

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING (this "MOU"), dated as of January 29, 2013, is by and between THE BROOKLYN HOSPITAL CENTER ("TBHC") and INTERFAITH MEDICAL CENTER ("*Interfaith*" or "IMC"), each a "Party" and collectively, the "*Parties*."

The Parties hereby agree as follows:

1. Introduction.

(a) Guiding Principles. The Parties share a mutual commitment and mission to reconfigure, enhance and expand resources to improve healthcare outcomes in Brooklyn through better access to primary and preventative care and other ambulatory services; more effective and efficient management of acute and chronic ambulatory care-sensitive conditions; greater depth, quality, efficiency and effectiveness of inpatient services; and coordinated care to decrease redundancy and cost while simultaneously continuing to serve and be responsive to their respective local community health care needs, which for IMC means the needs of central and north Brooklyn, and addressing population health concerns.

(b) Overview of Structure. The Parties desire to put in place a new organizational structure comprised of a hospital system under an active parent model to streamline care, enhance coordination and encourage partnerships with other providers, nursing homes and long-term facilities, FQHCs and community physicians to reduce duplicative services and facilitate access to care for residents.

(c) Purpose of this MOU. The purpose of this MOU is to set forth the general terms pursuant to which the Parties would be interested in continuing their discussions

and due diligence efforts concerning their formation of and participation in such new hospital system (the "*Proposed Transaction*"). Notwithstanding anything to the contrary contained herein, it is expressly understood and agreed between the Parties that the consummation of the Proposed Transaction is subject to, among other things, the successful completion of due diligence and the negotiation, execution and delivery of a definitive corporate reorganization agreement, and other related agreements and documents (collectively, the "*Definitive Agreements*"), and a plan of financial restructuring for Interfaith (the "IMC Financial Restructuring Plan"), each mutually acceptable in form and substance to TBHC and Interfaith, as well as the approval of the governing boards of both TBHC and Interfaith, which approval may be denied in the sole discretion of either or both of such boards. It is anticipated that the Proposed Transaction would be accomplished on substantially the terms set forth herein.

2. Due Diligence. While the Definitive Agreements are being negotiated, TBHC and Interfaith will cooperate in conducting diligence of each other with a view to completing their respective due diligence reviews as expeditiously as practicable following the execution of this MOU.

3. Terms. It is anticipated that the Definitive Agreements will include, among others, the following terms:

(a) Healthcare System. The Parties intend to form an integrated healthcare system under an active parent model that preserves and strengthens both Interfaith and TBHC, each having a governing body that is representative of its community, so that each may continue to be responsive to, and better serve, local community health care needs.

Interfaith and TBHC will become integrated as follows:

(i) IMC. Interfaith will either (x) be reorganized with TBHC or its designated affiliate as its sole member, or (y) transfer its assets to a new New York not-for-profit corporation formed to be its successor, which corporation shall have TBHC or its designated affiliate as its sole member. Either such successor of IMC is referred to herein as “*New IMC*,” and TBHC or its designated affiliate is referred to herein as the “TBHC Member.”

(A) TBHC. The TBHC Member will exercise the following reserved powers: appoint and remove New IMC’s trustees; approve operating and capital budgets; approve operating policies and procedures; approve the appointment of corporate officers and senior management; approve affiliation, clinical service and management agreements; approve certificate of need and other regulatory applications; approve settlements of administrative proceedings and litigation in which New IMC is a party; and such additional powers as shall be set forth in the Definitive Agreements. The TBHC Member, as New IMC’s parent, shall have no powers over New IMC not expressly agreed upon by the Parties and enumerated in the Definitive Documents.

(B) Governing Board. The initial board of trustees of the New IMC shall have five members (or such higher number as the Parties may agree upon), in a single class, consisting of the following: (i) sixty percent (60%) of the board members shall be appointed by the TBHC Member (one of whom shall also be a member of the TBHC board of trustees), and (ii) forty percent (40%) of the members shall be current members of the

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IMC board of trustees, appointed by IMC (the “*IMC Designated Trustees*”). Each of the members of the New IMC board will be appointed for an initial term of 5 years. During that initial 5 year period, none of the IMC Designated Trustees may be removed from the New IMC board without cause. In the event that any IMC Designated Trustee resigns or is removed for any reason, a replacement trustee nominated by the remaining IMC Designated Trustee shall be appointed by the TBHC Member (to serve for the remainder of the initial trustee’s 5 year term). All New IMC Trustees shall comply with applicable statutes, regulations, New IMC bylaws, and New IMC policies for corporate compliance, conflicts of interest and trustee fiduciary responsibilities and obligations, which policies will be consistent with the current policies of TBHC.

(C) Continued Medical Center Operations. New IMC and the TBHC Member will make commercially reasonable, good faith efforts to maintain the New IMC medical center as a general hospital with inpatient services, and shall not approve or implement a closure plan for New IMC as a general hospital with inpatient services unless (i) all reasonable alternatives to closing and available options are explored and determined to be not viable as reasonably determined by the New IMC and the TBHC Member; and (ii) as part of the closure plan, New IMC provides not less than six (6) months public notice prior to closure.

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(D) Community Representation on New IMC Board. Each member of the New IMC board of trustees shall reside in Brooklyn and shall either (i) reside in New IMC's primary service area; (ii) have experience within the health care industry; or (iii) have knowledge of local community health needs.

(E) TBHC Board. New IMC shall nominate one of its trustees to serve on the TBHC Member board of trustees, unless the Parties otherwise agree to provide in the Definitive Agreements that the chairman of the board of New IMC will serve as an *ex officio* member of the TBHC Member board. During the initial 5 year period of the New IMC, the IMC Designated Trustees shall designate one of themselves to be the trustee nominated to sit on the TBHC Member board.

(ii) BHC Network. TBHC will form a New York not-for-profit corporation (the "*BHC Network*"). The BHC Network will engage in planning and strategic development for the Brooklyn marketplace. The BHC Network will work with TBHC, New IMC and other entities providing continuity of care, as such are approved by the BHC Network. Any contractual relationship between the BHC Network and New IMC shall be satisfactory to New IMC and TBHC.

(iii) Management Company. It is contemplated that TBHC will form a for profit corporation to provide management and other services for members of the BHC Network and other entities. Any contractual relationship between such management company and New IMC shall be satisfactory to New IMC and TBHC.

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(b) Financial Restructuring. Concurrently with the preparation and execution of the Definitive Agreements, and in cooperation and consultation with TBHC, it is contemplated that IMC will engage in a financial restructuring and its Board will take such actions that are appropriate under the circumstances to result in an IMC Financial Restructuring Plan. The IMC Financial Restructuring Plan is expected to involve, among other things, a restructuring of IMC's balance sheet and the elimination of significant liabilities. The restructuring process will include meetings with representatives of the New York State Department of Health, the Dormitory Authority of the State of New York and such other third parties necessary to a successful IMC Financial Restructuring Plan and to the obtaining of appropriate financing. The IMC Financial Restructuring Plan will be responsive, as appropriate, to the recommendations of any DOH approved Navigant report, and shall include other elements appropriate and necessary to meet the health care needs of the community served by IMC.

(c) Clinical Services Review. The Parties acknowledge that to achieve the purposes of this MOU consistent with the guiding principles stated in Section 1(a) and to maintain both TBHC and New IMC as first class, high quality hospitals serving the needs of their respective communities, the Parties must consider the possibility of new, reduced and reconfigured services at New IMC. To that end, the Parties shall establish a joint board committee composed of an equal number of trustees/directors from each Party's board (or non trustee/director representatives who may include members of senior management as determined by each Party's board in its sole discretion) to review the current and future clinical services at IMC. The joint board committee will have the following advisory responsibilities:



(i) Prepare a community service plan which will describe the clinical services needs of the communities served by IMC;

(ii) Compile a list of "core services" at IMC which should be maintained for the clinical services needs of the communities served by IMC to be met; and

(iii) Develop a demographic, demand and financial assessment tool to assess any addition, reduction, closure or reconfiguration of clinical services at IMC subsequent to the Proposed Transaction.

The plans, lists and tools described above shall be submitted to the TBHC and IMC boards for considering clinical services changes at IMC in connection with the Proposed Transaction.

(d) Other. The Definitive Agreements will contain standard representations, warranties, covenants, disclosure schedules, closing conditions and other provisions that are customary in a transaction of this type and size.

4. Conditions. The closing of the Proposed Transaction (the "*Closing*") will be conditioned upon the satisfaction or waiver of, among other things:

(a) HEAL Grants.

(i) Pre-Closing. Both Parties shall have received HEAL grants prior to the Closing, which as to IMC, shall be sufficient, inter alia, to provide for consummation of the IMC Financial Restructuring Plan.

(ii) Post-Closing. The Parties each shall have received written commitments from applicable governmental authorities to provide HEAL grants to both TBHC and New IMC following the Closing in amounts determined to be

necessary to provide for the future viability of TBHC, New IMC and the BHC Network.

(b) Medicaid Rate Adjustments.

(i) Pre-Closing. Each of the Parties shall have reached agreement with applicable governmental authorities regarding adjusted Medicaid rates for services such party provides for periods prior to the Closing and such agreed upon adjusted Medicaid rates shall have been implemented.

(ii) Post Closing. Each of the Parties shall have received written commitments from all applicable governmental authorities to implement adjusted Medicaid rates with regard to services provided by TBHC and New IMC following the Closing, in amounts determined to be necessary to provide for the future viability of TBHC, New IMC and the BHC Network, as applicable.

(c) Other Grants and Subsidies. Each of the Parties shall have received written commitments from all applicable governmental authorities to provide such party such other grants and subsidies (*e.g.*, bad debt and charity care disbursements) as may be determined to be necessary to provide for the future viability of TBHC, New IMC and the BHC Network, as applicable.

(d) Approval of IMC Financial Restructuring Plan. IMC and TBHC shall each be satisfied with the terms of the IMC Financial Restructuring Plan.

(e) Governmental and Third Party Approvals. Each Party shall be satisfied that (i) all requisite notices and all other information shall have been filed with all appropriate governmental and regulatory authorities, and (ii) all necessary or appropriate

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governmental and other third party approvals, orders and consents relating to the Proposed Transaction shall have been obtained.

(f) Approval by the Parties' Governing Boards. The Proposed Transaction and the terms of the Definitive Agreements and the IMC Financial Restructuring Plan shall have been approved by the governing boards of each Party in its sole discretion prior to execution.

(g) Court Orders. Orders of any applicable court entered in connection with the IMC Financial Restructuring Plan shall be in form and substance acceptable to IMC and TBHC in their respective sole discretion.

5. Other Matters.

(a) No Broker. The Parties agree that no broker has been used in connection with the Proposed Transaction.

(b) No Third Party Beneficiary. No third party beneficiary rights are, or are intended to be, created hereunder.

(c) No Assumption of Liabilities. For the avoidance of doubt, it is further expressly acknowledged that neither Party will assume any obligations or liabilities of the other Party as a result of the entering of this MOU.

6. Preliminary Nature of MOU.

(a) Foregoing Not Exhaustive. The foregoing is not intended to be a complete list of all the terms and conditions to the Parties' willingness to participate in the Proposed Transaction. The terms and conditions contained in this MOU are, of course, subject to being supplemented or restructured in the course of negotiating the Definitive Agreements.

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(b) Legal Review. All matters referred to herein and all corporate proceedings are subject to legal review and approval by the Parties' respective counsel.

(c) No Contract. It is understood that this MOU merely constitutes a statement of the Parties' mutual intentions with respect to the Proposed Transaction, does not contain all matters upon which agreement must be reached in order for the Proposed Transaction to be consummated and, therefore, does not constitute a binding commitment with respect to the Proposed Transaction itself.

7. Binding Obligations.

(a) Extent of Binding Obligations. Except for the provisions of paragraphs 2, 5, 6, and 7 hereof, which will be fully binding on each of the Parties upon the execution of this MOU by both Parties, this MOU is not intended to (and shall not under any circumstances) constitute a binding agreement of TBHC, Interfaith or any other person or entity. The Parties shall be bound in respect of the Proposed Transaction only upon the execution and delivery of the Definitive Agreements.

(b) Interim Management of Interfaith. Pursuant to the bankruptcy court's order, Interfaith's existing management team shall continue to manage Interfaith during the period prior to the Closing; provided that the chief executive officers of Interfaith and TBHC (and any other officers that may be necessary) shall meet weekly during such period to discuss Interfaith's operations and implementation of the IMC Financial Restructuring Plan. Representatives from DOH and DASNY shall be invited to attend such meetings and to consult with the Interfaith and TBHC officers. After the Closing, Interfaith's existing management team shall step down and be replaced by a new management team approved by New IMC's board.

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(c) No Solicitation. This MOU will constitute an agreement by Interfaith to work with TBHC toward the Closing and not to solicit alternative proposals. From the date of this MOU to the earlier of (i) the execution of the Definitive Agreements, or (ii) the termination of this MOU in accordance with Paragraph 7(j) below, except as otherwise required by law or IMC's fiduciary duties, none of Interfaith, its members or trustees, any affiliate of its members or trustees, or any agent, employee, attorney, investment banker, broker or other person acting on behalf of any of the foregoing, shall solicit or initiate inquiries or proposals from any parties with respect to (x) any transaction that is similar to the Proposed Transaction, (y) any clinical or administrative affiliation or business arrangement of IMC, or (z) any other transaction the consummation of which would or could reasonably be expected to interfere with, prevent or materially delay the Proposed Transaction, the prospective relationship between TBHC and IMC or the design of the new hospital system. Notwithstanding anything herein to the contrary, higher or better offers for IMC and/or its assets may be considered by IMC to the extent required by applicable bankruptcy or other law.

(d) TBHC Agreement. This MOU will constitute an agreement by TBHC to work with Interfaith toward the Closing and not to solicit alternative proposals. From the date of this MOU to the earlier of (i) the execution of the Definitive Agreements, or (ii) the termination of this MOU in accordance with Paragraph 7(j) below, except as otherwise required by law or TBHC's fiduciary duties, none of TBHC or its trustees, or any agent, employee, attorney, investment banker, broker or other person acting on behalf of any of the foregoing, shall solicit or initiate inquiries or proposals from any parties with respect to (x) any transaction that is similar to the Proposed Transaction, (y) any

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clinical or administrative affiliation or business arrangement of IMC, or (z) any other transaction the consummation of which would or could reasonably be expected to interfere with, prevent or materially delay the Proposed Transaction or the prospective relationship between TBHC and IMC, without the prior written consent of IMC.

(e) Public Announcements. Except as otherwise required by applicable law, each Party agrees that it will not issue any press releases or make any other public announcements or disclosures with respect to this MOU or the Proposed Transaction without the prior approval of the other Party.

(f) Confidentiality. In connection with the Proposed Transaction, each Party will make available to the other certain information of a non-public, confidential, or proprietary nature concerning its respective businesses and affairs. Such information, whether disclosed orally or in writing by a Party and/or its accountants, attorneys, investment bankers or other professional advisors, and including any analyses, compilations, studies or other documents prepared by a Party or its professional advisors that contain, compile, analyze, summarize, or otherwise reflect such information, constitutes "*Confidential Information*" within the meaning of, and shall be kept confidential pursuant to that certain Confidentiality and Non-Disclosure Agreement between TBHC and Interfaith, effective as of June 8, 2012 (the "Confidentiality Agreement"), except to the extent any such confidentiality requirement is rendered inoperative pursuant to paragraph 8 of the Confidentiality Agreement; provided, however, that the Parties may share Confidential Information with DOH and DASNY and IMC may share Confidential Information with any other IMC creditor or IMC creditor representative that agrees in writing to keep such information confidential or as required

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by court order. Notwithstanding anything to the contrary in the Confidentiality Agreement, if IMC is under chapter 11 protection, then IMC may disclose the existence and terms of this MOU. The obligations contained in this Paragraph 7(f) shall survive the termination of this MOU.

(g) Governing Law. This MOU shall be governed by the internal laws of the State of New York without regard to conflict of laws principles thereof.

(h) Expenses. Each of the Parties shall bear its own expenses in connection with the Proposed Transaction, including, without limitation, costs incurred in negotiating the Definitive Agreements.

(i) Execution. This MOU may be executed in counterparts, each of which will be deemed to be an original copy and both of which, when taken together, will be deemed to constitute one and the same document. The exchange of copies of this MOU and of signature pages by facsimile or other electronic transmission shall constitute effective execution and delivery hereof as to the Parties and may be used in lieu of the original MOU for all purposes.

(j) No Amendment. This MOU may not be amended, except by a writing signed by both Parties that refers specifically to this MOU.

(k) Termination. Subject to the terms set forth herein, this MOU may be terminated and the Proposed Transaction may be abandoned: (i) at any time by the mutual agreement of the Parties, (ii) by either Party if the Definitive Agreements have not been executed by the Parties within 9 months of the date hereof, or (iii) by either Party if it determines, in its sole discretion, that any of the conditions described in Paragraph 4 above is unlikely to be satisfied.

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IN WITNESS WHEREOF, the Parties have executed this MOU or caused this MOU to be executed by their respective officers hereunto duly authorized, all as of the date first appearing above.

THE BROOKLYN HOSPITAL CENTER

INTERFAITH MEDICAL CENTER

By: _____
Name: Richard B. Becker, M.D.
Title: Chief Executive Officer

By: Luis A. Hernandez
Name: Luis Hernandez
Title: Chief Executive Officer