



August 14, 2023

Oregon Health & Science University
3181 SW Sam Jackson Park Road
Portland, Oregon 97239-3098

Legacy Health
1919 NW Lovejoy Street
Portland, Oregon 97209

Re: System Combination

To whom it may concern:

Legacy Health, an Oregon non-profit corporation, on behalf of itself and its subsidiaries and controlled affiliates (collectively, “Legacy”) and Oregon Health & Science University, a public corporation of the state of Oregon (“OHSU”) have reached a non-binding agreement for initial terms by which they would affiliate to create a combined health care system under OHSU as the system’s sole corporate parent (the “System Combination”). The mutual intent of this System Combination is to deliver high quality health care services to the communities Legacy and OHSU serve, and allow Legacy and OHSU to enhance and achieve their shared mission and vision. Legacy and OHSU are also referred to in this letter as a “Party” and collectively as the “Parties”.

In deciding to pursue this System Combination, the Parties have mutually acknowledged and agreed that:

- Legacy’s historic vision is to become a health partner to patients for life by delivering high-quality affordable care, connected experiences, and meaningful outcomes to its patients and members.
- OHSU, as Oregon’s only academic health center, has a multi-faceted mission: delivering accessible, high-quality care to the state’s residents, providing health education and training, and advancing the discovery of new treatments and insight.
- Both organizations have a fundamental imperative to improve value as a function of cost, service, and quality and to help lead the transformation of health care in Oregon. They also have complementary strengths, with Legacy a leading provider of community-based care and OHSU a leading academic medical center.

- The combination of OHSU and Legacy represents an opportunity to develop a regional, integrated health care system that provides a full range of services across the continuum of care, with scale, resources, coordination, skills and expertise to exceed what either organization could accomplish independently – thereby optimizing the value of health care to those we serve.

This letter sets forth the key principles, commitments and intentions that the parties have negotiated and is intended to inform third parties as to proposed key terms of formal and binding definitive agreements (the “Definitive Agreements”) between Legacy and OHSU that will be necessary to realize the System Combination.

1. **Vision and Objectives.** The Parties desire to create a combined Legacy/OHSU health care system (the “Combined System”) that is composed of their current complementary health systems.

The Parties’ primary objectives in pursuing the System Combination are to:

- Create a combined organization that is better able to achieve the Parties’ respective missions to improve the health and well-being of people, patients, and the broader community;
- Combine and coordinate care and complementary services across the Parties’ locations in Oregon and Washington State to offer high quality and cost-effective delivery of inpatient and outpatient healthcare to the communities they serve;
- Build upon the Parties’ complementary strengths in providing care in full range of needs from primary and secondary care, preventive medicine, and public health to tertiary and quaternary services;
- Maintain and improve health care access to underserved, vulnerable populations in urban, suburban, and rural locations;
- Enhance and expand relationships with physicians and other health care providers to provide fully integrated services across the continuum of care;
- Strengthen the long-term financial health of the combined enterprise to enable it to (a) make significant capital improvements as needed from time to time to operate a state-of-the-art health system and to respond to changes in technology, demographics and care management models; and (b) better withstand the high volatility in the health care services industry (due to labor shortages, inflation, dependence on government payors and other factors);
- Enhance the current academic footprint of the Combined System in order to (a) expand the education and training opportunities of future health care practitioners; and (b) enhance

and expand access to clinical trials, research activities and other innovations across more diverse populations and a broader range of services;

- Enhance the ability of the combined Oregon and Washington State-based system to provide high quality care at reasonable cost, and thereby deliver substantial value to patients and payors, by achieving efficiencies, investing in new systems and technologies, and leveraging the best practices of both systems; and
- Accelerate the ability of the Combined System to continue to transition to value-based care models.

2. Description of System Combination

a. OHSU will be the Combined System’s parent entity, such that Legacy and each of Legacy’s subsidiaries will become subsidiaries of OHSU. Accordingly, the Combined System will be under the ultimate governance authority of the OHSU Board of Directors (the “OHSU Board”), the members of which are appointed by the Governor of the state of Oregon.

b. Legacy designees will be appointed to certain OHSU bodies and committees to ensure that they have a meaningful, ongoing voice in the strategy and direction of the Combined System, including, without limitation, input into the proposed expenditures of the Capital Commitment (described in Section 3, below).

c. All existing Legacy corporate entities will remain intact as direct or indirect subsidiaries of OHSU (excluding Legacy’s 50% interest in a health plan, PacificSource, which interest will be transferred at Closing as described in Section 8, below) and will retain their current operating licenses, assets, contracts, and liabilities upon the closing of the System Combination (the “Closing”).

d. At Closing, OHSU and Legacy facilities and operations will be organized under a unified governance structure as described above and operated on a consolidated financial and “single bottom line” basis, with capital deployed based on the Combined System’s strategic objectives, regardless of which system operating entity(ies) receive the direct benefit of such expenditures (but subject to the Capital Commitment and Recapitalization Funding described below).

3. Capital Commitment.

a. In connection with the combination, OHSU shall commit to expenditures on capital projects of approximately \$1 Billion (the “Capital Commitment”). The Capital Commitment will be spent on projects that have commenced or that have been approved (and for which expenditures have been earmarked) within ten (10) years following the Closing absent exigent circumstances (which could delay the expenditure period but will not reduce the amount).

b. The Capital Commitment will be used to further expand and develop the Combined System and improve the health and well-being of people, patients, and the broader community served. The Capital Commitment will be expended solely on primary/secondary care and community facilities, capabilities and programs, including, without limitation, on those facilities that are currently part of the Legacy system.

c. In addition, Legacy's net cash at Closing will be transferred to fund the new Foundation described in Section 4.a, below, with a corresponding infusion of replacement capital into the Combined System targeted at approximately \$500 Million.

d. Thus, the capital that OHSU is committing to secure and infuse in connection with the System Combination is approximately \$1.5 Billion. OHSU expects to secure funding of most or all of this amount by issuing over time new debt that would be secured by a new obligated group that includes the entire Combined System (i.e., both the current Legacy and current OHSU facilities and operations).

4. Foundations.

a. At Closing, Legacy will create a new, tax-exempt foundation (the "Foundation"), which will initially be funded with Legacy's net cash at Closing as well as Legacy's 50% interest in PacificSource, which interest will be transferred at Closing as described in Section 8, below).

b. The Foundation will be independent and not affiliated with the Combined System, and it will be operated by a board that is independent of the Combined System.

c. The mission of the Foundation will be to promote health (including physical, mental, and social determinants of health) and health equity in the community. This mission will allow the Foundation to provide benefits to the health and well-being of people, patients, and the broader community.

d. The Parties' respective existing foundations will remain intact at Closing, at least for the immediate future, although the Parties will evaluate their respective current foundation activity to determine opportunities for alignment and possible consolidation, consistent with prevailing laws. Donative agreements shall be respected at all times (e.g., donations earmarked by the donor for the support of a particular legal entity, facility or project will be used solely for such purpose). The foundation leaders of both organizations will work in good faith to ensure any post-closing operations and leadership transitions for the existing foundations support the mission of each of the existing foundations and minimize disruption to each of the existing foundations.

5. Naming and Branding of Combined System. The Parties acknowledge the history and value of both the Legacy Health and the OHSU names and brands. The Parties will work together in good faith to develop a strategy for appropriately branding the system as a whole and individual

facilities comprising the system, including retaining the Legacy name for its existing facilities in some or all branding for at least some to-be-determined period. As part of this process, the parties will work with third-party branding consultants to develop such strategy for the short term prior to the execution of the Definitive Agreements.

6. **Physicians and APPs.** The Parties intend that at Closing, all physician and advance practice provider (“APP”) employees of Legacy, OHSU and their respective affiliates who are in good standing will remain employed by their current employer and remain subject to the terms of their current collective bargaining agreements, as applicable. Over time, the Combined System will provide opportunities for physicians and APPs to join the Combined System as employed faculty, or through OHSU’s existing non-academic track, as members of system-sponsored or system-owned provider networks, or as fully independent physicians and APPs with medical staff privileges at system facilities. However, as presently, all OHSU faculty will continue to be employed by OHSU.

7. **Other Employees.** The Parties intend that at Closing, all non-physician or APP employees of Legacy, OHSU and their respective affiliates who are in good standing will remain employed by their current employer and remain subject to the terms of their current collective bargaining agreements, as applicable. Consequently, all such employees shall retain their benefits and seniority at Closing. The Parties acknowledge that, over time, some employees may migrate to a different employer within the Combined System, or to a different location or job function, to enhance system effectiveness and operational integration.

8. **Pacific Source.** Legacy’s fifty percent (50%) ownership interest in PacificSource will be excluded from the System Combination; Legacy’s interest in PacificSource will be transferred at Closing to the Foundation.

9. **Managed Care and Value-based Contracting.** As a Combined System, the Parties intend to enhance and accelerate their ability to engage in a broad range of value-based contracting for the benefit of payors, patients and the Combined System, subject to and consistent with the need to maintain the financial viability of the clinical enterprise.

10. **Academic Affiliations, Research and Clinical Trials.** The Parties intend that their combination will result in greater opportunities for education, training and research across a broader spectrum of facilities and patient populations.

11. **Exclusivity, Definitive Agreements and Closing.**

a. The Parties shall work in good faith to, as applicable, negotiate, finalize, and enter into mutually acceptable Definitive Agreements, which will include various terms and conditions not set forth herein as are mutually agreed by the Parties and customary for transactions similar to the System Combination.

b. The Parties will work expeditiously and in good faith to negotiate and finalize the Definitive Agreements as quickly as reasonably feasible, with the goal of finalizing them by November 30, 2023. Closing will occur as soon as practicable thereafter upon receipt of all required governmental approvals (and/or expiration of any mandated waiting periods) and satisfaction or waiver of all Closing conditions.

c. The Parties have entered into exclusivity arrangements and covenants through December 31, 2023

12. **Non-binding nature of this Letter.** No contract or binding obligation will exist between or among the Parties by virtue of this letter. Such contract or binding obligations will exist, if at all, only pursuant to the Definitive Agreements, and any other binding contractual arrangements between the Parties, if and when executed by the Parties. If the Definitive Agreements are not executed for any reason, neither Party shall have obligation or liability to the other Party, except pursuant to any other binding contractual arrangements between the Parties.

(Signature page follows)

**OREGON HEALTH & SCIENCE
UNIVERSITY**

By: *Danny Jacobs*

Printed: DANNY D. JACOBS

Title: PRESIDENT, OHSU

Date: August 14, 2023

LEGACY HEALTH

By: *Kathryn Correia*

Printed: Kathryn G. Correia

Title: President and Chief Executive Officer

Date: August 14, 2023