reference, and all other documents specifically referenced herein, constitutes the entire agreement between the Parties regarding the transfer of and consideration for the Assets as described herein. No representations, promises, conditions or warranties with reference to the execution of this document, including, but not limited to pro forma and other financial information, have been made or entered into between the parties hereto other than those expressly provided herein.

24.4 Waiver of Provisions. Any waiver of any term and condition hereof must be in writing and signed by the parties hereto. A waiver of any of the terms and conditions hereof shall not be construed as a waiver of any other terms and conditions hereof.

24.5 Severability. Nothing contained in this Agreement shall be construed so as to require the commission of an act contrary to law and whenever there is any conflict between any provision hereof and any present statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, the provisions hereof affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law and to carry out the purposes hereof.

24.6 Force Majeure. Neither party shall be liable nor deemed to be in default for any delay or failure in performance under the Agreement or other interruption of service or employment deemed resulting, directly or indirectly, from acts of God, civil or military authority, acts of public enemy, war, accidents, fires, explosions, earthquakes, floods, failure of transportation, machinery or supplies, vandalism, strikes or other work interruptions beyond the reasonable control of either party. However, both parties shall make good faith efforts to perform under this Agreement in the event of any such circumstances.

24.7 Attorney's Fees. In the event of any suit under this Agreement, there shall be allowed to the prevailing party, to be included in any judgment recovered, reasonable attorneys' fees to be fixed by the court.

24.8 Time Is of the Essence. Time is of the essence in each and all of the agreements, covenants and conditions hereof.

24.9 Captions. Any captions to or headings of the articles, sections, subsections, paragraphs or subparagraphs hereof are solely for the convenience of the parties, are not a part hereof, and shall not be used for the interpretation or determination of validity hereof or any provision hereof.

24.10 Gender and Number. Whenever the context hereof requires, the gender of all words shall include the masculine, feminine and neuter, and the number of all words shall include the singular and plural.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year first above written.

"District"

Sequoia Hospital District, a California health care district

By Brenton C. Britschgi
Brenton C. Britschgi, President of the Board

By Jeffery M. Krakower M.D.
Jeffery M. Krakower, M.D.,
Secretary of the Board

"HAC"

Hospital Acquisition Corporation, a California nonprofit public benefit corporation

By Larry Y. Wilson
Larry Y. Wilson
Director

"CHW"

Catholic HealthCare West, a California nonprofit public benefit corporation

By Larry Y. Wilson
Larry Y. Wilson, Executive Vice President
and Chief Operating Officer

Exhibit 5.5

Membership Agreement

MEMBERSHIP AGREEMENT

THIS MEMBERSHIP AGREEMENT ("Membership Agreement") is made and entered into as of the 30th day of September, 1996 ("Effective Date"), by and between SEQUOIA HEALTH SERVICES, a California nonprofit public benefit corporation ("Corporation"), SEQUOIA HOSPITAL DISTRICT, a California hospital district ("District"), and CHW WEST BAY, a California nonprofit public benefit corporation ("CHW-WB").

This Membership Agreement is made and entered into with reference to the following facts:

- A. CHW-WB is the sole corporate member of Corporation.
- B. Pursuant to a Memorandum of Understanding, dated as of May 8, 1996 ("Memorandum of Understanding"), by and between Corporation, District and Catholic Healthcare West, a California nonprofit public benefit corporation and the sole corporate member of CHW-WB, District has agreed to transfer to Corporation, and Corporation has agreed to receive from District, the assets of District ("Assets") related to the ownership and operation of Sequoia Hospital ("Hospital"), as more particularly described in the Memorandum of Understanding, in exchange for consideration from Corporation that includes cash, an assumption of liabilities, and the amendment of Corporation's Articles of Incorporation and Bylaws to cause, among other things, District and CHW-WB to be Corporation's two (2) corporate members.
- C. Corporation and CHW-WB each is or will be recognized by the Internal Revenue Service and the California Franchise Tax Board as exempt from federal income tax and California franchise tax as a corporation organized and operated for charitable purposes as described in Section 501(c)(3) of the Internal Revenue Code and 23701d of the California Revenue and Taxation Code.
- D. District is a California hospital district organized and operated pursuant to the California Local Health Care District Law, and as such is exempt from federal income and California franchise tax and is the recipient of certain tax revenues ("Tax Revenues").
- E. Corporation, District and CHW-WB wish to enter into this Membership Agreement to set forth their mutual agreements regarding certain of District's and CHW-WB's rights and responsibilities with regard to Corporation as its corporate members.

NOW, THEREFORE, in consideration of the recitals, covenants, conditions and promises contained herein and in the Memorandum of Understanding, the parties hereto do hereby agree as follows:

1. Membership Rights and Responsibilities. District and CHW-WB each shall have the rights and responsibilities as corporate members of Corporation described in this Membership Agreement and the Amended and Restated Articles of Incorporation of Corporation ("Articles of Incorporation") and the Amended and Restated Bylaws of Corporation ("Bylaws"), as those Articles of Incorporation and Bylaws may be amended from time to time, and as set forth in the California Nonprofit Corporation Law and other applicable provisions of law.

2. Tax Revenues. District shall on an ongoing basis retain one hundred percent (100%) of its Tax Revenues, and shall utilize those funds, net of District's operating expenses, in furtherance of its purposes as a California hospital district ("District Purposes"), through:

a. Programs and other activities provided or operated by Corporation and approved by District;

b. Programs and other activities provided or operated by other parties and approved by District; or

c. Programs and other activities provided or operated by District;

provided, however, that no such programs or other activities funded by District's Tax Revenues shall be programs or other activities that duplicate the programs, activities or services of the Hospital.

3. Grants. Corporation may at the discretion of its Board of Directors, acting in accordance with the Articles of Incorporation and Bylaws of Corporation and in compliance with applicable law, make to District and CHW-WB grants from funds generated by Corporation's operations; provided, however, that any and all funds so granted to District and CHW-WB shall be used only for District Purposes and in accordance with such other terms and conditions as Corporation's Board of Directors may establish at the time that the grant is made.

4. Duplicative Activities. During the term of this Agreement, neither District nor CHW-WB shall establish, acquire any interest in or otherwise operate, either directly or through any affiliated corporation or other person or any joint venture, any business or other activity located within a fifteen (15) mile radius of the Hospital that duplicates the programs, activities or services of the Hospital.

5. Right of First Refusal. If at any time during the term of this Membership Agreement Corporation shall seek or act to dispose of substantially all its assets, by any device or means, District shall have a right of first refusal to acquire those assets on substantially the same material terms as Corporation is to provide to the party or parties proposed to acquire those assets pursuant to that disposition. Corporation shall notify District in writing of any such proposed disposition and all its material terms promptly, and

shall give District not less than thirty (30) days to act upon that notice and determine whether or not to exercise its right of first refusal.

6. Miscellaneous.

a. Term and Termination. The term of this Agreement shall commence as of the Effective Date and shall continue until terminated. This Membership Agreement shall terminate upon either:

i. the mutual written agreement of Corporation, District and CHW-WB;

ii. the dissolution of Corporation; or

iii. any amendment to the Articles of Incorporation or Bylaws of Corporation that either removes District or CHW-WB as a corporate member of Corporation or adds another corporation or other person as a corporate member of Corporation.

b. Assignment. Neither District nor CHW-WB nor Corporation may assign any of their respective rights or delegate any of their respective duties arising hereunder or arising out of District's and CHW-WB's status or roles as corporate members of Corporation.

c. Notices. All notices required to be given hereunder shall be given in writing and shall be personally delivered or deemed delivered if dispatched by certified or registered mail, return receipt requested, postage prepaid, addressed to the parties as set forth opposite their respective names below:

District: Sequoia Hospital District
333 Main Street
Redwood City, CA 94063
Attention: Frank E. Gibson
Chief Executive Officer
Phone: (415) ____-____
Fax: (415) ____-____

With a copy to:

Davis Wright Tremaine
One Embarcadero Center, Suite 600
San Francisco CA 94111
Attention: Gerald M. Hinkley
Phone: (415) 276-6530
Fax: (415) 276-6599

Corporation: Sequoia Health Services
c/o Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Anna Mullins
Senior Vice President
Phone: 415-438-5500
Fax: 415-438-5727

with a copy to:

Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Diane W. Carter
Corporate Counsel
Phone: 415-438-5500
Fax: 415-438-5726

CHW-WB: Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Anna Mullins
Senior Vice President
Phone: 415-438-5500
Fax: 415-438-5727

with a copy to:

Catholic Healthcare West
1700 Montgomery Street, Suite 300
San Francisco, CA 94111
Attention: Diane W. Carter
Corporate Counsel
Phone: 415-438-5500
Fax: 415-438-5726

A notice shall be deemed given on the date it is deposited in the mail in accordance with the foregoing. Any party may change the address at which to send notices by notifying the other party of such change of address in writing in accordance with the foregoing.

d. Governing Law. This Membership Agreement and all rights, duties and obligations hereunder shall be construed and interpreted in accordance with the Articles of Incorporation and Bylaws of Corporation and the applicable laws of the State of California.

IN WITNESS WHEREOF, the parties have duly executed this Membership Agreement on the day and year first above written.

"District"

SEQUOIA HOSPITAL DISTRICT, a California hospital district

By Brent Britschgi
Brent Britschgi, President of the Board

By Jeffrey Krakower M.D.
Jeffrey Krakower, M.D., Secretary of the Board

"Corporation"

SEQUOIA HEALTH SERVICES, a California nonprofit public benefit corporation

By Glenna L. Vaskelis
Its Hospital Administrator

"CHW-WB"

CHW WEST BAY, a California nonprofit public benefit corporation

By John G. Cull
Its Chief Executive Officer

EXHIBIT A

Forms of Grant Deed and Bill of Sale

Recording requested by:
SEQUOIA HEALTH SERVICES

When recorded mail to:
Suzanne Hennessy
Deipenbrock, Wulff, Plant & Hannegan, LLP
300 Capitol Mall, Suite 1700
Sacramento, CA 95812-3034

The space above this line is for recorder's use.

Mail tax statements to:
Sequoia Health Services
170 Alameda de las Pulgas
Redwood City, CA 94062
Attention: Glenna Vaskelis,
Administrator

Documentary Transfer Tax:
\$13,750 computed on full
value of property conveyed,
exclusive of liens and
encumbrances remaining on
that property at time of sale.

GRANT DEED

SEQUOIA HOSPITAL DISTRICT, a California hospital district, formerly known as Sequoia Hospital District, a local hospital district, hereby grants to SEQUOIA HEALTH SERVICES, a California nonprofit public benefit corporation, all that real property situated in the City of Redwood City, San Mateo County, California, described on Exhibit A attached hereto and incorporated herein by reference.

Executed at Redwood City, California this 30th day of September, 1996.

SEQUOIA HOSPITAL DISTRICT

By: Brent Britschgi
Brent Britschgi, President of the
Board

By: Jeffrey Krakower M.D.
Jeffrey Krakower, M.D., Secretary
of the Board

Mail tax statements as directed above.

ACKNOWLEDGMENT

State of California)
) SS
County of San Mateo)

On this 30th day of September, 1996, before me, Noreen M. Divito,
[name and title of officer taking acknowledgement], personally appeared Brent Britschgi and
Jeffrey Krakauer [name of person signing instrument], proved to me on the basis of
satisfactory evidence to be the person whose name is subscribed to the within instrument and
acknowledged to me that they [he or she] executed the same in their [his or her]
authorized capacity, and that by their [his or her] signature on the instrument the
person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature: Noreen M. Divito

Name: NOREEN M. DIVITO

Notary Public for the
State of California

My commission expires:

May 14, 1999

(Seal)

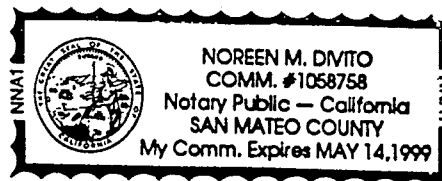


EXHIBIT A - Description of Property Conveyed

CITY OF REDWOOD CITY AND UNINCORPORATED AREA

PARCEL ONE:

BEGINNING AT A POINT ON THE NORTHWESTERLY LINE OF WHIPPLE AVENUE (FORMERLY WEST UNION ROAD OR OLD WHIPPLE MILL ROAD), WHICH IS NORTH 45° 15' WEST, 40 FEET FROM THE SOUTHEASTERLY LINE OF SAID WHIPPLE AVENUE, AT THE INTERSECTION THEREOF WITH THE SOUTHWESTERLY LINE OF ALAMEDA DE LAS PULGAS, AS SAID STREETS ARE SHOWN ON "MAP OF JOHNSON SUBDIVISION", FILED FOR RECORD IN THE OFFICE OF THE RECORDER OF THE COUNTY OF SAN MATEO, STATE OF CALIFORNIA, ON OCTOBER 4, 1909, IN BOOK 7 OF MAPS, AT PAGE 2; THENCE FROM SAID POINT OF BEGINNING, SOUTH 45° 05' WEST ALONG THE NORTHWESTERLY LINE OF SAID WHIPPLE AVENUE, 906.48 FEET; THENCE PARALLEL TO NEVADA STREET, AS SHOWN ON "MAP OF RESUBDIVISION OF DINGEE PARK", FILED FOR RECORD IN THE OFFICE OF THE RECORDER OF SAID COUNTY OF SAN MATEO, SAID STATE, ON JULY 8, 1908, IN BOOK 6 OF MAPS, AT PAGES 25 AND 26, NORTH 44° 55' WEST, 630 FEET; THENCE AT A RIGHT ANGLE TO SAID NEVADA STREET, NORTH 45° 05' EAST, 200 FEET; THENCE PARALLEL TO SAID NEVADA STREET, SOUTH 44° 55' EAST, 81 FEET; THENCE AT A RIGHT ANGLE TO SAID NEVADA STREET, NORTH 45° 05' EAST, 703.24 FEET TO SAID SOUTHWESTERLY LINE OF ALAMEDA DE LAS PULGAS; THENCE ALONG THE SOUTHWESTERLY LINE OF ALAMEDA DE LAS PULGAS, SOUTH 44° 15' EAST, 549 FEET, MORE OR LESS, TO THE POINT OF BEGINNING.

JOINT PLANT NO. 058-006-060-08A

PARCEL TWO:

A PORTION OF LOT 17, JOHNSON SUBDIVISION, AS RECORDED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY ON OCTOBER 4, 1909, IN BOOK 7 OF MAPS, AT PAGE 2, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT WHICH BEARS SOUTH 44° 55' EAST, 253.57 FEET AND SOUTH 45° 05' WEST, 50.00 FEET FROM THE MOST NORTHERLY CORNER OF SAID LOT 17; RUNNING THENCE SOUTH 44° 55' EAST, 270.00 FEET; SOUTH 45° 05' WEST, 230.00 FEET TO THE SOUTHWESTERLY LINE OF SAID LOT 17; THENCE ALONG SAID SOUTHWESTERLY LINE, NORTH 44° 55' WEST, 270.00 FEET; THENCE LEAVING SAID LINE, NORTH 45° 05' WEST, 230.00 FEET TO THE POINT OF BEGINNING.

JOINT PLANT NO. 058-006-060-14A

PARCEL THREE:

A NON-EXCLUSIVE EASEMENT APPURTENANT TO PARCEL I ABOVE, FOR PURPOSES OF INGRESS AND EGRESS AND UTILITIES OVER THE FOLLOWING DESCRIBED LANDS:

A PORTION OF LOT 17, JOHNSON SUBDIVISION, AS RECORDED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY ON OCTOBER 4, 1909 IN BOOK 7 OF MAPS AT PAGE 2, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT IN THE NORTHEASTERLY LINE OF SAID LOT 17, DISTANT THEREON SOUTH 44 DEGREES 55' EAST 253.57 FEET FROM THE MOST NORTHERLY CORNER THEREOF; THENCE RUNNING ALONG SAID NORTHEASTERLY LINE, SOUTH 44 DEGREES 55' EAST 352.43 FEET; THENCE LEAVING SAID LINE, SOUTH 45 DEGREES 05' WEST 30.00 FEET; THENCE NORTH 44 DEGREES 55' WEST 352.43 FEET AND NORTH 45 DEGREES 05' EAST 30.00 FEET TO THE POINT OF BEGINNING.

SAID EASEMENT SO GRANTED IS TO BE APPURTENANT TO AND FOR THE BENEFIT AND USE OF THE LANDS OF THE GRANTEE AND ANY SUBSEQUENT SUBDIVISIONS THEREOF.

PARCEL FOUR:

AN EASEMENT APPURTENANT TO PARCEL I ABOVE, FOR PURPOSES OF PARKING AUTOMOBILES AND VEHICLES FOR THE EXCLUSIVE BENEFIT OF BUILDINGS TO BE ERECTED ON PARCEL I ABOVE AND FOR INGRESS AND EGRESS AND FOR UTILITIES TO SUCH BUILDINGS, OVER THE FOLLOWING DESCRIBED STRIP OF LAND.

A PORTION OF LOT 17, JOHNSON SUBDIVISION, AS RECORDED IN THE OFFICE OF THE COUNTY RECORDER OF SAN MATEO COUNTY ON OCTOBER 4, 1909 IN BOOK 7 OF MAPS AT PAGE 2, BEING MORE PARTICULARLY DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT WHICH BEARS SOUTH 44 DEGREES 55' EAST 253.57 FEET AND SOUTH 45 DEGREES 05' WEST 30.00 FEET FROM THE MOST NORTHERLY CORNER OF SAID LOT 17; RUNNING THENCE SOUTH 44 DEGREES 55' EAST 270.00 FEET, SOUTH 45 DEGREES 05' WEST 20.00 FEET, NORTH 44 DEGREES 55' WEST 270.00 FEET AND NORTH 45 DEGREES 05' EAST 20.00 FEET TO THE POINT OF BEGINNING.

SAID EASEMENT SO GRANTED IS TO BE APPURTENANT TO AND FOR THE BENEFIT AND USE OF THE LANDS OF THE GRANTEE AND ANY SUBSEQUENT SUBDIVISIONS THEREOF.

PARCEL FIVE:

PARCEL A AS DESIGNATED ON PARCEL MAP NO. 84-2, FILED AUGUST 8, 1984, IN BOOK 54 OF PARCEL MAPS, PAGE 82, OFFICIAL RECORDS.

JOINT PLANT NOS. 058-010-102-06A
058-010-102-07A
058-010-102-08A

SEQUOIA HOSPITAL DISTRICT

BILL OF SALE

In consideration of the purchase price, assumption of liabilities, and other consideration described in Article 2 of the Memorandum of Understanding dated May 8, 1996, by and between SEQUOIA HOSPITAL DISTRICT, a California hospital district (the "District"), SEQUOIA HEALTH SERVICES, a California nonprofit public benefit corporation then acting under its former name HOSPITAL ACQUISITION CORPORATION ("SHS"), and CATHOLIC HEALTHCARE WEST, a California nonprofit public benefit corporation ("CHW"), the receipt of which is hereby acknowledged, the District hereby transfers to Sequoia Health Services all of the Assets that are listed in Exhibit A attached hereto and incorporated herein by this reference.

Executed this 30th day of September, 1996 at Redwood City, California.

SEQUOIA HOSPITAL DISTRICT

By: Brent Britschgi
Brent Britschgi,
President of the Board

By: Jeffrey Krakower
Jeffrey Krakower, M.D.,
Secretary of the Board

EXHIBIT A TO BILL OF SALE

Tangible Personal Property

Any and all tangible personal property (including, but not limited to, equipment, machinery, furnishings, furniture, fixtures, appliances, tools, instruments, supplies, and consumables) located on the premises listed below and detailed in the Hospital Inventory Record dated as of 6/30/96:

170 Alameda de las Pulgas, Redwood City
2940 Whipple Avenue, Redwood City
633 Veterans Boulevard, Redwood City
333 Main Street, Redwood City

excluding office furnishings, equipment, and supplies reasonably required for the District's continued activities after the Effective Time.

Leasehold Improvements

Any and all leasehold improvements owned by District and located on the premises listed below:

633 Veterans Boulevard, Redwood City
333 Main Street, Redwood City

Intangible Property

Other Intangible Property (as defined in this Memorandum of Understanding) of the District including the following:

Partnership Interests

Interest in Broadway Radiology partnership
Interest in Sequoia Endoscopy partnership

but excluding without limitation, District's interest in Sequoia Alcohol and Drug Recovery Center, Limited Partnership (TLC) and in Watsonville Cardiac Catheterization Lab.

Personal Property Leases

Various leases for equipment, including departments such as Radiology, Pharmacy, Laboratory and Central Service; as well as minor leases for FAX, copying and other uses at the following locations:

170 Alameda de las Pulgas, Redwood City
2940 Whipple Avenue, Redwood City
633 Veterans Boulevards, Redwood City
333 Main Street, Redwood City
525 Veterans Boulevard, Redwood City

Other Executory Contracts

Assignable executory contracts that are

(A) Either

(i) related to the Assets described hereon or to the real estate transferred to SHS pursuant to the Memorandum of Understanding;

or

(ii) related to the ownership or operation of Sequoia Hospital;

and

(B) Not otherwise excluded from the Assets to be transferred pursuant to the Memorandum of Understanding.

Others

Rights of action, rights to payment, books, records, patient records and the rights to proceeds for all of the above listed properties.

Security Deposits and Prepaid Expenses

All security deposits and prepaid expenses of the District related to the assets described hereon including:

Security Deposits

Baxter Hospital Value Link Deposit (Material Management Services)
Aramark Deposit (Dietary Management)

Service Contracts

HBO & Co. (Software Maintenance and Support)
Summit Nuclear (Nuclear Medicine Camera)
Abbott Labs (Laboratory Equipment)
Other Service Contracts necessary for the operations at the following locations:
170 Alameda de las Pulgas, Redwood City
2940 Whipple Avenue, Redwood City
633 Veterans Boulevards, Redwood City
333 Main Street, Redwood City
525 Veterans Boulevard, Redwood City

Membership

Hospital Council of Northern California
West Bay Hospital Conference
California Healthcare Association
Cooperative Hospitals, Inc.
Hospital Consortium of San Mateo County

Other

Other prepaids, including software licenses, special assessment fees and billing management, as necessary for the operation of the above listed properties.

Other Assets

All assets of the District in excess of \$10,000,000 (which sum is to be retained by the District) reflected on its balance sheet as of the Effective Time described in the Memorandum of Understanding, related to the operations of the Hospital that are not otherwise described hereon or are interests in real property, excluding the following:

Funds in any pension plan or deferred compensation plan.

EXHIBIT B

Liabilities and Obligations

All Liabilities and Obligations (as defined in this Assignment and Assumption Agreement, including without limitation all Liabilities and Obligations associated with District's operation of Sequoia Hospital, excluding the following Liabilities and Obligations:

General

Those associated with any assets of District that are not transferred to SHS as of the Closing Date, except as otherwise specifically provided by this Assignment and Assumption Agreement.

Partnership Interests

Those associated with the District's interest in

- (i) Sequoia Alcohol and Drug Recovery Center, Limited Partnership (TLC); and
- (ii) Watsonville Cardiac Catheterization Lab

Employment and Related matters

Those arising pursuant to District's employment agreement for Arthur J. Faro

Those arising with respect to District's deferred compensation (Internal Revenue Code Section 457) Plan

Those arising with respect to the provision of health and related benefits to members of District's governing board and their dependents

Funds Subject to Escheat

Those arising in connection with any unclaimed property held by District as shown on District's Balance Sheet as of the Closing Date; provided, however, that if at any time following the Closing Date any valid claim for all or any part of that property is received by District or SHS, SHS shall thereupon pay that claim as due.

MANAGEMENT SERVICES AGREEMENT

BY AND BETWEEN

CHW WEST BAY

AND

SEQUOIA HEALTH SERVICES

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MANAGEMENT SERVICES AGREEMENT

This Management Services Agreement ("Agreement") is made and entered into this 30th day of September, 1996, by and between CHW West Bay, a California nonprofit public benefit corporation ("CHWWB"), and Sequoia Health Services, a California nonprofit public benefit corporation ("SHS"), with reference to the following facts:

RECITALS

A. Catholic Healthcare West, a California nonprofit public benefit corporation that is the sole corporate member of CHWWB ("CHW"), Sequoia Hospital District, a California local hospital district (the "District") that prior to the date hereof owned and operated Sequoia Hospital (the "Hospital"), and SHS entered into a Memorandum of Understanding dated as of May 8, 1996, pursuant to which the parties agreed that CHW or an affiliate of CHW, such as CHWWB, would provide comprehensive management services to SHS.

B. CHWWB owns and operates three licensed acute care hospitals in the western San Francisco bay area, and is the sole corporate member of another licensed acute care hospital in the western San Francisco bay area.

C. The parties desire that SHS be operated, along with the other hospitals in the western San Francisco bay area, as part of the west bay regional delivery system of the statewide CHW health care system (the "CHW West Bay Region").

D. The parties consider that integration of services and operations on a regional basis can result in improving the quality and reducing the cost of the health care services provided to the community.

E. To further the integration of services provided by the CHW West Bay Region, the parties desire to enter into this Agreement for the provision of management and administrative services by CHWWB to SHS.

AGREEMENTS

NOW, THEREFORE, in consideration of the recitals, covenants, conditions and promises herein contained, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

1.01 "Board" means the Board of Directors of SHS.

1.02 "Chief Executive Officer" means the Chief Executive Officer of CHWWB who shall serve as the chief executive officer of SHS.

1.03 "Effective Date" means September 30, 1996.

1.04 "Fiscal Year" means the fiscal year of SHS which ends on the 30th day of June each year.

1.05 "Hospital" means the general acute care hospital owned and operated by SHS under a license held in SHS's name and operated under the name "Sequoia Hospital" and located at 170 Alameda de las Pulgas, Redwood City, California, including the real property, all buildings, structures, fixtures and other improvements thereon and thereto of every kind, all easements, rights and appurtenances relating thereto, all permanently affixed equipment, machinery and other items of real and personal property, all machinery, equipment, furniture, furnishings, moveable walls or partitions, trade fixtures or other personal property, and consumable inventory and supplies, used or useful in the business of the Hospital, existing and in place at the Hospital on the Effective Date, whether leased or owned, together with SHS's interests in joint ventures or other businesses now or in the future.

1.06 "SHS Bylaws" means the Amended and Restated Bylaws of SHS, as amended to date and as they may be amended in the future.

ARTICLE 2

RESPONSIBILITIES OF CHWWB

2.01 Appointment. SHS hereby appoints CHWWB and delegates to CHWWB the responsibility and commensurate authority to provide the services necessary and appropriate to manage all aspects of the Hospital's operations ("Services") in accordance with the SHS strategic plans, budgets and policies and procedures that the Board (i) determines are appropriate for the governance of SHS and the Hospital's provision of care to the communities it serves and (ii) adopts from time to time, including without limitation the Mission Statement of Sequoia Hospital, the Charity Care Policy adopted by the Board on September 17, 1996 (as it may be amended by the Board from time to time), and the Governing Principles of the Professional Staff of Sequoia Hospital, dated March 4, 1996 (collectively, the Policies and Procedures") and with terms and conditions of this Agreement. SHS shall, during the term of this Agreement, give CHWWB full access to the Hospital, its records, offices and facilities, as reasonably required for it to carry out its duties hereunder.

Notwithstanding anything herein to the contrary, SHS shall have the requisite power and authority required to be possessed by the licensed operator of a general acute care hospital in the State of California.

2.02 Description of Specific Services to be Provided.

Without limiting the generality of the foregoing, during the term of this Agreement, including any extensions and renewals hereof, CHWWB shall provide, either directly, through CHW or through independent contractors engaged by CHWWB or CHW in their sole and absolute discretion, the services described in this Section 2.02 as required for the operation of the Hospital as an integral part of the CHW West Bay Region, and such other services as the Chief Executive Officer may determine would result in reduced costs and/or organizational effectiveness to the CHW West Bay Region. These functions will not be duplicated at the individual hospitals in the CHW West Bay Region. Further, these functions will be coordinated with corporate office services provided by CHW to avoid duplication and to control costs.

2.02.01 Strategic Planning. Annually, prior to the commencement of the Fiscal Year, and in conjunction with the development of the strategic plan for the CHW West Bay Region, CHWWB shall develop a strategic plan for SHS (the "Strategic Plan"). The Strategic Plan shall be subject to approval by the Board in accordance with the Bylaws of SHS.

2.02.02 Budgets. CHWWB shall develop an annual capital and operating budget for SHS prior to the commencement of the Fiscal Year, which budgets shall be subject to approval by the Board as provided in the SHS Bylaws. The operating and capital budgets for SHS shall be developed in conjunction with the overall operating and capital budgets for the CHW West Bay Region. CHWWB shall also be responsible for management of the operating and capital budgets of SHS, and for effective capital allocation within the CHW West Bay Region.

2.02.03 Physician Strategy. CHWWB shall develop and implement a physician integration strategy for SHS and shall be responsible for maintaining good physician relations with the SHS Professional Staff. CHWWB shall involve SHS Professional Staff in CHW and CHW West Bay region physician initiatives, including best practices, continuing medical education, physician development and other initiatives that may be developed by CHWWB or CHW from time to time.

2.02.04 Information Technology. CHWWB shall furnish information technology services to SHS to assure SHS's information systems supporting patient care, medical management, finance, operations and the like are functioning properly, and to link such systems with the other hospitals in the CHW West Bay Region. CHWWB, either directly or through CHW, will develop a program, subject to approved SHS budgets, to upgrade SHS's systems in a manner that is consistent with CHW systemwide information technology initiatives.

2.02.05 Construction and Property Management. CHWWB shall provide construction and property management services to SHS, consistent with SHS's needs.

2.02.06 Financial Services.

2.02.06.01 SHS will participate as a member of the CHW Obligated Group under the CHW Master Indenture as those terms are described in the Debt and Funds Management Agreement entered into by SHS and CHW, as the same may be amended from time to time. In connection therewith, SHS shall participate in the CHW treasury, centralized cash management, investment management and debt administration programs as described in Exhibit A attached hereto.

2.02.06.02 CHWWB shall prepare or cause to be prepared monthly financial statements for SHS, including balance sheet, income statements and statements of changes in fund balances. Monthly financial statements for the prior period shall be presented to the Board at its regularly scheduled meetings.

2.02.06.03 CHWWB shall provide direction and oversight for all financial, accounting and bookkeeping functions appropriate to the operations of general acute care hospitals, including but not limited to maintenance, custody and supervision of business records, papers, documents, ledgers, journals and reports relating to the business operations of SHS, the establishment, administration and implementation of accounting procedures, controls, forms and systems, the preparation of financial reports, the planning of the business operations of SHS, the payment of accounts payable and collection of accounts receivable, and the administration of the SHS payroll.

2.02.06.04 CHWWB shall arrange and provide support for an annual audit of SHS's financial statements through auditors selected by CHW. The annual audited financial statements shall be presented to the Board for review and approval.

2.02.06.04 CHWWB shall prepare or cause to be prepared on behalf of SHS all federal and California information and other returns and other forms and documents (collectively, "Returns") required to be filed with the Internal Revenue Service or the California Franchise Tax Board. SHS shall be solely responsible for the payment of any taxes owed.

2.02.07 Managed Care Contracting. CHWWB shall provide managed care contracting services, including marketing, contract review and analysis, and negotiation with third party payors. Such services will be provided to SHS on the same basis as it is provided to other CHW hospitals, without discrimination based on the fact that SHS is not a wholly controlled subsidiary of CHW or any of its regions.

2.02.08 Materials Management. SHS shall participate with CHWWB in CHW materials management programs, including preferred purchaser arrangements developed through CHW's considerable purchasing power. CHWWB also will provide assistance in inventory control and will work with appropriate SHS Professional Staff committees in understanding how purchasing decisions can affect overall health care cost.

2.02.09 Communications. CHWWB shall provide marketing and public relations services to SHS, including SHS in promotional materials concerning the CHW West Bay Region, and designing programs to promote SHS's services, such as its cardiovascular and women's health services. CHWWB shall assist SHS in developing and conducting community programs designed to educate the public and improve health care in the community. CHWWB also shall assist SHS with internal communication involving staff and Professional Staff.

2.02.10 Human Resources. CHWWB shall manage the SHS human resources department, providing guidance and supervision in the areas of labor negotiations and compliance with federal and California laws affecting personnel. Subject to any collective bargaining agreements currently in effect for SHS personnel, CHWWB shall establish policies regarding staffing levels, work hours and shifts, wages, salaries and compensation, retention, promotion and demotion, the awarding of bonuses and salary adjustments, and other matters affecting the terms and conditions of the employment of personnel at SHS. SHS personnel shall have the opportunity to participate in CHW and CHWWB employee benefit programs, subject to any limitations contained in collective bargaining agreements affecting SHS personnel.

2.02.11 Risk Management.

2.02.11.01 CHWWB shall manage the SHS risk management department, providing direction and supervision over the management of risk of adverse incidents at the Hospital, and the management of claims or potential claims.

2.02.11.02 SHS shall participate in CHW insurance and self-insurance programs, including the CHW self-insurance program for general and professional liability (subject to compliance with applicable law), directors' and officers' liability, property, and worker's compensation self-insurance (supported by a CHW letter of credit); provided that insurance policies that are in place for the District as of the date of this Agreement may be maintained, with SHS as a named or additional insured, until the expiration of such policies as the parties may agree.

2.02.12 Internal Audit. SHS shall participate in CHW's internal audit program on the same basis as all other hospitals in the CHW system.

2.02.13 Legal. The CHW legal department shall manage the legal affairs of SHS on the same basis as it manages the legal affairs of all other CHW hospitals. These services will be made available through CHWWB, and include the services of in-house counsel, management of outside counsel, and education and compliance programs developed by the legal department.

2.02.14 Process Improvement. SHS Shall participate in the CHW Systemwide Process Improvement Program ("SPIP"), which is designed to (1) analyze the means by which CHW hospitals can improve quality and reduce the cost of non-clinical support services, gain value from consolidating such services on a regional or systemwide basis, and standardize processes at each hospital or region based on best practices, (2) develop recommendations based on these analyses, and (3) implement the recommendations as appropriate for the CHW West Bay Region generally and SHS in particular.

ARTICLE 3

MANAGEMENT STRUCTURE

3.01 Chief Executive Officer. The Chief Executive Officer of CHW West Bay shall be the Chief Executive Officer of SHS as provided in the SHS Bylaws. The Chief Executive Officer shall be responsible for the overall management of the CHW West Bay Region, including SHS. The Chief Executive Officer shall also be responsible for developing the CHW West Bay Region management team, which shall include the SHS Hospital Administrator as described in Section 3.03. The Chief Executive Officer shall be an employee of CHW.

3.02 Chief Financial Officer. The Chief Financial Officer of CHW West Bay shall be the Chief Financial Officer of SHS as provided in the SHS Bylaws. The Chief Financial Officer shall be responsible for coordination and management of the financial affairs of the CHW West Bay Region, including SHS, and shall oversee the development of CHW West Bay Region budgets and the coordination of the SHS budgets with the CHW West Bay Region budgets. The Chief Financial Officer shall be an employee of CHW.

3.03 Hospital Administrator. The Chief Executive Officer shall recommend a Hospital Administrator to the Board for appointment in accordance with the SHS Bylaws. The Hospital Administrator shall be responsible for overall, day-to-day management of SHS, and shall develop a management team for SHS. All directors and managers employed by SHS shall report, directly or indirectly, to the Hospital Administrator. The Hospital Administrator shall be an employee of CHW, and shall report to the Chief Executive Officer or his or her delegee and the Board. The Hospital Administrator may be terminated only for good cause, and only with the concurrence of the Chief Executive Officer and the Board. For purposes hereof, "good cause" shall exist if a Hospital Administrator commits any material act of dishonesty,

gross carelessness or misconduct, unjustifiably neglects his or her duties or acts in any way that has an adverse effect on the reputation of the Hospital or SHS, or otherwise conducts him or herself in a manner inconsistent with the generally recognized standards for conduct of hospital administrative personnel in the San Francisco Bay Area.

ARTICLE 4

COMPLIANCE WITH LAW AND BOARD POLICY

4.01 Compliance with Legal Requirements. CHWWB shall prepare or cause to be prepared all materials and follow all procedures necessary to maintain: (a) certification of the Hospital as a provider of services under Titles XVIII (Medicare) and XIX (Medicaid) of the Social Security Act; (b) State licensure of the Hospital as a general acute care hospital under all applicable laws; (c) all other licenses and permits required to operate the Hospital and provide services therein; and (d) accreditation of the Hospital by the Joint Commission for the Accreditation of Health Care Organizations (JCAHO). CHWWB shall do nothing to jeopardize the Hospital's Medicare, Medi-Cal and other third-party reimbursement arrangements. In all respects, CHWWB shall comply with all legal requirements in the performance of its obligations under this Agreement.

4.02 Confidentiality of Patient Records. CHWWB shall maintain the confidentiality of all files and records of the Hospital in compliance with all applicable legal requirements, disclosing the same only as required by law.

4.03 Compliance with Board Policy. CHWWB shall perform its obligations hereunder in a manner consistent with the mission, policies and procedures established by the Board.

4.04 Compliance with the Common Values for Community Sponsorship. CHWWB shall manage the Hospital in conformity with the Common Values for Community Sponsorship attached to this Agreement as Exhibit B and incorporated herein by this reference.

ARTICLE 5

AUTHORITY RETAINED BY THE BOARD

5.01 Authority Related to Professional Care. Notwithstanding the authority delegated to CHWWB herein, the Board shall have all power and responsibilities required to be reserved to the board of directors of a licensed general acute care hospital by the State of California and the JCAHO which cannot under law or JCAHO standards be properly delegated. The Board specifically reserves to itself the right and authority to approve the Hospital's professional staff bylaws and fair-procedures plan as required under the SHS Bylaws, and to make all decisions related to appointment or reappointment to professional staff membership or the granting of clinical

privileges, or related to the denial, revocation, suspension or other adverse decision with respect to such membership or clinical privileges, as set forth in the SHS Bylaws and the professional staff bylaws of the Hospital. The Board shall be ultimately responsible for the quality of medical care in the Hospital, as set forth in the SHS Bylaws and the professional staff bylaws of the Hospital.

5.02 Policies and Procedures. The Board reserves to itself the power and authority to establish or amend the Policies and Procedures in accordance with the Bylaws of SHS.

5.03 Powers Delineated in the SHS Bylaws. The Board reserves to itself the power and authority to delineated in the SHS Bylaws and such other powers as may be specified by the California Nonprofit Corporation Law as being reserved to the board of directors of a California nonprofit public benefit corporation.

5.04 Power to Commit the Corporation. The Board from time to time shall establish policies that specify limitations on the authority of the Chief Executive Officer, Chief Financial Officer, Hospital Administrator or any other officer to commit SHS to the expenditure of sums in excess of a dollar amount established by the Board.

ARTICLE 6

TERM AND TERMINATION

6.01 Term. The term of this Agreement shall commence on the Effective Date, and continue for a period of thirty (30) years until September 29, 2026, unless sooner terminated as provided herein, or extended by the mutual agreement of the parties.

6.02 Termination.

6.02.01 Breach. This Agreement shall terminate upon the breach of either party of any substantive obligation created by this Agreement, and the nonbreaching party provides the breaching party notice of termination, provided termination shall not be effective if the breach is capable of cure and the breaching party, within ten (10) calendar days after receipt of such notice, takes and vigorously continues thereafter to take all steps reasonably necessary to cure such breach, in which case, the nonbreaching party may terminate this Agreement on further notice if it reasonably appears that, despite such efforts, a cure cannot be effected within ninety (90) days after the date of the first notice or if the breaching party ceases to continue to take such efforts.

6.02.02 Insolvency. This Agreement shall terminate if (1) either party hereto shall (a) apply for or consent to the appointment of a receiver, trustee, liquidator or similar official for all or a substantial part of its assets, (b) file a

voluntary petition in bankruptcy or admit in writing its inability to pay its debts as they come due, (c) make a general assignment for the benefit of creditors, (d) file a petition or answer seeking an order for relief, a reorganization or an arrangement with creditors or to take advantage of any insolvency law, (e) become subject to an order, judgment or decree entered by any court, on the application of a creditor or otherwise, adjudging such party as bankrupt or insolvent or appointing a trustee, liquidator or similar official, and any such order, judgment or decree shall continue in effect for sixty (60) consecutive calendar days or (f) otherwise cease to meet its financial obligations in the ordinary course of business and (2) the other party provides such party notice of termination.

6.02.03 Destruction. This Agreement shall terminate if the Hospital or any substantial part thereof, shall be damaged or destroyed by fire or other casualty, and SHS determines not to repair or rebuild the Hospital. Should SHS determine to repair or rebuild the Hospital, this Agreement shall continue in full force and effect, and the parties shall cooperate to effect the construction and re-licensing of the Hospital in the most expeditious manner possible.

6.02.04 Licensing. This Agreement shall terminate if the Hospital's applicable licenses, certifications or accreditations, or any third-party reimbursement agreements essential for the Hospital's operation are at any time suspended, terminated or revoked, or proceedings are commenced therefor, and SHS provides CHWWB notice of termination.

ARTICLE 7

ALLOCATION OF COST

7.01 Method for Allocating Costs Among Hospitals. Compensation paid by SHS to CHWWB for the services rendered hereunder shall be determined based on CHWWB's costs of providing such services. To determine the amount of compensation payable by SHS, CHWWB, at least thirty (30) days prior to the commencement of each fiscal year (commencing with fiscal year ending June 30, 1996), shall compare total budgeted operating expenses for the coming fiscal year of all of the hospitals that constitute the CHW West Bay Region (as of the date hereof, Saint Francis Memorial Hospital, St. Mary's Medical Center, SHS, Seton Medical Center Coastsides and Seton Medical Center), and allocate the costs of providing services hereunder on the basis of the ratio of SHS's total budgeted operating expenses to the total budgeted operating expenses of all such CHW West Bay Region hospitals.

7.02 Determination of Payment Amount. On or before the 25th day of each month, CHWWB shall determine the total costs to be allocated among the CHW West Bay Region hospitals for the prior calendar month. SHS shall be allocated its proportionate share of such costs based on the ratio described in Section 7.01 above.

7.03 Time for Payment. On the last business day of each month, sums representing the cost allocation applicable to SHS for the month just ending shall be transferred automatically from SHS to CHWWB through the CHW cash management account maintained in connection with the cash management program described in Exhibit A. Payment of sums owing for services of outside consultants will be due upon receipt of an invoice therefor.

7.04 Costs of Outside Consultants. If CHWWB, in the exercise of its reasonable discretion, deems it to be necessary or appropriate to utilize an outside consultant to provide services to SHS, SHS will either reimburse CHWWB for the cost of such services or pay directly for such services upon receipt of an invoice therefor. Use of and payment for the services of outside consultants shall in no way affect SHS's obligations under Sections 7.02 through 7.03 of this Article.

7.05 Grace Period Regarding Cost of CHW Corporate Services. Notwithstanding the foregoing, for a period of three (3) years from and after April 23, 1996, SHS shall not be obligated for any costs attributable to CHW corporate services, whether or not allocated to CHWWB by CHW.

ARTICLE 8

EXPENSES OF OPERATIONS

8.01 SHS Solely Responsible. SHS shall be solely responsible for the payment of all costs and expenses related to the carrying on of the business of SHS, including but not limited to, (a) compensation and employee benefits payable to employees of SHS, (b) costs of insurance or participation in self-insurance programs, costs for maintenance or replacement of property, plant and equipment (including payment of principal and interest associated therewith), costs under leases and licenses entered into by SHS, costs of inventory and supplies, costs associated with compliance with any and all applicable laws and regulations, and costs of independent contractors engaged by SHS. CHWWB's sole responsibility hereunder is to provide the services described herein in accordance with the terms and conditions of this Agreement. SHS shall indemnify and hold harmless CHWWB, its member, directors, officers and employees from and against any costs and expenses associated directly or indirectly with the business of SHS, except for any costs of incurred by CHWWB in providing the services hereunder which are reimbursed to CHWWB in accordance with Article 7 of this Agreement.

ARTICLE 9

LIMITATIONS ON LIABILITY OF PARTIES; INDEMNIFICATION

9.01 Limitations on Liability of CHWWB. Nothing contained in any provision of this Agreement is intended nor shall it be construed to create any responsibility on the part of CHWWB for any liability, obligation or expense of SHS, including but not

limited to claims for damages, losses, costs or expenses (including attorneys' fees) arising out of the negligent or intentional acts or omissions of SHS, its Board or its employees or agents. SHS shall indemnify and hold harmless CHWWB, its member, directors, officers and employees from and against claims, demands, liabilities, losses, damages, costs and expenses, including reasonable attorneys' fees, resulting directly or indirectly from such negligent or intentional acts or omissions.

9.02 Limitations on Liability of SHS. Except with respect to the allocation of costs described in Article 7, nothing contained in this Agreement is intended or should be construed to create any responsibility on the part of SHS for any liability, including but not limited to claims for damages, losses, costs or expenses arising out of the negligent or intentional acts or omissions of CHWWB, its member, directors, officers or employees, and CHWWB shall indemnify and hold harmless SHS, and its directors, officers and employees from and against claims, demands, liabilities, losses, damages, costs and expenses, including reasonable attorneys' fees, resulting directly or indirectly from such negligent or intentional acts or omissions.

9.03 Limitation on Applicability of Sections 9.01 and 9.02. The provisions of Sections 9.01 and 9.02 are intended to apply only to claims and liabilities that are not covered by or exceed the limits of insurance coverage and for which liability has not been otherwise allocated by agreement of the parties. Nothing contained in this Article 9 is intended or should be construed to create any liability to or rights of recovery or subrogation on the part of any insurance carrier or any other third party against either of the parties or to affect the allocation of responsibility among insurance carriers or other persons who may have responsibility for satisfaction of all or any part of any claim made against either party.

ARTICLE 10

RECORDS

10.01 CHWWB's Records. At all times during and after the term of this Agreement, all business records and information relating exclusively to the business and activities of CHWWB, shall be and remain the sole property of CHWWB. CHWWB retains all ownership and other rights in all systems, manuals, materials and other information, in whatever form, used by CHWWB in the performance of its obligations hereunder. Nothing contained in this Agreement shall be construed as a license or transfer of such information either during the term of this Agreement or thereafter. Upon termination or expiration of this Agreement, CHWWB shall have the right to retain all such information, and SHS shall, upon request, deliver to CHWWB all such information in its possession.

10.02 SHS's Records. At all times during and after the term of this Agreement, all patient medical records, financial, corporate and personnel records and information relating to the business and activities of SHS shall be and remain the sole property of SHS. Notwithstanding the foregoing, SHS shall at all times during the term of this Agreement, make available to CHWWB for inspection by its authorized representatives, during regular business hours, at the principal place of business of SHS, any such records reasonably required for CHWWB to provide services and otherwise carry out its responsibilities hereunder.

10.03 Confidentiality of Records. CHWWB and SHS shall adopt procedures to assure the confidentiality of the records relating to the operations of the Hospital, including, but not limited to, all statistical, financial and personnel data related to the operations of the Hospital, which information is not otherwise available to third parties publicly or by law, and shall comply with all applicable federal and state statutes and regulations relating to such records. Patient medical records and other privileged patient information shall not be disclosed or utilized by CHWWB, SHS or their agents or employees except as required or permitted by applicable laws and regulations.

ARTICLE 11

MISCELLANEOUS

11.01 Notices. All notices required or permitted hereunder shall be given in writing and delivered by hand or sent by registered mail, postage prepaid, return receipt requested, or sent by express courier or telecopier and confirmed by mail as aforesaid. The date of receipt shall be deemed to be the date on which such notice has been received by the party to whom it is addressed. Notice shall be delivered or mailed to a party to the attention of the persons named below and at the following addresses or to such other persons or at such other places as a party shall designate in writing.

To CHWWB:

CHW West Bay
1900 Sullivan Avenue
Daly City, CA 94015
Attention: President
Phone: 415-991-6632
Fax: 415-991-6024

With copy to:

Catholic Healthcare West
1700 Montgomery Street, Suite
300
San Francisco, CA 94111
Attention: General Counsel
Phone: 415-438-5500
Fax: 415-438-5726

To SHS:

Sequoia Health Services
170 Alameda de las Pulgas
Redwood City, CA 94062
Attention: Hospital
Administrator
Phone: 415-367-5708
Fax: 415-482-6056

With copy to:

Sequoia Hospital District
170 Alameda de las Pulgas
Redwood City, CA 94062
Attention: Board President
Phone: 415-367-5708
Fax: 415-482-6056

With copy to:

Phone: (415) ____ - ____
Fax: (415) ____ - ____

11.02 Independent Contractors. CHWWB's appointment and actions hereunder are in the status of an independent contractor. CHWWB and SHS acknowledge and agree that one is neither the employee nor the employer of the other, and that they are not partners or joint venturers. For all purposes, this Agreement shall be construed as creating only a relationship between SHS and CHWWB of agency.

11.03 Medicare Books and Records. CHWWB agrees that, until the expiration of four (4) years after the furnishing of services pursuant to this Agreement, it will, if required by Section 1861(v)(1)(I) of the Social Security Act, as amended, and any regulations thereto, make available its books, documents and records related to this Agreement to the Secretary of the Department of Health and Human Services and the U.S. Comptroller General and their designees, and will insert the clause required by such Section in all subcontracts.

11.04 Assignment; Successors and Assigns. Except as specifically provided herein, CHWWB shall not assign its rights and duties and obligations under this Agreement without the prior written consent of SHS. The terms, provisions, covenants, obligations and conditions of this Agreement shall be binding upon and shall inure to the benefit of successors in interest and the assigns of the parties hereto; provided, however, that no assignment, transfer, pledge or mortgage by or through a party in violation of the provisions of this Agreement shall vest any rights in the assignee, transferee, pledgee or mortgagee.

11.05 Entire Agreement; Amendment. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, negotiations and discussions, whether written or oral, between the parties regarding the subject matter of this Agreement. No amendments, changes or additions to this Agreement shall be recognized unless made in writing and signed by the parties hereto.

11.06 Captions. The captions used herein are for convenience of reference only and shall not be construed in any manner to limit or modify any of the terms hereof.

11.07 Prevention of Performance. Neither party shall be liable to the other for any delay or damage or any failure to act (other than payment of money) as a result, occasioned or caused by reason of federal or State laws or the rules, regulations or orders of any public body or official purporting to exercise authority or control respecting the operations covered hereby, or as a result of, occasioned or caused by strikes, action of the elements, acts of God or other causes beyond the control of the parties, and delay as a result of the above causes shall not be deemed to be a breach of or failure to perform under this Agreement.

11.08 Waiver, Breach. The waiver of a breach of any term or condition of this Agreement shall not be deemed to constitute a waiver of a subsequent breach of the same, or a breach or subsequent breach of any other term or condition.

11.09 Severability. In the event any provision of this Agreement is held to be unenforceable for any reason, the unenforceability thereof shall not affect the remainder of this Agreement, which shall remain in full force and effect and enforceable in accordance with its terms.

11.10 Further Assurances. Both parties shall promptly and duly execute and deliver to the other such further documents and assurances and take such actions as such party may reasonably request in order more fully to carry out the intent and purposes of this Agreement.

11.11 Time of Essence. Time is of the essence of this Agreement and the observance of each and every covenant and obligation made and created hereby.

11.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and all such counterparts together shall constitute but one and the same instrument.

11.13 Authorization. Each party represents to the other with respect to itself that the execution and performance of this Agreement by SHS and CHWWB have been duly authorized by all necessary laws, resolutions, corporate and other action, and this Agreement constitutes the valid and enforceable obligations of SHS and CHWWB in accordance with its terms.

11.14 Choice of Laws. This Agreement shall be governed by and construed in accordance with the laws of the State applicable to contracts entered into and to be performed wholly within the State.

11.15 Attorneys' Fees; Costs of Legal Action. In the event a party to this Agreement resorts to legal action against the other to enforce the terms and provisions of this Agreement, the prevailing party shall be entitled to recover the expenses and costs of such action, including, without limitation, witness fees and per diem and its reasonable attorneys' fees incurred in connection therewith.

11.16 Selection of Counsel and Control of Defense. Except as otherwise required by the terms of any insurance coverage under which such defense is provided, the selection of all counsel defending all claims and legal actions against SHS or any employee of SHS for whom SHS may have the responsibility for providing a defense shall be made by CHWWB and approved by SHS; provided, however, in the event of a conflict of interest which may preclude the joint representation of CHWWB and SHS or any employee of either of them, each of CHWWB and SHS may select its own counsel.

11.17 Acceptance of Settlement Proposals. Subject to compliance with the terms of any insurance policy applicable to such proposal which establishes different standards therefor, the acceptance of a proposal for the pre-judgment settlement of a claim brought by a third party against SHS shall require the agreement of both parties to this Agreement; provided that in any action to which SHS and CHWWB are both parties, either party may unilaterally accept that portion of the proposal which relates to its liability in circumstances where the refusal to accept such proposal presents a material risk that it will be exposed to liability in excess of applicable insurance coverage and it has retained independent counsel to review the claim and settlement offer and to advise it regarding the issues and risks relating thereto.

11.18 CHWWB's Provision of Services to Other Organizations and Participation in Other Activities. CHWWB reserves the right to provide services to other health care organizations and to participate in activities unrelated to its obligations under this Agreement.

11.19 Dispute Resolution.

11.19.1 Selection of Adviser. In the event that a dispute arises concerning this Agreement or the performance of any obligations it establishes, either CHWWB or SHS (the "Parties") may refer the dispute to a neutral adviser ("Adviser") for resolution. The Adviser shall be any person or organization mutually agreed upon by the Parties.

11.19.2 Procedure for Resolution. Within twenty (20) days of the submission of the dispute to the Adviser, the Adviser shall meet with the Parties. At this meeting, the Adviser will attempt to assist the Parties in negotiating a resolution of the dispute. If that is not possible, the Adviser will recommend in writing, within ten (10) days of this meeting, a procedure for resolving the dispute. This procedure may be either non-binding or binding, with the agreement of the Parties. The procedure may be conducted by the Adviser or by another person or organization which the Parties, with the assistance of the Adviser, may agree upon, and will be subject to such ground rules as may be recommended by the Adviser. These ground rules will include provisions for information exchange, format and location of the procedure, and a time for completion of the procedure. If the Parties cannot agree on a procedure, they shall agree to attend a non-binding mediation session presided over by the Adviser.

11.19.3 Arbitration. If the dispute cannot be resolved within such time as the Adviser deems reasonable, the Adviser shall, at the request of either Party, certify in writing that the dispute is incapable of resolution. In such event, the dispute will be settled by arbitration in accordance with the commercial arbitration rules of the American Arbitration Association. Arbitration shall take place in San Francisco, California, and there shall be one arbitrator. The judgment of the arbitrator shall be final, and shall be accompanied by a written statement of the basis of such judgment and may be enforced by any court having jurisdiction.

IN WITNESS WHEREOF, the parties have hereto caused this Agreement to be duly executed, as of the day and year first above written.

SEQUOIA HEALTH SERVICES

CHW WEST BAY

By: Ilenna L. Vasquez
Its: _____

By: John G. Hill
Its: _____

EXHIBIT A

Fidelity Coverage

Hartford Insurance
7/1/96 - 7/1/97

Property and Boiler & Machinery

WHPIG
10-1-96 - 10-1-97

Hospital Professional
& General Liability

Farmers Insurance
10/1/96 - 10/1/97

Auto

Farmers Insurance
1/19/96 - 1/19/97

Exhibit 1.1.a

Schedule of Real Property

Fee Interests:

- 170 Alameda de las Pulgas, Redwood City (Main Hospital and MRI Building, including adjacent parking lot and structure located at the corner of Whipple Avenue and Circle Road), consisting of Parcel One (County of San Mateo Assessor's Parcel No. 058-060-080) described by that certain Title Report No. 660067-1, dated as of September 12, 1996 at 5:00pm, issued by Chicago Title Company, Walnut Creek, California.
- 2940 Whipple Avenue, Redwood City (Skilled Nursing Facility, Acute Rehabilitation Facility, Partial Hospitalization Facility, Administrative and Physician Office Space), consisting of Parcels Two (County of San Mateo Assessor's Parcel No. 058-060-140), Three (County of San Mateo Assessor's Parcel No. 058-060-100) and Four (County of San Mateo Assessor's Parcel No. 058-060-110) described by that certain Title Report No. 660067-1, dated as of September 12, 1996 at 5:00pm, issued by Chicago Title Company, Walnut Creek, California.
- 255 Upland Road, Redwood City (Parking Facility), consisting of Parcel A (County of San Mateo Assessor's Parcel No. 058-102-110), described by that certain Title Report No. 6560069, dated as of September 12, 1996 at 5:00pm, issued by Chicago Title Company, Walnut Creek, California.

Leasehold Interests:

- 633 Veterans Boulevard, Redwood City (Occupational Health Facility)
- 333 Main Street, Redwood City (Administrative and ADRC Space)

Exhibit 1.1.b

Schedule of Retained Real Property

Fee Interests:

2900 Whipple Avenue, Redwood City, (Medical Office Building)

525 Veterans Boulevard, Redwood City (Physical Therapy Facility)

3004 Broadway, Redwood City (Radiology Facility)

158 Alameda de las Pulgas, Redwood City (Guest House for Patients' Families)

Exhibit 1.2.a

Schedule of Tangible Personal Property

Any and all tangible personal property (including, but not limited to, equipment, machinery, furnishings, furniture, fixtures, appliances, tools, instruments, supplies, and consumables) located on the premises listed below and detailed in the Hospital Inventory Record dated as of 6/30/96:

170 Alameda de las Pulgas, Redwood City
2940 Whipple Avenue, Redwood City
633 Veterans Boulevard, Redwood City
333 Main Street, Redwood City

Exhibit 1.2.b

Schedule of Retained Personal Property

Any and all tangible personal property located on the premises listed on Exhibit 1.1.b together with office furnishings, equipment, and supplies reasonably required for the District's continued activities after the Effective Time.

Exhibit 1.3

Schedule of Leasehold Improvements

Any and all leasehold improvements owned by District and located on the premises listed below:

633 Veterans Boulevard, Redwood City
333 Main Street, Redwood City

Exhibit 1.4

Schedule of Other Assets

All assets of the District in excess of \$10,000,000 (which sum is to be retained by the District) reflected on its balance sheet as of the Effective Time, related to the operations of the Hospital that are not included in Exhibit 1.1 (Real Property), Exhibit 1.2 (Tangible Personal Property), Exhibit 1.3 (Leasehold Improvements), and Exhibit 1.6 (Security Deposits and Prepaid Expenses), excluding the following:

Funds in any pension plan or deferred compensation plan.