

AGREEMENT IN PRINCIPLE

This AGREEMENT IN PRINCIPLE, dated as of August 15, 2005 (the "Agreement"), between the COUNTY OF CUMBERLAND, a political subdivision of the State of North Carolina (the "County"), acting by and through its Board of County Commissioners (the "County Board"), and CUMBERLAND COUNTY HOSPITAL SYSTEM, INC., d/b/a/ Cape Fear Valley Health System, a North Carolina nonprofit corporation (the "Corporation"), acting by and through its Board of Directors (the "Hospital Board");

WITNESSETH:

WHEREAS, the County and the Corporation are committed to providing high quality healthcare to the citizens of the County; and

WHEREAS, as has been customary in North Carolina, the County provided such healthcare through the ownership of certain health care facilities and the operation of such facilities pursuant to a series of management lease agreements; and

WHEREAS, the County is the owner of certain hospital facilities and related property located at various sites in the County and operated as a hospital system (the "System"), and the Corporation leases the System from and operates the System for the County pursuant to a Restated Management Lease Agreement, dated April 30, 1999 (the "Lease"); and

WHEREAS, the System has been financed, in part, by the issuance of revenue bonds by the County, of which there are now outstanding \$_____ in aggregate principal amount of Hospital Facility Revenue Refunding Bonds (Cumberland County Hospital System, Inc.), Series 1993 (the "1993 Bonds") and \$_____ in aggregate principal amount of Hospital Facility Revenue Bonds (Cumberland County Hospital System, Inc.), Series 1999 (the "1999 Bonds" and, together with the 1993 Bonds, the "Outstanding Bonds"), each issued pursuant to a Trust Indenture, dated as of March 1, 1998, as supplemented (collectively, the "Indenture"); and

WHEREAS, the County has considered a transfer of the System to a private, nonprofit corporation and various other alternatives in order to provide flexibility to the System, to maintain the financial integrity of the System and to continue to improve the quality of healthcare available to citizens of the County regardless of ability to pay; and

WHEREAS, the County has consulted with various parties and attorneys and has been advised that a transfer of the System to the Corporation would be beneficial to the citizens of the County and is permitted pursuant to NCGS Section 131E-8; and

WHEREAS, having considered the various alternatives and there having been published public notice of the County Board's intention to effectuate a transfer of the System to the Corporation pursuant to NCGS Section 131E-8, the County Board has decided to make such transfer; and

WHEREAS, the parties hereto intend that the Corporation maintain its status as a nonprofit, tax-exempt, charitable organization under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended;

NOW THEREFORE, in consideration of the premises and mutual agreements herein contained, the County and the Corporation hereby agree as follows:

Section 1. Transfer. Upon satisfaction of the conditions in Section 2, the County shall convey to the Corporation all real estate, personal property, fixtures, equipment, cash and accounts, including amounts held by the trustee under the Indenture, and all right, title and interest in and to any and all such property and facilities of the System. The County shall execute and deliver a Bill of Conveyance and General Warranty Deed (the “Deed”) to make such transfer. The consideration for such transfer shall be the agreements and undertakings accepted by the Corporation herein and in the Transfer Agreement to be dated the date of closing of the transfer (the “Transfer Agreement”).

Section 2. Conditions. Certain transactions will occur simultaneously with the closing of the transfer of the System and certain documents therefor will be executed by the County before such closing but the County’s release of such documents, and therefore the transfer of the System, is dependent upon the completion of all the following conditions:

(a) The Hospital Board shall adopt and file Restated Articles of Incorporation in exactly the form attached hereto as Exhibit A; provided such Restated Articles of Incorporation may be in a different form if such form has been approved by the County Board;

(b) After the filing of such Restated Articles of Incorporation, the Hospital Board shall adopt a resolution approving the terms and conditions of the Transfer Agreement;

(c) The Deed shall be recorded by the Corporation in substantially the form attached hereto as Exhibit C with property schedules attached;

(d) The Transfer Agreement shall be recorded by the Corporation in exactly the form attached hereto as Exhibit B; provided the Transfer Agreement may be in a different form if such form has been approved by the County Board;

(e) Receipt by the County of evidence of notice to or approval by any required State or Federal entities;

(f) Provision is made for the transfer by the Corporation to the County of cash or Government Obligations, as defined in the Indenture, sufficient, with any amounts held under the Indenture, to defease the Outstanding Bonds on the date of such transfer, with evidence that the North Carolina Local Government Commission has determined such cash or Government Obligations will be or provide for securities satisfying the requirement of NCGS Section 131E-8;

(g) Receipt by the County of opinions of Hunton & Williams LLP and Jonathan R. Charleston, Esq., to the effect that the Outstanding Bonds have been defeased; and

(h) Receipt by the County of an opinion of Kennedy Covington Lobdell & Hickman, LLP to the effect that the Transfer Agreement is enforceable against the Corporation in accordance with its terms and receipt by the Corporation of an opinion of Hunton & Williams LLP to the effect that the Transfer Agreement is enforceable against the County in accordance with its terms;

With all such conditions to be satisfied and the closing of the transfer to occur prior to or on March 31, 2006.

Section 3. Further County Agreements. The County further agrees (a) to execute the Transfer Agreement (if in the form attached hereto as Exhibit B or in a form approved by the County Board) and the Deed (if in substantially the form attached hereto as Exhibit C) when requested by the Hospital Board after the condition in Section 2(b) is satisfied, (b) to call for the redemption of Outstanding Bonds, if and as requested by the Hospital Board in connection with the defeasance thereof, (c) to execute an escrow agreement for the defeasance of the Outstanding Bonds, and (d) to do all other things as requested by the Hospital Board in connection with the transfer; provided the County Board may, but shall be under no obligation to, approve any change to the form of the Restated Articles of Incorporation from the form attached as Exhibit A, any change to the form of the Transfer Agreement from the form attached as Exhibit B, or any amendment to this Agreement.

Section 4. Further Corporation Agreements. The Corporation shall pay all fees and expenses of the County, including counsel fees, in connection with the negotiation of this Agreement and the transfer of the System. The Corporation agrees to and will be responsible for all costs and expenses in connection with the Outstanding Bonds after they are defeased, including but not limited to the fees and expenses of the trustee under the Indenture, the fees and expenses of the escrow agent for the Outstanding Bonds and any rebate or other payments due to the Federal government in connection with the Outstanding Bonds.

Section 5. Lease. Upon closing of the transfer the Lease shall be deemed void and of no further force and effect.

Section 6. Hold Harmless. The Corporation hereby agrees to indemnify and hold the County harmless from any damage, expense or loss resulting from all liabilities and obligations of and claims against the County, including all debts, liabilities and obligations of any nature, absolute or contingent, foreseen or unforeseen, which are attributable or chargeable to the ownership and operation of the System prior to the date transferred to the Corporation or the entry into this Agreement and the performance thereof, including claims of creditors of the County, the System or the Corporation that are imposed due to noncompliance with the Uniform Commercial Code — Bulk Transfers, as adopted in North Carolina, and all actions, suits, proceedings, demands, assessments, judgments, costs and expenses (including interest paid thereon and all counsel fees and expenses) incident to the foregoing. The provisions of this section shall continue after the date the System is transferred to the Corporation.

If any action, suit or proceeding is brought or threatened against the County for any loss or damage for which the Corporation is required to provide indemnification under this section, the County shall promptly notify the Corporation and the Corporation shall at its expense resist

and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by the Corporation. The Corporation shall have full control of such defense and proceedings, including any compromise or settlement thereof; provided the Corporation may not expressly admit liability or culpability on the part of the County without its consent.

Section 7. Notices. Any notice or other communication required to be given pursuant to the terms and provisions of this Agreement shall be in writing and shall be sent by certified or registered mail, return receipt requested, postage prepaid or by hand delivery to the parties at:

if to County: County of Cumberland
117 Dick Street
Fayetteville, North Carolina 28301
Attention: County Manager

if to Corporation: Cumberland County Hospital System, Inc.
1638 Owen Drive
Fayetteville, North Carolina 28302
Attention: Administrator

Section 8. Entire Agreement. This Agreement (including the Exhibits attached hereto) represents the entire agreement and understanding of the parties hereto and supersedes all prior or concurrent agreements, whether written or oral, in regard to the subject matter hereof.

Section 9. Gender. The use of the masculine, feminine or neuter gender and the use of the singular and plural shall not be given the effect of any exclusion or limitation herein.

Section 10. Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which taken together shall constitute a single instrument.

Section 11. Governing Law. This Agreement shall be construed in accordance with the laws of the State of North Carolina and the venue for any litigation related hereto shall be Cumberland County.

Section 12. Third Party Beneficiary. This Agreement shall not create nor be construed to create any rights in any manner whatsoever in any other person or entity as a third-party beneficiary.

Section 13. Extension; Termination. With the mutual consent of the parties hereto, (a) the date set forth in Section 2 for the closing of the transfer may be extended and (b) this Agreement may be terminated in its entirety prior to the closing of the transfer.

Section 14. Binding Agreement. This Agreement shall be binding upon the successors or assigns of the parties hereto; provided no assignment hereof by either party is permitted without the consent of both parties.

CUMBERLAND COUNTY

By: _____
Chairman, Board of County Commissioners

ATTEST:

Clerk

(SEAL)

**CUMBERLAND COUNTY HOSPITAL
SYSTEM, INC.**

By: _____
President

ATTEST:

Clerk

(SEAL)