Effects of the Proposed Change in Governance and Control of Ownership & Operation of the Daughters of Charity Health System to Prime Healthcare Services, Inc., & Prime Healthcare Foundation, Inc., on the Availability and Accessibility of Healthcare Services to the Communities Served by Saint Louise Regional Hospital

Prepared for the Office of the
California Attorney General

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INTRODUCTION AND PURPOSE

Medical Development Specialists, LLC (MDS), a healthcare planning and policy consulting firm, was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed Definitive Agreement between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Prime Healthcare Services, Inc., and Prime Healthcare Foundation, Inc., on the availability and accessibility of healthcare services to the communities served by Saint Louise Regional Hospital. Saint Louise Regional Hospital, a nonprofit religious corporation (Saint Louise), operates Saint Louise Regional Hospital, a general acute care hospital located in Gilroy, California (the Hospital).

Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation (Ministry), is the sole corporate member of Daughters of Charity Health System, a California nonprofit religious corporation (Daughters). Daughters is the sole corporate member of five California nonprofit religious corporations, including Saint Louise, St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

The Hospital Corporations are licensed to operate five general acute care hospitals including the Hospital, St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center, which shares a consolidated license with Seton Medical Center Coastside, a skilled nursing facility (collectively, the Health Facilities).

Each of the Hospital Corporations is the sole corporate member of a California nonprofit public benefit corporation that handles its fundraising and grant-making programs: Saint Louise Regional Hospital Foundation, St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, and O'Connor Hospital Foundation (collectively, the Philanthropic Foundations). Saint Louise is the sole corporate member of Saint Louise Regional Hospital Foundation (Saint Louise Foundation).[1]

Ministry and Daughters have requested the California Attorney General's consent to enter into a Definitive Agreement with Prime Healthcare Services, Inc., a Delaware corporation (Prime Inc.), and Prime Healthcare Foundation, Inc., a Delaware nonprofit non-stock corporation (Prime Foundation), (collectively, Prime), whereby control and governance of Daughters and its affiliated entities will be transferred to Prime Inc. or Prime Foundation, and in some cases, converted to California for-profit business corporations or California nonprofit public benefit corporations. (Refer to the summary table on the following page.)

[1] In reference to St. Vincent Foundation, the Definitive Agreement names St. Vincent Medical Center Foundation in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation is the name under which it was incorporated. In addition, there are proposed plans to merge Saint Louise Foundation, St. Francis Medical Center Foundation, O'Connor Hospital Foundation, and Seton Medical Center Foundation into St. Vincent Foundation.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. Upon closing of the proposed transaction and the conversion of Daughters into a for-profit corporation, Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters.

DAUGHTERS' GOVERNANCE STRUCTURE					
Included Corporations in the Definitive Agreement	**Current Corporate Structure**	**Description**		**Proposed Corporate Ownership**	**Post-Transaction Corporate Structure**
Daughters	California nonprofit religious corporation	Sole corporate member of five California nonprofit religious corporations	→	Prime Inc.	For-profit business corporation
O'Connor Hospital	Nonprofit religious corporation	Operates a general acute care hospital, O'Connor Hospital	→	Prime Inc.	For-profit business corporation
Saint Louise Regional Hospital	Nonprofit religious corporation	Operates a general acute care hospital, Saint Louise Regional Hospital, and De Paul Urgent Care Center	→	Prime Inc.	For-profit business corporation
Seton Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, Seton Medical Center	→	Prime Inc.	For-profit business corporation
St. Francis Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Francis Medical Center	→	Prime Inc.	For-profit business corporation
St. Vincent Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Vincent Medical Center	→	Prime Inc.	For-profit business corporation
DCHS Medical Foundation	Nonprofit religious corporation	Group of physicians that provide primary and specialty care	→	Prime Foundation	Nonprofit public benefit corporation
Caritas Business Services	Nonprofit religious corporation	Provides support services for Daughters and hospital corporations	→	Prime Inc.	For-profit business corporation
St. Vincent Dialysis Center, Inc.	Nonprofit public benefit corporation	Speciality clinic licensed for provision of dialysis services	→	Prime Inc.*	For-profit business corporation
Philanthropic Foundations	Nonprofit public benefit corporations	Charitable foundations that support community benefit programs and capital expenditures	→	Prime Foundation	Will remain nonprofit public benefit corporations
St. Vincent De Paul Ethics Corporation	Nonprofit public benefit corporation	Does not hold any assets	→	Prime Foundation	Will remain nonprofit public benefit corporation
Marillac Insurance Company, Ltd.	Caymans entity	Captive insurance company to self-insure for professional and general liability exposures	→	Daughters will remain sole shareholder	Does not require any conversion
De Paul Ventures, LLC	Limited liability company	Created for the purpose of investing in a freestanding surgery center and other healthcare entities	→	Daughters will remain sole member	Does not require any conversion

* Will remain a wholly-owned subsidiary of St. Vincent Medical Center

In its preparation, MDS performed the following:

- A review of the application submitted by Ministry and Daughters to the California Attorney General on October 24, 2014, and supplemental information and documents subsequently provided by Daughters and the Health Facilities, including the Hospital;

- A review of press releases and news articles related to this and other hospital transactions;

- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, Saint Louise's Board of Directors (Saint Louise's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, health plan representatives, and others listed in the Appendices;

- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and

- An analysis of publicly available data and reports regarding the Hospital's service area including:

    - Demographic characteristics and trends;
    - Payer mix;
    - Hospital utilization rates and trends;
    - Health status indicators; and
    - Hospital market share.

Reasons for the Transaction

In December 2012, Daughters entered into an affiliation agreement with Ascension Health Alliance that provided Daughters with an opportunity to share in certain consulting and strategic services provided by Ascension Health Alliance. Further, the agreement also served as a platform for both parties to continue their strategic dialogue surrounding the formation of some type of official partnership or merger.

After comprehensive discussions and due diligence with respect to a potential merger, the parties could not reach a mutual agreement that ensured the long-term viability of Daughters and the Health Facilities.

As stated in Daughters' statement of reasons why Daughters' Board believes the proposed transaction is either necessary or desirable, Daughters' Board provided the following:

- The current structure and sponsorship of Daughters and the Health Facilities are not feasible as a result of the dire financial conditions and cash projections;

- Based upon cash flow projections, Daughters would fall below minimum liquidity thresholds in the first quarter of Fiscal Year (FY) 2015 and would ultimately run out of cash in the third quarter of FY 2015;

- In July and August of 2014, Daughters accessed a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. The bridge loan of $125 million must be repaid in full, on or before, July 10, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds[2]; and

- The lender holds liens on substantially all of Daughters' assets. If there is a default, Daughters' operations, without the protection of a bankruptcy proceeding, could not continue.

[2] The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G, and H (2005 Bonds) and Series 2014A, B, and C (2014 Bonds).

Transaction Process and Objectives

The primary objective stated by Daughters for the proposed transaction is to ensure a sustainable future for the Health Facilities and the other related entities. In order to accomplish this goal, in 2013 with the advisor Kaufman Hall, Daughters initiated a process to find potential buyers or partners to purchase the Hospital, O'Connor Hospital, Seton Medical Center, and Seton Medical Center Coastside. Daughters received several offers.

In February 2014, Daughters widened the process to include soliciting offers for St. Francis Medical Center and St. Vincent Medical Center, as well as for the entire health system. This 2014 process was supported by Houlihan Lokey, an advisory investment bank with experience in healthcare mergers and acquisitions. Daughters' Board specified the following guiding principles for the change of control:

- Protect the pensions of current employees, retired employees, and their beneficiaries;
- Repay major business partners, such as bondholders and vendors;
- Honor and assume the Collective Bargaining Agreements (CBAs)[3] held by the Hospital Corporations; and
- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the continued participation in the Medi-Cal and Medicare programs, for the communities served by the Health Facilities.

Houlihan Lokey identified and contacted a total of 133 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit strategic buyers, government-related healthcare institutions, for-profit hospital operators, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After introductory conversations, 72 parties expressed interest.

Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids; 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids; eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full-system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Attorney General, the following reasons were cited for focusing efforts on full-system offers:

[3] A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;

- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;

- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan[4] of approximately $200 million; and

- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

In September 2014, the final round of negotiations commenced and involved four offers for the full health system. [5]

The following table summarizes the submitted bids received by Daughters throughout the three rounds of the bidding process:

SUMMARY OF BIDDING PROCESS				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
First Round March 2014 29 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	1	4	-
	For-Profit Hospital Operator	5	5	-
	Private Equity Fund / Management Team	5	1	-
	Healthcare Related Real Estate Investor*	-	2	4
Total:		**11**	**14**	**4**
Second Round May 2014 15 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	-	2	-
	For-Profit Hospital Operator	4	2	-
	Private Equity Fund / Management Team	4	1	-
	Healthcare Related Real Estate Investor*	-	-	-
Total:		**8**	**7**	**-**
Final Round September 2014 6 Bids	Catholic Healthcare Organizations	-	-	-
	Nonprofit / Government Related Institutions	-	-	-
	For-Profit Hospital Operator	4	-	-
	Private Equity Fund / Management Team	2	-	-
	Healthcare Related Real Estate Investor*	-	-	-
Total:		**6**	**-**	**-**

Source: Daughters

* Includes skilled nursing facilities, real estate investment trusts, and others

[4] Daughters' Multiemployer Pension Plan is a defined benefit pension plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA), and these benefits are insured by the Pension Benefit Guaranty Corporation in accordance with ERISA. The Multiemployer Pension Plan includes the Stationary Engineers Local 39 Pension Plan and the Retirement Plan for Hospital Employees. The Retirement Plan for Hospital Employees is the pension plan in which the employees of the Hospital, Seton Medical Center, Seton Medical Center Coastside, O'Connor Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

[5] Two late-stage full-system bidders did not submit final bids. One was unable to raise the necessary capital in order to submit a timely bid, and the other revised its valuation of the transaction and was unable to provide a financially competitive proposal.

Daughters' Board applied eleven criteria to evaluate the final four proposals:

- Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;

- Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;

- Treatment of CBAs: Bidder's willingness to assume the current CBAs;

- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;

- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;

- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;

- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;

- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;

- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;

- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime. Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated Prime was the only candidate that was able to fully fund the employee pensions and who made the

commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term.

Timeline of the Transaction

The events leading up to this transaction are chronologically ordered as follows:

- February 2005 – 2005 Bonds are issued in the amount of $364 million to refinance existing debt and fund future capital expenditures[6];
- November 2008 – 2008 Bonds[7] are issued in the amount of $143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 –Daughters and Ascension Health Alliance execute an affiliation agreement;
- March 15, 2013 – Daughters solicits offers for the Hospital and O'Connor Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;
- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;
- October 2013 – 2008 Bonds retire[8];
- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

[6] This amount is gross of an estimated $26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.
[7] The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of $13.7 million.
[8] In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of $130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the $143.7 million principal amount of the 2008 Bonds.

- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;

- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;

- March 21, 2014 – Daughters receives 29 bids by the first round deadline, including one from Prime;

- May 30, 2014 – Daughters' Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters' pressing financial situation. Daughters' Board decides to proceed to the final round focusing on only full system offers;

- July 30, 2014 – Daughters secures $110 million in short-term bridge financing in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);

- August 27, 2014 – Daughters secures an additional $15 million under the 2014 Bonds (Series C);

- September 12, 2014 – Daughters receives four final proposals;

- October 3, 2014 – Daughters' Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- October 9, 2014 – Saint Louise's Board passes a resolution to authorize any necessary or advisable amendments to the articles of incorporation and bylaws of Saint Louise and Saint Louise's Foundation, and recommends approval of the transaction to Ministry's Board;

- October 9, 2014 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;

- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime; and

- October 24, 2014 – "Notice of Submission and Request for Consent" is submitted by Daughters to the California Attorney General.

Summary of the Definitive Agreement

The proposed Definitive Agreement, originally dated October 10, 2014, and amended on October 23, 2014, contains the following major provisions:

- At closing, to authorize Prime Inc. as the sole corporate member of Daughters, the Ministry and Daughters shall approve amended and restated articles of incorporation and bylaws of Daughters, and of each of the Hospital Corporations and Caritas Business Services;

- Daughters and Ministry will transfer the ownership and operation of Daughters, the Hospital Corporations, Caritas Business Services, and St. Vincent Dialysis Center, Inc., to Prime Inc., whereby Prime Inc. will become the sole corporate member of Daughters;

    - Daughters will be converted from a nonprofit religious corporation into a for-profit corporation, and concurrently, the Hospital Corporations and Caritas Business Services will also be converted into for-profit corporations; and
    - St. Vincent Dialysis Center, Inc., will be converted from a nonprofit public benefit corporation into a for-profit corporation and will remain a wholly-owned subsidiary of St. Vincent Medical Center.

- The ownership and operation of the Philanthropic Foundations, DCHS Medical Foundation, and St. Vincent De Paul Ethics Corporation will be transferred to Prime Foundation, and Prime Foundation will become their sole corporate member upon approval of the entities' amended articles of incorporation and bylaws by Ministry and Daughters:

    - DCHS Medical Foundation will be converted from a nonprofit religious corporation into a nonprofit public benefit corporation;
    - Modification to the name of DCHS Medical Foundation in order to eliminate any reference to Daughters as listed in the defined retained assets; and
    - St. Vincent De Paul Ethics Corporation and the Philanthropic Foundations will remain nonprofit public benefit corporations.

- Prime will acquire substantially all of the assets, with the exception of the following retained assets:

    - Intellectual property;
    - Religious artifacts and donor-restricted assets;
    - Historical records and memorabilia;

- Property located at 25 San Fernando in Daly City, California 94015;
- Property located at 253 South Lake Street in Los Angeles, California 90057;
- Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
- All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
- Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
  - GRACE, Inc.[9];
  - Daughters of Charity of St. Vincent de Paul, Province of the West; and
  - Owner of the Meals on Wheels program.

- Prime will assume the liabilities relating to:

  - Pensions;
  - CBAs;
  - Accrued, but unpaid, paid-time off, vacation, sick, and other leaves of absence;
  - Taxes, including transfer taxes, and any unpaid real estate taxes;
  - Government payment program, including any overpayments;
  - Accounts payable;
  - Short-term and long-term debt;
  - Amounts due to government agencies;
  - Accrued liabilities;
  - Incurred, but not yet recorded, liabilities;
  - All of Daughters' paid time-off, retirement benefit plans, and any off-balance sheet pension liabilities, including those arising under:
    - Multiemployer Plans;
    - Defined Benefit Church Plan[10];
    - Defined Contribution Church Plans[11], including the DCHS Medical Foundation Management Bargaining Unit 401(k) Plan, DCHS Medical Foundation 401(k) Plan, Seton CNA Money Purchase Plan, Kennedy Savings Plan, and Seton Coastside Annuity Plan; and
    - Any single-employer defined benefit plan to which the liabilities of Daughters under one or more of the Multiemployer Plans may be transferred as a result of the partition of one or more of the Multiemployer Plans.

[9]GRACE, Inc., is a ministry of Ministry Services of Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.

[10] A Defined Benefit Church Plan is a single employer non-electing church pension plan exempt from ERISA. The DCHS Retirement Plan, also referred to as the "Church Plan," covers the employees of Saint Louise, St. Francis Medical Center, St. Vincent Medical Center, O'Connor Hospital, and Daughters' system office.

11 Defined Contribution Church Plans are fully funded available pension plans, in which plan assets are held in trust and invested as directed by individual participants among the investment options under the plans.

- Contracts, operating and capital leases, real estate leases, agreements, and commitments, including:
  - Physician services agreements;
  - CBAs; and
  - Any continuing legal obligation to bargain with unions, including any liabilities resulting from these negotiations.
- Any professional liability claim or similar third-party litigation related to operation of Daughters and its related entities prior to the closing;
- Any legal violation related to acts or omissions, prior to closing, related to the operation of Daughters and its related entities;
- Marillac Insurance Company, Ltd.; and
- Liabilities related to D&O Insurance and the Fiduciary Liability Insurance, including, but not limited to, deductibles, copays, and any other non-covered expense or financial obligation.

- Excluded liabilities include:

  - Those liabilities related to the retained assets.

- At closing, Ministry will retain and control funds from Daughters' available cash in a separate deposit account (or Prime Inc. will deposit the necessary amount if the funds are insufficient), in the amount of $11.5 million, less the amount of severance paid to Daughters' employees who cease employment under Prime Inc., and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new employment agreements with Prime Inc.;

- At closing, Prime Inc. shall deliver the cash purchase price amount to Daughters equaling the sum of the liabilities, including the following:

  - Total outstanding principal amount for the 2005 Bonds and 2014 Bonds[12];
  - Accrued paid-time off of any employee who is terminated as of closing;
  - Outstanding amount of any distributions from the nonqualified retirement benefit plans are to be paid to those who are entitled to these benefits[13];
  - Transfer taxes; and
  - Transaction costs upon closing[14].

- The total consideration amount estimated at $843 million to be paid by Prime Inc. for the proposed transaction consists of:

  - Estimated cash consideration in the amount of $394 million; and

[12] The outstanding principal amount of the 2005 Bonds and 2014 Bonds totals $409,475,000, including an estimated total of $284,475,000 for the 2005 Bonds and an estimated total of $125,000,000 for the 2014 Bonds.
[13] The nonqualified retirement benefit plans include: Daughters of Charity Health System 401(a)(17) Retirement Plan, estimated at $2,600,611, and Daughters of Charity Health System 401(a)(17) Supplemental Retirement Plan Account, estimated at $528,726.30.
[14] Assumes no bankruptcy, no labor disruptions, and receipt of Quality Assurance Fees as projected.

- Assumption of liabilities estimated at $449 million.

- Prime Inc. made the following commitments:

  - For at least five years following the closing, Prime Inc. will maintain charity care policies for the treatment of indigent patients at the Health Facilities similar to the policies currently in effect, or replace these with policies of either similar or greater benefit to the community;
  - Prime Inc. will maintain the Health Facilities as general acute care hospitals, with open emergency departments, subject to physician availability, needs of the community, and financial viability, for at least five years following the closing;
  - Prime Inc. will maintain the existing chapels and provide appropriately staffed and funded pastoral care services at the Health Facilities for a minimum of five years following the closing of the transaction;
  - Prime Inc. will provide $150 million in capital expenditures at the Health Facilities over three years following the closing of the transaction;
  - Prior to closing, Prime Inc. shall make offers of employment, with comparable salaries, wages, job titles, and duties that were in effect prior to closing, to substantially all of the corporate office employees who remain in good standing and employed by Daughters as of the closing date, including the following:
    - All of Daughters' corporate office employees;
    - Executives of Daughters or employees holding executive positions;
    - Chief Executive Officers of the Health Facilities;
    - President and Chief Medical Officer of DCHS Medical Foundation; and
    - Senior Director of Caritas Business Services.
  - Prime Inc. shall continue employment, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
    - Unrepresented employees of the Health Facilities, DCHS Medical Foundation, and Caritas Business Services; and
    - Unionized employees working under CBAs.
  - Prime Inc. agrees to adhere to the severance obligations written in the employment agreements, or in the absence of any such agreement, Prime Inc. shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing date;

- Prime Inc. has made the following commitments regarding the pension liabilities:

  - Will amend the Defined Benefit Church Plan and the Defined Contribution Church Plans as necessary to satisfy the requirements of ERISA and the Internal Revenue Code;
  - Will assume responsibility for all of Daughters' liabilities under the Defined Benefit Church Plan and Defined Contribution Church Plans;
  - Will reasonably cooperate with Daughters to take necessary action to assume Daughters' obligations to the Multiemployer Plans, as required by the CBAs, for

substantially the same number of contribution base units for which Daughters had an obligation to contribute immediately prior to closing;
- Will provide funding for the Multiemployer Plans under the requirements of ERISA and the Internal Revenue Code;
- Will assume responsibility for Daughters' portion of the liabilities under the Multiemployer Plans; and
- Will indemnify, defend, and hold harmless Ministry and Daughters from any liability resulting from failure, or alleged failure, by Daughters to satisfy an obligation to fund the Defined Benefit Church Plan or to contribute to any of the Multiemployer Plans.

In addition to the Definitive Agreement, Prime Inc. has entered into three Memoranda of Agreements with the California Nurses Association that provide additional protections to the nurses currently employed under existing CBAs with Daughters.

Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

Daughters of Charity Health System

Daughters is a Catholic, nonprofit regional healthcare system headquartered in Los Altos Hills, California. Daughters is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through their commitment to serving the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1859. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These establishments were the forerunners of St. Vincent Medical Center, O'Connor Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include the Hospital (1987), Seton Medical Center Coastside (1980), and St. Francis Medical Center (1981). In 1986, the Hospital Corporations joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the Hospital Corporations left Daughters of Charity National Health System and merged with Catholic Healthcare West. When it withdrew from Catholic Healthcare West, Daughters, as presently constituted, was formed in 2001.

Today, Daughters' Health Facilities and their locations include: the Hospital in Gilroy, St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Los Angeles, O'Connor Hospital in San Jose, Seton Medical Center in Daly City, and Seton Medical Center Coastside in Moss Beach. Daughters' corporate offices are located in Los Altos Hills, Redwood Shores, and Pasadena.

DCHS Medical Foundation

In 2011, DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than ten board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

DCHS Medical Foundation began operations in April 2012 through the establishment of a professional services agreement with a group of approximately 200 physicians and associates of the San Jose Medical Group. DCHS Medical Foundation includes 144 full-time physicians as follows:

DCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2014				
	Physician Count by Market			
Specialty	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	Total
Family Practice	5	32	1	38
Internal Medicine	3	15	1	19
Hospitalist	-	6	10	16
Acute Care	-	12	-	12
Obstetrics & Gynecology	2	7	-	9
Pediatrics	2	4	-	6
General Surgery	2	2	-	4
Ophthalmology	2	2	-	4
Orthopedic Surgery	3	1	-	4
Podiatry	1	3	-	4
Total Top 10 Specialties	**20**	**84**	**12**	**116**
Other	10	18	-	28
Total Physicians	**30**	**102**	**12**	**144**

Source: Daughters

* Excludes Independent Physician Associations

In 2013, DCHS Medical Foundation acquired Northern Cal Advantage Medical Group, a regional Independent Physicians Association in Santa Clara County, comprised of approximately 200 physicians and nine additional independent physician practices.

Presently, DCHS Medical Foundation consists of urgent care centers, physician groups, and approximately 400 primary care and specialty physicians (including San Jose Medical Group and Northern Cal Advantage Medical Group). With more than 100 physicians, Santa Clara County has the largest medical foundation presence within the system. DCHS Medical Foundation's clinics and facilities are located throughout California in the communities served by the Health Facilities.

Caritas Business Services

Daughters operates Caritas Business Services, a nonprofit religious corporation. Caritas Business Services has nearly 140 employees and provides support services to Daughters and the Hospital Corporations including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

De Paul Ventures, LLC

De Paul Ventures, LLC, is a wholly-owned and operated holding company of Daughters that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

In February 2011, De Paul Ventures, LLC formed De Paul Ventures – San Jose ASC, LLC, a limited liability company. De Paul Ventures – San Jose ASC, LLC, owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC, entered into an ownership agreement with Priday Dialysis, LLC, a Delaware ambulatory healthcare center specializing in end-stage renal disease treatment.

Marillac Insurance Company, Ltd.

Daughters is the sole shareholder of Marillac Insurance Company, Ltd., a Caymans entity. Marillac Insurance Company, Ltd., was incorporated in 2003 as a captive insurance company to self-insure the system for professional and general liability exposures.

St. Vincent De Paul Ethics Corporation

St. Francis Medical Center is the sole corporate member of St. Vincent De Paul Ethics Corporation, which does not hold any assets.

Daughters' Inpatient Volume

Over the past five years, the number of inpatient discharges has declined by nearly 20% to approximately 48,000 discharges in FY 2014. While inpatient discharges decreased by 4.4% between FY 2013 and FY 2014, emergency services increased by 4.6% over the same period.

The following table provides inpatient volume trends for FY 2013 and FY 2014:

DAUGHTERS' TOTAL SERVICE VOLUMES: FY 2013 AND 2014														
	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Medical Center Coastside		Daughters' Total	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Licensed Beds	384	384	366	366	358	358	93	93	357	357	121	121	1,679	1,679
Available Beds	382	382	366	366	281	282	93	93	307	294	121	121	1,550	1,538
Discharges	18,957	18,850	9,213	8,244	11,751	10,971	3,021	3,044	7,125	6,755	101	86	50,168	47,950
Patient Days	87,944	87,676	52,946	47,942	52,175	49,663	11,026	10,550	47,479	46,805	38,782	37,382	290,352	280,018
Average Daily Census	241	240	145	131	143	136	30	29	130	128	106	102	795	767
Acute Licensed Beds	314	314	320	320	334	334	72	72	274	274	5	5	1,319	1,319
Acute Available Beds	312	312	253	252	257	258	72	72	224	250	5	5	1,123	1,150
Acute Discharges	16,738	16,329	8,156	7,223	11,725	10,947	3,021	3,044	7,080	6,717	-	-	46,720	44,260
Acute Patient Days	70,073	69,665	38,869	34,634	44,952	41,747	11,026	10,550	33,687	33,039	-	-	198,607	189,635
Acute Average Length of Stay	4.2	4.3	4.8	4.8	3.8	3.8	3.7	3.5	4.8	4.9	-	-	4.3	4.3

Source: Daughters, 2013 Audited & 2014 Unaudited Internal Financials
(1) These figures provided by Daughters differ slightly from OSHPD data reported in subsequent tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 (thousands)												
	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Daughters' Total (including all other entities)	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Net Patient Service Revenue	$440,397	$310,816	$191,904	$178,544	$308,334	$260,822	$93,517	$83,636	$257,931	$233,921	$1,352,711	$1,136,719
Provision and Write-Off of Doubtful Accounts	($68,275)	($12,128)	($1,177)	($5,530)	($23,897)	$11,612	($15,144)	($3,399)	($12,732)	($10,218)	($121,836)	($43,282)
Premium Revenue	$33,019	$40,211	$8,593	$10,176	-	-	-	-	-	-	$65,489	$83,298
Other Revenue	$7,523	$3,726	$5,746	$15,499	$9,131	$1,551	$779	$2,518	$6,241	$18,477	$29,433	$60,619
Contributions	$4,146	$5,618	$1,774	$1,889	$1,582	$1,459	$883	$977	$593	$569	$16,723	$157,695
Total Unrestricted Revenues & Other Support	$416,810	$348,243	$206,840	$200,578	$295,150	$272,220	$80,035	$83,732	$252,033	$242,752	$1,342,520	$1,395,049
Salaries and Benefits	$190,873	$196,608	$100,488	$102,314	$188,899	$189,846	$52,270	$57,514	$159,549	$153,681	$783,586	$805,077
Supplies	$30,277	$32,650	$46,151	$42,855	$40,593	$43,301	$7,351	$7,763	$36,258	$35,819	$170,261	$172,346
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	$134,659	$116,359	$81,531	$71,596	$71,213	$65,807	$22,875	$21,050	$69,289	$58,137	$393,616	$348,086
Depreciation	$17,796	$19,739	$9,882	$12,443	$14,383	$12,762	$4,338	$5,903	$10,428	$10,392	$60,439	$65,786
Net Interest	$7,026	$5,158	$4,894	$3,379	$5,060	$3,504	$2,771	$1,985	$5,840	$3,725	$25,336	$19,355
Total Expenses	$380,631	$370,514	$242,946	$232,587	$320,148	$315,220	$94,605	$94,215	$381,364	$261,754	$1,433,238	$1,410,650
Operating Income	$36,179	($22,271)	($36,106)	($32,009)	($24,998)	($43,000)	($14,570)	($10,483)	($29,331)	($19,002)	($90,718)	($15,601)
Investment Income	$8,394	$6,676	$994	$674	$2,210	$271	$49	$35	$1,028	$52	$16,252	$16,315
Excess (Deficit) of Revenues Over Expenses	$44,573	($15,595)	($35,112)	($31,335)	($22,788)	($42,729)	($14,521)	($10,448)	($28,303)	($18,950)	($74,466)	$714

Source: Daughters, 2013 Audited & 2014 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2014 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities show operating losses, as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss, though this is offset by income from investment activities (unadjusted for a substantial non-recurring item related to the favorable treatment in redeeming the 2008 Bonds).

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of $1.1 billion represents a net decrease of $137.4 million (11.2%) as compared to FY 2013. Net patient service revenue during FY 2014 included $45.1 million in revenue from DCHS Medical Foundation, as compared to $33.4 million for FY 2013. Additionally, net patient service revenue for FY 2014 was also impacted by a decrease of $119.9 million in Hospital Qualified Assurance Fee Program[15] revenue.

Operating Expenses

Total operating expenses of $1.410 billion for FY 2014 represent a decrease of 1.6% from FY 2013. A portion of the net decrease may be attributed to the inclusion of $111.1 million in operating expenses from DCHS Medical Foundation, as compared to $75.7 million during FY 2013, as well as a decrease of $64.2 million in Hospital Qualified Assurance Fee Program expenses. Daughters' salaries and benefits amounted to nearly 70% of total expenses. This is significantly higher than the average percentage for all nonprofit general acute care hospitals in California (49% in FY 2013).

Non-Recurring Items

Daughters' statement of operations includes a large non-recurring item related to the favorable accounting treatment of the 2008 Bond Redemption in the amount of $130 million. Inclusion of this item has the effect of overstating operating income. Adjusting for this non-recurring item, FY 2014 shows an operating loss of $146.3 million and a net income loss of $130 million.

Historic Comparison

The table below displays adjusted operating/net income figures for FY 2014, as well as similar figures for FY 2011- FY 2013. Over the past several years, Daughters' operating losses have significantly increased due to changes in declining reimbursement, declining volume, and increasing salary costs. Between FY 2010 to FY 2014, Daughters reported an operating loss of between $49.4 million in 2010 to over $146.3 million in 2014.

In addition, Daughters' days cash on hand has significantly declined due to pressure from the operating losses. Days cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding. This ratio may be influenced by a variety of cash flow inflows or outflows, though higher figures generally indicate better liquidity and a safer margin to meet outflow obligations. Based on internal financial projections, Daughters expects to run out of cash by the third quarter of FY 2015 (January-March) without any financial intervention. The following table reports additional trends in operating income, net income, labor costs, and liquidity from 2010 through 2014:

[15] Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

DAUGHTERS' FINANCIAL TRENDS: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Income[1] (millions)	(49.4)	(44.6)	(61.0)	(90.7)	(146.3)
Net Income (millions)	(18.8)	(4.1)	(59.5)	(74.5)	(130.0)
Labor Costs as a % of Net Patient Service Revenues	65.3%	59.2%	61.9%	63.7%	73.6%
Days Cash on Hand	93	87	70	50	31

Source: Daughters, 2014 Unaudited
(1) 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a $54 million net provider fees benefit, the operating income improved slightly in FY 2011, before declining in 2012, 2013, and 2014;

- Labor costs as a percentage of net patient service revenues have continued to increase to nearly 74% in 2014 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and

- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

Cash Position and Debt Obligations

Between FY 2013 and FY 2014, total cash and marketable securities decreased by $82.8 million (31% decrease), and total unrestricted cash and marketable securities decreased by $74.6 million (40% decrease). Over the same time period, unrestricted days cash on hand decreased by 38%, from 50 days in FY 2013 to over 31 days in FY 2014. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' outstanding obligations as of FY 2014:

DAUGHTERS' SUMMARY OF OUTSTANDING OBLIGATIONS: FY 2014	
Obligation	Amount (millions)
Total Trade, Employee, and Other Obligations	$185
2005 Bonds	$290
Other Long-Term Debt	$6
Total Short- and Long-Term Debt	**$481**
Total Unfunded Retirement Plan Liabilities	$278
Total Short-Term and Long-Term Obligations	**$759**

Source: Daughters, Unaudited Financials, 2014
(1) Excludes the $125 million 2014 Bonds

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation[16] made a restricted donation of $130 million for the benefit of Daughters in October 2013. On October 25, 2013, Daughters redeemed the 2008 Bonds, consisting of the $130 million donation and a $13.7 million reserve fund, totaling $143.7 million in redemptions. The effect of the non-recurring donation on the Statement of Operations for FY 2014 is covered in the previous section.

Additionally, Daughters accessed a $125 million short-term financing bridge loan in August 2014 to provide enough days cash on hand to support hospital operations through the end of FY 2015. The bridge loan consists of the $100 million 2014 Bonds (Series A), the $10 million 2014 Bonds (Series B), and the $15 million 2014 Bonds (Series C). The bridge loan matures on July 10, 2015 and is dependent upon ensuring that the sale of all Daughters' assets is completed in a timely manner.

Credit Rating and Outlook

In April 2014, Standard & Poor's Rating Service downgraded certain bond issuances of Daughters from "BBB-" to "B-." A rating of "B-" represents less-than-investment grade status. An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred. Some of the following reasons were cited for Standard & Poor's Rating Service downgrade:

- Escalating operating losses during the past several years;
- Substantial loss from operations through the first half of FY 2014;
- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of $130 million in October 2013;
- Eroding unrestricted reserves;
- Lack of a merging and/or acquiring entity (at the time of Standard & Poor's decision);
- Heavy reliance on hospital provider fee benefits and disproportionate share receipts[17] to help offset operating losses; and

[16] Daughters of Charity Foundation engages in the solicitation, receipt, and administration of contributions and their disbursements to and for the benefit of the ministries of Daughters of Charity of St. Vincent de Paul, Province of the West.

[17] Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicare & Medicaid Services to cover the costs of providing care to uninsured patients.

- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

At the time of the downgrade, Standard & Poor's Rating Service anticipated further operating losses through the second half of FY 2014. Additional downgrade potential was cited within the one-year outlook period if Daughters' divestiture plans were not finalized. This underscores the belief that the system would continue its operational difficulties on a stand-alone basis without outside intervention. Also there is the concern of continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

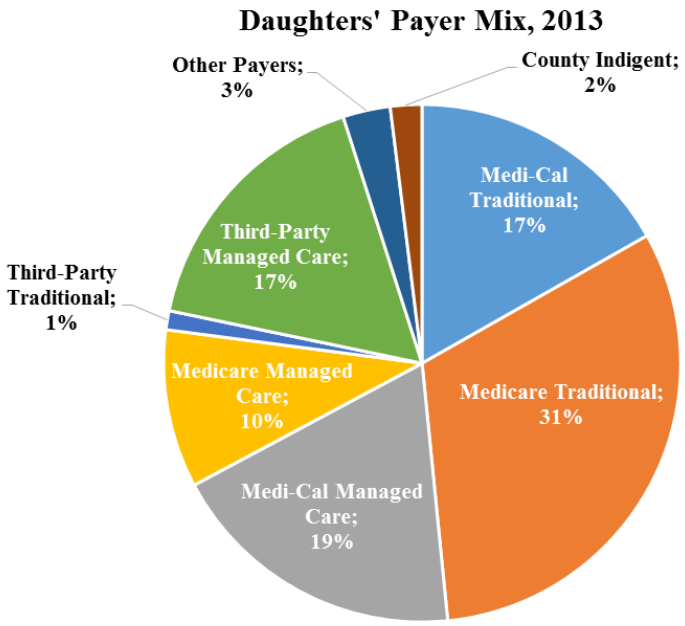
Financial Distress and Divestiture Plans

The declining financial condition of Daughters is documented in both audited and unaudited financial statements, credit rating action, and internal communications. Prior to the credit rating downgrade, internal communications and Daughters' Board meeting minutes in late 2013 reflected a growing concern of system-wide insolvency and the need to secure options.

At a subsequent Daughters' Board meeting on December 24, 2013, a motion was approved selecting Houlihan Lokey as a financial advisor. Its directive was to guide Daughters' Board in entertaining solutions and to include staffing in the contract. An offering process was undertaken for the sale of Daughters' assets and liabilities.

Daughters' Payer Mix

In 2013, approximately 31% of Daughters' inpatient payer mix consisted of Medicare Traditional, 19% consisted of Medi-Cal Managed Care, 17% consisted of Medi-Cal Traditional, and 17% consisted of Third-Party Managed Care. The remaining 16% of Daughters' inpatient discharges consisted of Medicare Managed Care (10%), Other Payers* (3%), County Indigent (2%), and Third-Party Traditional (1%) payers.



Total Discharges: 47,950

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

Unionized Employees

Daughters has relationships with various unions across the State of California, including a system-wide CBA with Service Employees International Union, United Healthcare Workers West, that covers over 2,800 employees at the Health Facilities for the period of May 1, 2012 through April 30, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Associations of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. In 2013, Daughters reported approximately 7,650 employees, with nearly 74% covered under CBAs.

UNION PARTICIPATION AMONG DAUGHTERS' EMPLOYEES						
Union	St. Francis Medical Center	St. Vincent Medical Center	O'Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	Total
Service Employees International Union, Local 250	543	419	496	274	703	2,435
Service Employees International Union, Local 250 Technical	286	-	137	-	-	423
California Nurses Association	-	364	750	269	475	1858
California Licensed Vocational Nurses Association	-	-	27	8	-	35
International Union of Operating Engineers, Local 39	-	-	17	11	22	50
United Nurses Association of California	762	-	-	-	-	762
Engineering Scientists of California, Local 20	-	-	41	17	33	91
Total	**1,591**	**783**	**1,468**	**579**	**1,233**	**5,654**

Source: Daughters

PROFILE OF SAINT LOUISE REGIONAL HOSPITAL

Saint Louise

Saint Louise Hospital opened in 1989 in the Morgan Hill area of Santa Clara County. In December 1999, the Daughters of Charity of St. Vincent de Paul relocated the hospital to Gilroy and renamed it Saint Louise Regional Hospital. Today, the Hospital's 93-bed facility and 24-hour emergency department provide services to the residents of southern Santa Clara County, including Morgan Hill, San Martin, and Gilroy.

Saint Louise Regional Hospital Foundation

Saint Louise Foundation, governed by a Board of Trustees, raises funds through grants, special events, and individual donors. Charitable donations and endowments raised by Saint Louise Foundation help fund the acquisition of new equipment and the expansion of the Hospital's facilities. Saint Louise is the sole corporate member of Saint Louise Foundation.

Saint Louise Foundation recently funded the purchases of a new 64-slice CT scanner, epidural pumps, and a voice recognition system.

De Paul Urgent Care Center

Saint Louise owns and operates the De Paul Urgent Care Center. The De Paul Urgent Care Center is located in Morgan Hill, and offers patients non-emergency medical attention seven days a week. The De Paul Urgent Care Center treats non-life threatening cases, such as minor injuries and lacerations, strep throat, sinus infections, rashes, nausea, vomiting, colds, flu, and fever.

Overview of the Hospital

Saint Louise operates a 93 licensed-bed, general acute care hospital located at 9400 No Name Uno, Gilroy, California 95020.

BED DISTRIBUTION 2014	
Bed Type	**Number of Beds**
General Acute Care	48
Intensive Care	4
Coronary Care	4
Perinatal	16
Total General Acute Care Beds	**72**
Skilled Nursing	21
Total Beds	**93**

Source: Hospital License 2014

The Hospital has a "basic" emergency department[18] with eight licensed emergency treatment stations. The Hospital also has five surgical operating rooms for inpatient and outpatient surgical procedures. Of the Hospital's 21 licensed skilled nursing beds, 11 beds are used for wound care services and the remaining 10 beds are in suspense.

Key Statistics

KEY STATISTICS			
	FY 2011	FY 2012	FY 2013
Inpatient Discharges	3,554	3,347	3,021
Licensed Beds	93	93	93
Patient Days	12,830	12,786	11,026
Average Daily Census	35	35	30
Occupancy	37.8%	37.6%	32.5%
Average Length of Stay	3.6	3.8	3.6
Emergency Services Visits	26,230	26,063	26,288
Cardiac Catheterization Procedures[1]	0	0	0
Total Live Births	680	707	555

Physicians on Medical Staff	206
Hospital Employees (Full-Time Equivalents)	355

Sources: OSHPD Disclosure Reports, 2011-2013 and Daughters

[1]OSHPD Alirts Annual Utilization Reports

- For FY 2013, the Hospital had a total of 3,021 discharges, 11,026 patient days, and an average daily census of 30 (32.5% occupancy of licensed beds);
- Since FY 2011, inpatient discharges and patient days have both declined by approximately 15% and 14%, respectively; and
- For FY 2013, the Hospital had 26,288 emergency department visits and 555 deliveries.

Programs and Services

The Hospital provides comprehensive healthcare services including cancer, emergency, rehabilitation, and surgical care.

- Cancer services include: Medical, surgical, and radiation oncology, cancer consultation, second opinion, and Tumor Board case management;
- Diagnostic imaging services include: MRI, CT, ultrasound, bone density scans, fluoroscopy, and nuclear medicine;

[18] A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

- Emergency services include: Eight emergency treatment stations and a designated Primary Stroke Center. The emergency department is staffed by California Emergency Physicians, and is one of the busiest in Santa Clara County with more than 26,000 visits per year;

- Stroke services include: 24-hour on-call neurology, emergency department, intensive care/critical care, and medical/surgical physicians. The Hospital, a designated Primary Stroke Center, was the first in the Bay Area to launch a telemedicine program for stroke patients;

- Surgical services include: Inpatient and outpatient surgeries, including minimally invasive laparoscopy and other advanced surgical techniques; and

- Women's services include: Pregnancy and delivery services, maternal fetal medicine, a Level I Nursery, mammography, stereotactic breast biopsy, and bone density screening. The Breast Care Center works closely with the American Cancer Society.

Saint Louise also operates the following outpatient services:

- Breast Care Center provides: Bone density screening, mammography, and stereotactic breast biopsy;

- DePaul Urgent Care Center treats: Non-life threatening cases, including minor injuries and lacerations, colds, flu, strep throat, infections, nausea, and vomiting. Open to patients seven days a week;

- Center for Wound Care and Hyperbaric Medicine treats: Debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy; and

- Pulmonary Rehabilitation Program provides: Exercise, breathing technique training, and medical equipment education.

Accreditations, Certifications, and Awards

The Hospital is accredited by the Joint Commission, effective October 2012 through October 2015. Additionally, the Joint Commission has accredited the Hospital's clinical laboratory, effective January 2014 through January 2017.

Over the years, the Hospital has received several accreditations, awards, and accolades as a provider of quality care, some of which include:

- Designated a Primary Stroke Center, by the Joint Commission, effective October 2013 through October 2015;

- Accredited by the American College of Radiology for mammography, effective until November 2015;

- Awarded the Winner of Making Medicine Mercury Free Award by Practice Greenhealth;

- Given a superior rating by California Maternal Quality Care Collaborative in perinatal quality; and

- Ranked as a Top 10 Hospital in California for the percentage of mothers who breastfeed during their hospital stay by California Maternal Quality Care Collaborative.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the Patient Protection and Affordable Care Act (ACA) in 2012, encourages hospitals to improve the quality and safety of care. The Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on the following three sets of measures: measures of timely and effective care, surveys of patient experience, and 30-day mortality rates for heart attack, heart failure, and pneumonia patients. In FY 2013, Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.40%. In FY 2014, the Hospital was penalized 0.47%.

The following table reports the Hospital's quality scores for FY 2014 for measures of evidence-based care[19], patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average:

QUALITY SCORES COMPARISON: FY 2014				
Domain	**Measure**	**Hospital**	**California Average**	**National Average**
Clinical Process of Care Domain	Evidence-Based Care	-	98.1%	98.3%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	**62.0%**	68.0%	71.0%
	% of Patients Willing to Recommend the Hospital to Others	**66.0%**	70.0%	71.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	**11.7%**	12.0%	12.3%

Source: Daughters

- The Hospital scored 5% lower than the national average (71%) for the percentage of patients willing to recommend the Hospital;

- For measures of 30-day mortality rates, the Hospital had fewer deaths within 30 days (11.7%) than the national average of 12.3%; and

[19] Applying the current best data-driven clinical expertise and research evidence when making decisions about the care of an individual patient.

- The Hospital had the lowest patient satisfaction (62%) among the Health Facilities. The national average was 71%.

The Hospital Readmissions Reductions Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days due to the following three medical conditions: heart attack, heart failure, and pneumonia. In FY 2015, 223 California hospitals will be penalized at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2013 and FY 2014, the Hospital was penalized at 0.04% and 0.05%, respectively. The following graph shows the Hospital's combined 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Hospital	National Average	California Average
19.2%	19.9%	19.9%

Source: Daughters

- The Hospital had slightly fewer 30-day readmissions (19.2%) than the national average of 19.9%; and

- For FY 2015, the Hospital will be penalized at 0.38%.

Seismic Issues

Using the HAZUS seismic criteria[20], the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC), as seen in the table below. These classifications require that the Hospital structures undergo construction to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

SAINT LOUISE REGIONAL HOSPITAL SEISMIC OVERVIEW		
Building	**SPC Compliance Status**	**NPC Compliance Status**
1) Hospital Building Area A	**SPC-3**	**NPC-3**
2) Hospital Building Area B/C	**SPC-3**	**NPC-3**
3) Central Plant	**SPC-3**	**NPC-3**

Source: Daughters & OSHPD

- The Hospital's buildings are SPC-3 compliant and may be used beyond 2030; and
- The Hospital's buildings are NPC-3 compliant and may be used until 2030.

[20] OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows patient volume trends at the Hospital for FY 2009 through FY 2013.

PATIENT DAYS	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Medical/Surgical	8,892	8,989	9,280	9,230	7,983
Intensive Care	1,623	1,807	1,769	1,806	1,728
Obstetrics	1,812	1,700	1,781	1,750	1,315
Total	**12,327**	**12,496**	**12,830**	**12,786**	**11,026**
DISCHARGES					
Medical/Surgical	2,290	2,426	2,485	2,308	2,143
Intensive Care	254	207	196	186	191
Obstetrics	882	815	873	853	687
Total	**3,426**	**3,448**	**3,554**	**3,347**	**3,021**
AVERAGE LENGTH OF STAY					
Medical/Surgical	3.9	3.7	3.7	4.0	3.7
Intensive Care	6.4	8.7	9.0	9.7	9.0
Obstetrics	2.1	2.1	2.0	2.1	1.9
Total	**3.6**	**3.6**	**3.6**	**3.8**	**3.6**
AVERAGE DAILY CENSUS					
Medical/Surgical	24.4	24.6	25.4	25.2	21.9
Intensive Care	4.4	5.0	4.8	4.9	4.7
Obstetrics	5.0	4.7	4.9	4.8	3.6
Total	**33.8**	**34.2**	**35.2**	**34.9**	**30.2**
OTHER SERVICES					
Inpatient Surgeries	1,192	1,217	1,115	947	794
Outpatient Surgeries	2,214	2,175	2,294	1,932	1,677
Emergency Visits	27,009	27,366	26,230	26,063	26,288
Obstetric Deliveries	678	656	680	707	555

Sources: OSHPD Disclosure Reports, 2009-2013 and OSHPD Alirts Annual Utilization Reports

A review of historical utilization trends at the Hospital between FY 2009 and FY 2013 supports the following conclusions:

- Total patient days have decreased by approximately 11% from 12,327 in FY 2009 to 11,026 in FY 2013;
- Inpatient discharges have decreased from 3,426 in FY 2009 to 3,021 in FY 2013, a 12% decline;
- The total number of licensed beds has remained stable at 93 beds;
- The average daily census has decreased from 34 patients per day to 30 patients per day;
- The overall average length of stay has remained around 3.6 days;

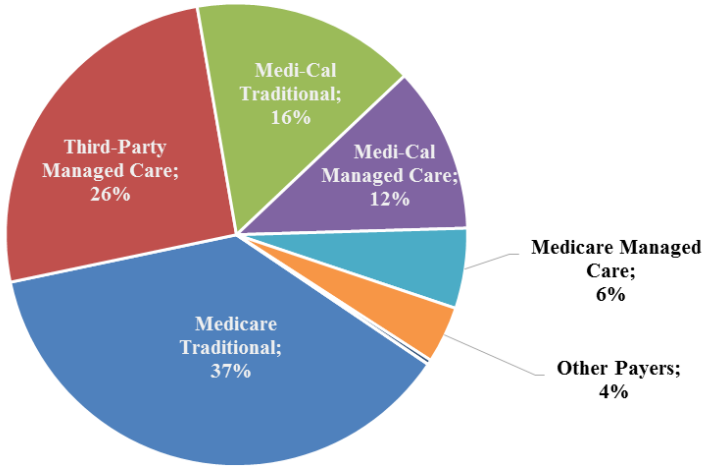
- Between FY 2009 and FY 2013, inpatient and outpatient surgeries decreased by 33% and 24% respectively; and

- Obstetric deliveries have decreased by 18% from 680 in FY 2011 to 555 in FY 2013.

Payer Mix

In FY 2013, 28% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (12%) and Medi-Cal Traditional (16%) patients. Approximately 43% of the Hospital's inpatient payer mix consisted of Medicare Traditional (37%) and Medicare Managed Care (6%). The remaining 30% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (26%), and Other Payers* (4%).

Hospital Payer Mix, 2013



Total Discharges: 3,021
* "Other" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

The following table illustrates the Hospital's discharge payer mix compared to Santa Clara County and statewide for FY 2013. The comparison shows that the Hospital has higher percentages of Medi-Cal Managed Care and Medicare Traditional patients and lower percentages of Third-Party Traditional and indigent patients relative to other hospitals in Santa Clara County and statewide.

PAYER MIX COMPARISON						
	Hospital (2013)		Santa Clara County (2013)		California (2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	474	15.7%	16,276	13.3%	444,932	15.0%
Medi-Cal Managed Care	350	11.6%	12,522	10.3%	354,720	12.0%
Medi-Cal Total	**824**	**27.3%**	**28,798**	**23.6%**	**799,652**	**27.0%**
Medicare Traditional	1,126	37.3%	35,685	29.2%	863,909	29.1%
Medicare Managed Care	169	5.6%	5,539	4.5%	265,857	9.0%
Medicare Total	**1,295**	**42.9%**	**41,224**	**33.8%**	**1,129,766**	**38.1%**
Third-Party Managed Care	772	25.6%	41,261	33.8%	657,290	22.2%
Third-Party Managed Care Total	**772**	**25.6%**	**41,261**	**33.8%**	**657,290**	**22.2%**
Third-Party Traditional	10	0.3%	2,229	1.8%	127,396	4.3%
Other Payers	120	4.0%	2,931	2.4%	87,399	2.9%
Other Indigent	0	0.0%	3,468	2.8%	50,699	1.7%
County Indigent	0	0.0%	2,221	1.8%	113,812	3.8%
Other Total	**130**	**4.3%**	**10,849**	**8.9%**	**379,306**	**12.8%**
Total	**3,021**	**100%**	**122,132**	**100%**	**2,966,014**	**100%**

Source: OSHPD Disclosure Reports, 2013

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Approximately 6.6 million Medi-Cal beneficiaries in all 58 counties of California receive their healthcare through six models of managed care: County Organized Health Systems, Geographic Managed Care, Two-Plan Model, Regional Model, Imperial Model, and the San Benito Model.

Santa Clara County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a "Commercial Plan," available through Anthem Blue Cross of California, and a "Local Initiative," the Santa Clara Family Health Plan, which has a sub-capitation agreement with Santa Clara Valley Health Plan. In 2013, Santa Clara County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (13.3%) or Medi-Cal Managed Care coverage (10.3%). The percentage of Santa Clara County residents with Medi-Cal Managed Care coverage will increase as a result of the ACA and state initiatives to expand managed care.

Medical Staff

The Hospital has 206 physicians on the medical staff with various specialties represented. Of the 206 physicians, 96 are considered "active" users of the Hospital (representing approximately 47% of the medical staff). Emergency medicine, family practice, and internal medicine are the three largest specialties, comprising 27% of the active physicians. The 110 "non-active" users of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff. The Hospital has a professional services agreement with DCHS Medical Foundation, effective April 1, 2014 through March 31, 2016. Under the contract, physicians specialized in hospital medicine or internal medicine provide hospitalist services to the Hospital.

MEDICAL STAFF PROFILE 2014		
Specialty	**Count**	**% of Total**
Active Physicians		
Emergency Medicine	11	11%
Family Practice	8	8%
Internal Medicine	8	8%
Obstetrics/Gynecology	8	8%
General Surgery	6	6%
Pediatrics	6	6%
Anesthesiology	5	5%
Cardiology	4	4%
Nephrology	4	4%
Orthopedic Surgery	4	4%
Other	32	33%
Total Active	**96**	**100%**
Non-Active	110	
Total Physicians	**206**	

Source: Daughters

Unionized Employees

The Hospital has 274 employees represented by Service Employees International Union, Local 250. Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, for the period of May 1, 2012 through April 30, 2015, covers employees that are members of technical, service, and maintenance bargaining units at the Health Facilities.

The Hospital has four additional CBAs with the following unions:

- California Nurses Association for the period of July 1, 2009 through September 30, 2015. The agreement with CNA covers 269 Registered Nurses at the Hospital that are involved in direct patient care;

- California Licensed Vocational Nurses Association for the period of November 1, 2011 through October 31, 2015 that covers eight Licensed Vocational Nurses providing direct patient care;

- International Union of Operating Stationary Engineers, Local 39 for the period of October 1, 2005 through September 30, 2010 (extended during contract negotiations) that covers 11 bargaining unit members at the Hospital; and

- Engineering Scientists of California, Local 20 for the term of April 8, 2014 through April 30, 2015. This agreement covers 17 employees at the Hospital.

In total, approximately 79% of the Hospital's employees are covered by CBAs.

EMPLOYEE UNION PARTICIPATION		
Employee Category	**Total Count***	**Full-Time Employees**
Union		
Service Employees International Union, Local 250	274	129
California Nurses Association	269	112
International Union of Operating Engineers, Local 39	11	10
Engineering Scientists of California, Local 20	17	8
California Licensed Vocational Nurses Association	8	6
Total Union	**579**	**265**
Non-Union		
Directors	14	14
Managers	10	10
Other Non-Union	123	66
Total Non-Union	**147**	**90**
Total	**726**	**355**

Source: Daughters

* Includes full-time and part-time employees

Financial Profile

Between FY 2009 and FY 2013, the Hospital reported a combined net loss of approximately $20.5 million with the majority of these losses occurring in FY 2013 ($14.5 million). During this same period, total operating revenue remained relatively stable while total operating expenses rose by 15%. With California hospitals posting low operating margins (2.64%), many hospitals are often reliant on non-operating revenue[21] as an additional source of funding. In FY 2013, the Hospital had a net non-operating loss of nearly $4 million in addition to the $10.5 million loss from operations.

[21] Revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

The Hospital's current assets-to-liabilities ratio has decreased substantially over the last five years from 1.69 in FY 2009 to 0.56 in FY 2013 (the California average in 2013 was 1.76). The Hospital's average percentage of bad debt is approximately 0.5%, which is lower than the statewide average of 1.7%. As a result of the financial challenges, the Hospital's operating margin is -13.45%, well below the California average of 2.64%.

FINANCIAL AND RATIO ANALYSIS: FY 2009-2013						
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Patient Days		12,327	12,496	12,830	12,786	11,026
Discharges		3,426	3,448	3,554	3,347	3,021
ALOS		3.6	3.6	3.6	3.8	3.6
Net Patient Revenue		$78,587,850	$83,900,559	$88,705,687	$85,214,487	$78,372,786
Other Operating Revenue		$328,755	$511,896	$349,164	$274,953	$307,498
Total Operating Revenue		$78,916,605	$84,412,455	$88,705,687	$85,489,440	$78,680,284
Operating Expenses		$77,978,749	$86,548,677	$89,344,104	$87,585,604	$89,265,897
Net from Operations		$937,856	($2,136,222)	($289,253)	($2,096,164)	($10,585,613)
Net Non-Operating Revenue		$103,341	$1,445,824	($1,635,005)	($2,253,472)	($3,936,171)
Net Income		$1,041,197	($690,398)	($1,924,258)	($4,349,636)	($14,521,784)
	California Average 2013					
Current Ratio	1.76	1.69	1.50	1.28	0.93	0.56
Days in A/R	60.0	50.1	52.4	55.3	52.2	52.2
Bad Debt Rate	1.7%	2.7%	2.4%	1.1%	0.4%	0.5%
Operating Margin	2.64%	1.19%	(2.53%)	(0.32%)	(2.45%)	(13.45%)

Source: OSHPD Disclosure Reports, 2009-2013

Capital Expenditures

Between FY 2011 and FY 2013, the Hospital spent approximately $8.8 million in capital expenditures for software and IT upgrades. Reported capital expenditure needs during FY 2015 are approximately $1.1 million, including nearly $300,000 in emergency department expansion renovations and $800,000 for new imaging equipment. However, because of financial constraints, the Hospital's plans to expand the Emergency Department have recently been delayed.

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In 2013, approximately 43% of the Hospital's total costs were associated with Medicare, 29% with Third Party payers, and 21% with Medi-Cal. The remaining 6% is attributed to Other Payers.

COST OF SERVICES BY PAYER CATEGORY: FY 2009-2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operating Expenses	$77,978,749	$86,548,677	$89,344,104	$87,585,604	$89,265,897
Cost of Services By Payer:					
Medicare	$29,022,426	$34,856,029	$37,883,354	$36,682,109	$38,725,802
Medi-Cal	$18,830,707	$20,257,471	$20,033,597	$19,569,026	$18,905,163
County Indigent	$0	$0	$0	$0	$0
Third Party	$25,703,623	$26,613,937	$26,565,195	$25,363,130	$26,222,278
Other Indigent	$0	$0	$0	$0	$0
Other Payers	$4,421,994	$4,821,240	$4,861,957	$5,971,340	$5,412,654

Source: OSHPD Disclosure Reports, FY 2009-2013

Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have fluctuated from a low of approximately $6.9 million in FY 2012 to a high of approximately $15.1 million in FY 2013. The five-year average for charity care charges was $9.8 million.

The following table shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the state. The five-year (FY 2009 - FY 2013) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 3.8%. This is higher than the four-year statewide average of 3.5%. According to OSHPD, "the determination of what is classified as…charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON CHARITY CARE - FY 2009 to FY 2013 (Millions)										
	2009		2010		2011		2012		2013	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	$354.1	$252,629.7	$402.8	$270,511.0	$433.4	$288,636.7	$454.9	$303,278.6	$421.5	$317,543.8
Charity	$7.4	$4,792.3	$9.9	$5,587.1	$9.8	$6,171.5	$6.9	$6,251.0	$15.1	$6,209.9
Bad Debt	$9.4	$4,333.2	$9.7	$4,510.8	$4.6	$4,815.5	$1.9	$5,007.6	$2.2	$5,549.5
Total	**$16.8**	**$9,125.5**	**$19.6**	**$10,097.9**	**$14.5**	**$10,987.0**	**$8.8**	**$11,258.6**	**$17.4**	**$11,759.4**
Charity as a % of Gross Rev.	2.1%	0.9%	2.5%	2.1%	2.3%	2.1%	1.5%	2.1%	3.6%	2.0%
Bad Debt as a % of Gross Rev.	2.7%	1.7%	2.4%	1.7%	1.1%	1.7%	0.4%	1.7%	0.5%	1.7%
Total as a % of Gross Rev.	4.7%	2.6%	4.9%	3.7%	3.3%	3.8%	1.9%	3.7%	4.1%	3.7%
Uncompensated Care										
Cost to Charge Ratio	21.9%	25.1%	21.4%	25.0%	20.5%	24.6%	19.2%	24.6%	21.1%	24.4%
Cost of Charity	$1.6	$579.8	$2.1	$1,396.2	$2.0	$1,520.9	$1.3	$1,539.1	$3.2	$1,514.6
Cost of Bad Debt	$2.1	$1,085.7	$2.1	$1,127.3	$0.9	$1,186.8	$0.4	$1,232.9	$0.5	$1,353.5
Total	**$3.7**	**$1,665.5**	**$4.2**	**$2,523.5**	**$3.0**	**$2,707.7**	**$1.7**	**$2,772.0**	**$3.7**	**$2,868.1**

Source: OSHPD Disclosure Reports, 2009-2013

The table below shows the Hospital's historical costs for charity care as reported by OSHPD. The Hospital's charity care costs increased from $1.6 million in 2009 to $3.2 million in FY 2013. The average cost of charity care for the last five-year period was approximately $2.1 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2013	$15,143,907	21.1%	$3,196,879	3.6%
FY 2012	$6,943,222	19.2%	$1,333,099	1.5%
FY 2011	$9,828,732	20.5%	$2,014,890	2.3%
FY 2010	$9,905,987	21.4%	$2,119,881	2.4%
FY 2009	$7,354,455	21.9%	$1,610,626	2.1%
5-Year Average	**$9,835,261**		**$2,055,075**	

Source: OSHPD Disclosure Reports, 2009-2013

In Daughters' written notice to the Attorney General, the submitted data for the Hospital's charity care charges differs from the data reported by OSHPD. The charity care charges and cost to charge ratios submitted by Daughters are reported in the following table:

ADJUSTED COST OF CHARITY CARE			
Year	Adjusted Charity Care Charges	Adjusted Cost to Charge Ratio	Adjusted Cost of Charity Care to Hospital
FY 2014	$12,870,533	21.2%	$2,725,979
FY 2013	$18,680,528	21.0%	$3,924,779
FY 2012	$7,154,051	19.0%	$1,355,693
FY 2011	$11,421,729	20.4%	$2,327,748
FY 2010	$13,449,779	20.4%	$2,749,135
5-Year Average	**$12,715,324**		**$2,616,667**

Source: Daughters' Application to the Attorney General

The Hospital reported the following distribution of charity care by inpatient, outpatient, and emergency room charges:

COST OF CHARITY CARE BY SERVICE FY 2010-2014					
		Inpatient	Outpatient	Emergency Room	Total Charges
2014:					
	Cost of Charity	$6,339,217	$563,238	$5,968,078	$12,870,533
	Visits/Discharges	89	281	1,296	
2013:					
	Cost of Charity	$8,295,633	$4,085,569	$6,299,326	$18,650,528
	Visits/Discharges	205	835	1,981	
2012:					
	Cost of Charity	$3,266,873	$987,821	$2,899,357	$7,154,051
	Visits/Discharges	180	427	1,183	
2011:				.	
	Cost of Charity	$5,816,349	$769,083	$4,836,297	$11,421,729
	Visits/Discharges	152	390	1,300	
2010:					
	Cost of Charity	$7,522,277	$1,290,231	$4,637,271	$13,449,779
	Visits/Discharges	152	333	1,396	

Source: Daughters

Community Benefit Services

The Hospital has consistently provided a contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five years was approximately $880,000 per year:

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	2010	2011	2012	2013	2014	5-Year Average	Total
Benefits for Persons Living in Poverty	$137,847	$67,843	$23,974	$172,810	$118,378	$100,619	**$402,474**
Benefits for the Broader Community	$608,001	$680,502	$869,502	$956,933	$650,056	$752,999	**$3,764,994**
Total	**$745,848**	**$748,345**	**$893,476**	**$1,129,743**	**$768,434**	**$879,353**	**$3,517,412**

Source: Daughters

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately $101,000 per year. The services for persons living in poverty include community health improvement services, and cash and in-kind contributions to community groups; and

- The Hospital's five-year average cost of community benefit services to the broader community is approximately $750,000 per year. These services include community health improvement services, subsidized health services, cash and in-kind contributions to community groups, and community building activities and operations.

The Hospital's cost of community benefit services over the past five fiscal years included the following program expenditures over $10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Services over $10,000 in cost					
Breastfeeding Support	$28,926	$29,466	$41,581	$44,053	$56,407
Health Benefits Resource Center	$52,906	$195,342	$248,409	$493,777	$425,215
Meals on Wheels	$40,783	$45,881	$38,566	$41,854	$46,895
Physician Recruitment	$412,524	$471,882	$470,274	$637,074	$370,650
Director of Community Health	$115,914	$132,562	$115,552	$119,741	$113,189
Nursing Professional Education	-	-	$73,348	$69,250	$50,240
Health Professional Education	-	-	$120,192	$29,722	$21,938
Promotora Coordinator Diabetes Education (Spanish)	$28,926	$21,233	$41,581	$24,441	$33,703
Rotacare Lab Tests	-	-	-	-	$91,375

Source: Daughters

The Hospital's community benefit services have supported many programs for the community including: Health Benefits Resource Center, Breastfeeding Support Groups, Meals on Wheels, Promotora Coordinator and Diabetes Education, Healthy Nutrition Classes, Physician Recruitment, and Rotacare.

- Health Benefits Resource Center: The program improves access to affordable healthcare by providing health insurance and government-sponsored program application assistance, referrals to affiliation physicians, ongoing case management, and community outreach. During FY 2013, the program had nearly 3,000 visits, provided approximately 2,000 eligibility screenings, and assisted almost 1,000 individuals in applying for health insurance;

- Breastfeeding Support Groups: The program includes education about breastfeeding techniques and practices that are proven to promote, protect, and support breastfeeding;

- Meals on Wheels: The program, in coordination with the Health Trust, provides meals for the homeless and the elderly who are unable to purchase or prepare their own meals;

- Promotora Coordinator and Diabetes Education: The program provides the Latino community with diabetes health education, including glucose monitoring, healthy eating habits, and risk reduction;

- Physician Recruitment: The program is considered a community benefit because of the Hospital's proximity to a Health Professional Shortage Area;

- Director of Community Health: The program director is responsible for community outreach, training providers, and coordinating and reporting all programs to the State of California and Internal Revenue Service;

- Nursing Professional Education: The program provides preceptorship for x-ray and surgical technicians; and

- Rotacare Lab Tests: The Hospital provides lab tests for the patients at the Rotary Club's clinic for the uninsured.

PROFILE OF PRIME

Prime Healthcare Services, Inc.

Prime Inc. is a for-profit national healthcare system headquartered in Ontario, California. Today, Prime Inc. and its subsidiaries operate 29 hospitals and one skilled nursing facility in nine states, including California, Pennsylvania, Nevada, Kansas, Rhode Island, Texas, Michigan, Indiana, and New Jersey with more than 30,000 employees and 4,500 patient beds.

Dr. Reddy originally established Desert Valley Medical Group in 1985 and Desert Valley Hospital in 1994. After selling both the medical group and the hospital to PhyCor, Dr. Reddy founded Prime Inc. in 2001 for the purpose of reacquiring Desert Valley Medical Group and Desert Valley Hospital from PhyCor. Since 2001, Prime Inc. has continued to expand its presence by acquiring hospitals across the nation. Prime Inc.'s recent hospital acquisitions include the following:

- August 2014 – Prime Inc. acquires St. Mary's Hospital in Passaic, New Jersey;
- August 2014 – Prime Inc. acquires Monroe Hospital in Bloomington, Indiana;
- July 2014 – Prime Inc. acquires Garden City Hospital in Garden City, Michigan;
- May 2014 – Prime Inc. acquires East Valley Hospital Medical Center in Glendora, California. East Valley Hospital Medical Center reverts back to its original name, Glendora Community Hospital;
- December 2013 – Prime Inc. acquires Landmark Medical Center in Woonsocket, Rhode Island; and
- January 2013 – Prime Inc. acquires controlling interest in Knapp Medical Center, located in Weslaco, Texas.

In total, Prime Inc., or an affiliated entity, has acquired a total of 14 hospitals outside of California: Monroe Hospital in Indiana, Saint John Hospital and Providence Medical Center in Kansas, Garden City Hospital in Michigan, Saint Mary's Regional Medical Center in Nevada, St. Mary's Hospital in New Jersey, Lower Bucks Hospital and Roxborough Memorial Hospital in Pennsylvania, Landmark Medical Center and Rehabilitation Hospital of Rhode Island in Rhode Island, and Dallas Medical Center, Harlingen Medical Center, Knapp Medical Center, and Pampa Regional Medical Center in Texas. In addition, Prime Inc. operates Providence Place Rehabilitation Center and Providence Medical Group in Kansas, Saint Mary's Medical Group in New Jersey, and Dallas Medical Physician Group in Texas.

Within California, Prime Inc., or an affiliated entity, owns and operates approximately 2,200 beds at 11 for-profit facilities:

Alvarado Hospital Medical Center, founded in 1972, was acquired by Prime Inc. in 2010. The medical center, with 306 licensed beds and more than 800 nurses and 400 physicians, serves the residents of San Diego. The medical center offers critical care, orthopedic, drug rehabilitation, cardiology, oncology, and general surgery services.

Centinela Hospital Medical Center, located in Inglewood and acquired by Prime Inc. in 2007 serves the residents of Inglewood and its surrounding areas. In 1960, the medical center began construction on a 60 licensed bed addition. Throughout the late 1960s and 1970s, the medical center expanded to include 369 licensed beds. Today, the 369 licensed bed facility includes approximately 1,500 employees and 400 members of the medical staff. The medical center provides orthopedic services, cardiac services, and obstetrics/gynecology services, as well as a "basic" emergency department.

Chino Valley Medical Center, established in 1972, serves the communities of Chino, Ontario, and Pomona. Prime Inc. acquired the medical center in 2004. It currently is licensed for 126 beds with approximately 300 physicians and 7,000 admissions per year. Medical services include emergency treatment, intensive care, radiological, laboratory, and pain management services.

Desert Valley Hospital, located in Victorville, was founded by Dr. Reddy in 1994. The hospital is licensed for 148 beds and serves the High Desert communities of San Bernardino County. Medical services at the hospital include cardiology-neurology, imaging, laboratory, critical care, surgery, physical therapy, and Fast Track services at the "basic" emergency department.

Garden Grove Hospital Medical Center, located and servicing Garden Grove, is a 140 licensed bed acute care facility and was acquired by Prime Inc. in 2008. Established in 1982, the medical center has more than 500 employees and over 550 physician affiliates. The medical center provides 24-hour "basic" emergency treatment services, medical/surgical services, intensive care services, maternity services, and diagnostic imaging services.

Glendora Community Hospital, located in Glendora, was founded in 1958. Previously known as the East Valley Hospital Medical Center, the hospital serves the residents of Glendora and surrounding communities. It is currently licensed for 118 beds and was acquired by Prime Inc. in 2014. The hospital offers a variety of medical services including intensive and critical care services, diagnostic imaging, senior mental health, women's health services, and a 24-hour "basic" emergency department.

La Palma Intercommunity Hospital, a 141 licensed bed facility, provides La Palma and surrounding communities with general acute care services. Established in 1972 and purchased by Prime Inc. in 2006, the hospital provides emergency, maternity, behavioral health, imaging, pharmacy, and intensive care services.

Paradise Valley Hospital, located in National City, is a 291 licensed bed acute care hospital that provides obstetrics, rehabilitation, hyperbaric medicine, behavioral health, "basic" emergency

treatment, surgical, and senior health services. Founded in 1904 and acquired by Prime Inc. in 2007, the hospital operates with more than 300 physicians.

San Dimas Community Hospital, located in San Dimas, opened in 1971 and serves the communities of San Dimas, Glendora, La Verne, Covina, West Covina, Azusa, Walnut, Diamond Bar, Pomona, and Claremont. Prime Inc. purchased the hospital in 2008, and currently owns and operates the 13-acre campus with 101 licensed beds. The hospital offers cardiopulmonary services, diagnostic services, gastroenterology services, orthopedic services, rehabilitation services, women's services, and a 24-hour "basic" emergency department.

Shasta Regional Medical Center, a 246 licensed bed acute care facility located in Redding, was established in 1945. Prime Inc. purchased the medical center in 2008. The medical center provides a "basic" emergency department, cardiac catheterization, stroke treatment, and inpatient diabetes services. Outpatient services include cardiac rehabilitation, pulmonary rehabilitation, and wound care treatment.

West Anaheim Medical Center, located in Anaheim, opened in 1964 and serves the communities of Orange County. Prime Inc. purchased the medical center in 2006, and currently owns and operates the 219 licensed bed facility. The medical center offers general medical/surgical services, behavioral health services, cardiovascular services, respiratory services, and pediatric services.

Prime Healthcare Foundation, Inc.

In 2006, Dr. Reddy founded Prime Foundation for the primary stated charitable purpose of providing healthcare services to the communities served by Prime's hospitals and supporting other charitable activities, such as medical education, scholarships, community educational programs, and a public health library.

Prime Inc., or an affiliated entity, has donated six hospitals to Prime Foundation. Two of the hospitals, Knapp Medical Center and Pampa Regional Medical Center, are located in Texas. The remaining four hospitals are located in California: Encino Hospital Medical Center, Huntington Beach Hospital, Montclair Hospital Medical Center, and Sherman Oaks Hospital.

Encino Hospital Medical Center, located in Encino, is licensed for 150 beds and has more than 500 employees and 300 physicians. Prime Inc. purchased it in 2008. The medical center offers gastrointestinal services, imaging services, rehabilitation services, mental health services, respiratory therapy, sub-acute nursing services, inpatient and outpatient surgery services, and a 24-hour "basic" emergency department.

Huntington Beach Hospital, a 102 licensed bed facility with over 300 physicians and 500 employees, was founded in Huntington Beach in 1967. Acquired in 2006, the hospital was donated to Prime Foundation in 2012, and currently operates as a non-profit general acute care facility. The hospital provides emergency, surgical, cardiovascular, wound care, imaging, intensive care, and behavioral health services.

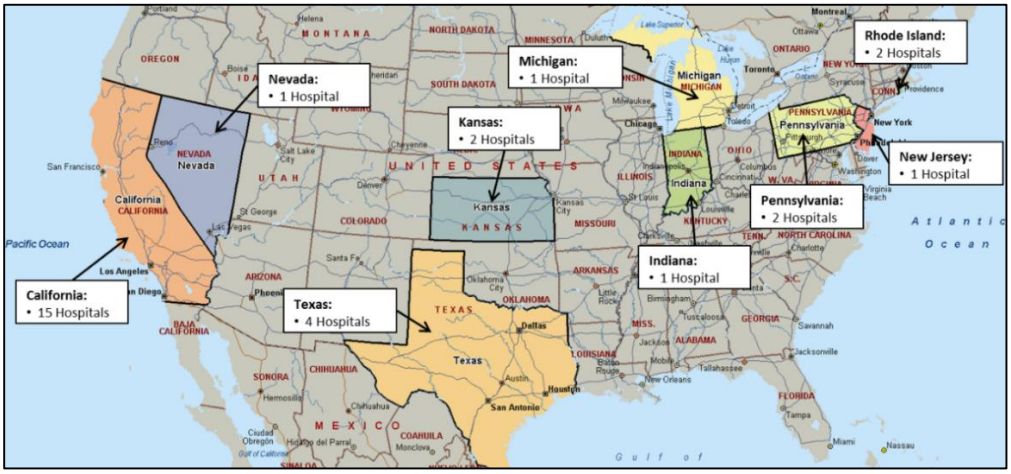
Montclair Hospital Medical Center, acquired by Prime Inc. in 2006, was donated to Prime Foundation in 2010. The 102 licensed bed facility provides healthcare services to the communities of Montclair, Ontario, Claremont, Upland, and Pomona. Healthcare services include general medicine, maternity, rehabilitation, and nutrition services.

Sherman Oaks Hospital, located in Sherman Oaks, opened in 1969 and is staffed by approximately 500 employees and 400 physicians. Prime Inc. acquired the hospital in 2005. The hospital has 153 licensed beds, and offers a 24-hour "basic" emergency department and intensive care, radiology, laboratory, surgery, behavioral health, cardiology, rehabilitation, and sub-acute nursing services.

Location of Hospitals Owned by Prime

The following map identifies the various locations of Prime's fifteen California hospitals:

The following map identifies the location and number of Prime's hospitals by state:



Profile of California Hospitals Owned by Prime

Prime Inc.

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013						
	Prime Inc.	Alvardo Hospital Medical Center	Centinela Hospital Medical Center	Chino Valley Medical Center	Desert Valley Hospital	Garden Grove Hospital Medical Center
City	-	San Diego	Inglewood	Chino	Victorville	Garden Grove
Licensed Beds	2,205	306	369	126	148	140
Patient Days	331,607	30,088	71,719	14,397	33,535	22,904
Discharges[1]	78,874	6,702	18,638	5,352	9,279	6,017
ALOS	4.4	4.5	3.8	2.6	3.6	3.8
Average Daily Census	83	82	196	39	92	63
Occupancy	40.0%	26.9%	53.2%	31.3%	62.1%	44.8%
ED Visits	338,896	24,734	66,449	39,737	38,826	26,838
Inpatient Surgeries	11,484	1,783	1,411	808	1,419	1,246
Outpatient Surgeries	6,728	1,111	513	191	562	815
Births	5,699	0	833	0	1,089	1,693
Payer Mix (Based on Discharges):						
Medicare Traditional	40.7%	40.5%	39.8%	26.0%	29.3%	26.3%
Managed Medicare	10.7%	7.3%	9.5%	15.2%	19.7%	9.2%
Medi-Cal Traditional	12.5%	7.1%	8.5%	11.9%	10.9%	23.8%
Managed Medi-Cal	12.9%	11.5%	25.3%	17.0%	18.9%	20.1%
County Indigent	3.7%	9.1%	0.0%	1.1%	4.5%	4.8%
Traditional Third-Party	7.9%	5.6%	7.5%	19.4%	8.7%	5.7%
Managed Third-Party	5.6%	18.4%	0.0%	5.5%	3.6%	0.7%
Other Indigent	0.6%	0.0%	4.7%	0.1%	0.0%	0.0%
Other	5.4%	0.5%	4.7%	3.8%	4.4%	9.5%
Total	100%	100%	100%	100%	100%	100%
Income Statement:						
Gross Patient Revenue	$5,386,567,996	$610,732,778	$1,327,895,579	$360,851,371	$460,079,434	$409,555,371
Net Pt. Revenue	$1,204,560,785	$129,291,325	$267,441,719	$97,671,516	$114,162,114	$100,314,453
Other Operating Revenue	$10,006,849	$853,602	$1,555,451	$461,721	$1,943,188	$509,831
Total Operating Revenue	$1,214,567,634	$130,144,927	$268,997,170	$98,133,237	$116,105,302	$100,824,284
Total Operating Expenses	$1,173,678,690	$152,906,443	$231,641,308	$91,967,579	$110,921,651	$87,800,789
Net From Operations	$40,888,944	($22,761,516)	$37,355,862	$6,165,658	$5,183,651	$13,023,495
Non-operating Revenue	$24,300,810	$2,722,890	$5,790,467	$1,572,971	$1,733,364	$2,711,872
Non-operating Expenses	$9,930,431	$642,403	$4,236,426	$12,982	$2,244,737	$1,485,650
Provision for Taxes	$0	$0	$0	$0	$0	$0
Net Income	$55,259,323	($20,681,029)	$38,909,903	$7,725,647	$4,672,278	$14,249,717
Other Financial:						
Charity Care Charges	$97,091,461	$204,241	$61,781,029	$973,296	$954,960	$4,398,297
Bad Debt Charges	$337,194,028	$17,666,251	$18,669,337	$51,303,936	$36,001,017	$29,751,204
Total Uncompensated Care	$434,285,489	$17,870,492	$80,450,366	$52,277,232	$36,955,977	$34,149,501
Cost to Charge Ratio	21.6%	24.9%	17.3%	25.4%	23.7%	21.3%
Cost of Charity	$20,974,877	$50,849	$10,704,864	$246,812	$226,200	$937,435
Uncompensated Care as % of Chgs.	8.1%	2.9%	6.1%	14.5%	8.0%	8.3%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statew ide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013							
	Prime Inc.	Glendora Community Hospital	La Palma Intercommunity Hospital	Paradise Valley Hospital	San Dimas Community Hospital	Shasta Regional Medical Center	West Anaheim Medical Center
City	-	Glendora	La Palma	National City	San Dimas	Redding	Anaheim
Licensed Beds	2,205	118	141	291	101	246	219
Patient Days	331,607	10,331	18,050	56,499	13,836	28,329	31,919
Discharges[1]	78,874	1,559	3,614	10,615	4,073	7,124	5,901
ALOS	4.4	6.6	5.0	5.3	3.4	4.0	5.5
Average Daily Census	83	28	49	155	38	78	87
Occupancy	40.0%	24.0%	35.1%	53.2%	37.5%	31.6%	39.9%
ED Visits	338,896	4,344	15,219	33,747	15,343	42,152	31,507
Inpatient Surgeries	11,484	284	391	476	973	1,726	967
Outpatient Surgeries	6,728	92	262	817	954	1,232	179
Births	5,699	191	403	1,080	410	0	0
Payer Mix (Based on Discharges):							
Medicare Traditional	40.7%	67.9%	47.6%	37.9%	29.7%	61.3%	41.5%
Managed Medicare	10.7%	2.8%	11.1%	5.1%	19.0%	2.7%	16.5%
Medi-Cal Traditional	12.5%	15.5%	15.9%	23.8%	5.1%	10.0%	5.4%
Managed Medi-Cal	12.9%	4.5%	8.7%	7.8%	6.7%	9.7%	11.6%
County Indigent	3.7%	0.6%	2.7%	7.8%	2.1%	0.0%	8.3%
Traditional Third-Party	7.9%	0.1%	9.4%	4.2%	7.8%	8.4%	9.6%
Managed Third-Party	5.6%	1.5%	1.4%	0.0%	25.5%	4.1%	0.9%
Other Indigent	0.6%	0.0%	0.0%	1.7%	0.0%	0.2%	0.0%
Other	5.4%	7.1%	3.1%	11.7%	4.2%	3.6%	6.3%
Total	100%	100%	100%	100%	100%	100%	100%
Income Statement:							
Gross Patient Revenue	$5,386,567,996	$66,720,923	$205,097,623	$484,672,693	$258,080,668	$798,835,700	$404,045,856
Net Pt. Revenue	$1,204,560,785	$18,644,403	$56,986,522	$137,032,609	$61,453,891	$134,359,527	$87,202,706
Other Operating Revenue	$10,006,849	$1,890,589	$253,421	$592,170	$439,988	$956,968	$549,920
Total Operating Revenue	$1,214,567,634	$20,534,992	$57,239,943	$137,624,779	$61,893,879	$135,316,495	$87,752,626
Total Operating Expenses	$1,173,678,690	$23,212,297	$52,880,927	$141,149,059	$57,663,794	$128,464,583	$95,070,260
Net From Operations	$40,888,944	($2,677,305)	$4,359,016	($3,524,280)	$4,230,085	$6,851,912	($7,317,634)
Non-operating Revenue	$24,300,810	$0	$1,313,339	$3,298,197	$1,821,798	$1,706,937	$1,628,975
Non-operating Expenses	$9,930,431	$0	$0	$757,124	$475,526	$15,583	$60,000
Provision for Taxes	$0	$0	$0	$0	$0	$0	$0
Net Income	$55,259,323	($2,677,305)	$5,672,355	($983,207)	$5,576,357	$8,543,266	($5,748,659)
Other Financial:							
Charity Care Charges	$97,091,461	$87,258	$1,660,782	$14,259,586	$1,642,068	$8,085,309	$3,044,635
Bad Debt Charges	$337,194,028	$2,175,317	$13,863,316	$15,692,625	$58,373,009	$39,551,319	$54,146,697
Total Uncompensated Care	$434,285,489	$2,262,575	$15,524,098	$29,952,211	$60,015,077	$47,636,628	$57,191,332
Cost to Charge Ratio	21.6%	32.0%	25.7%	29.0%	22.2%	16.0%	23.4%
Cost of Charity	$20,974,877	$27,885	$426,152	$4,135,333	$364,093	$1,290,551	$712,246
Uncompensated Care as % of Chgs.	8.1%	3.4%	7.6%	6.2%	23.3%	6.0%	14.2%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

Prime Foundation

CALIFORNIA HOSPITALS OWNED BY PRIME FOUNDATION: FY 2013					
	Prime Foundation	Encino Hospital Medical Center	Huntington Beach Hospital	Montclair Hospital Medical Center	Sherman Oaks Hospital
City	-	Encino	Huntington Beach	Montclair	Sherman Oaks
Licensed Beds	507	150	102	102	153
Patient Days	79,537	21,554	19,401	11,598	26,984
Discharges[1]	15,459	2,193	3,681	4,034	5,551
ALOS	23	9.8	5.3	2.9	4.9
Average Daily Census	218	59	53	32	74
Occupancy	2	39.4%	52.1%	31.2%	48.3%
ED Visits	67,779	8,306	17,390	20,964	21,119
Inpatient Surgeries	1,916	282	301	816	517
Outpatient Surgeries	1,096	198	121	432	345
Births	769	0	0	769	0
Payer Mix (Based on Discharges):					
Medicare Traditional	50.7%	72.9%	46.7%	21.1%	61.9%
Managed Medicare	8.0%	4.1%	12.3%	8.9%	6.6%
Medi-Cal Traditional	9.8%	1.8%	4.9%	26.9%	5.4%
Managed Medi-Cal	13.2%	6.5%	9.2%	26.8%	10.1%
County Indigent	2.8%	0.0%	9.5%	1.8%	0.0%
Traditional Third-Party	10.0%	10.6%	11.1%	7.1%	11.0%
Managed Third-Party	0.3%	0.0%	0.8%	0.2%	0.0%
Other Indigent	0.1%	0.0%	0.0%	0.0%	0.2%
Other	5.4%	4.1%	5.6%	7.2%	4.8%
Total	100%	100%	100%	100%	100%
Income Statement:					
Gross Patient Revenue	$857,788,170	$189,495,977	$212,387,808	$158,633,654	$297,270,731
Net Pt. Revenue	$227,598,823	$49,638,807	$55,192,622	$46,741,400	$76,025,994
Other Operating Revenue	$1,025,322	$192,860	$312,649	$249,288	$270,525
Total Operating Revenue	$228,624,145	$49,831,667	$55,505,271	$46,990,688	$76,296,519
Total Operating Expenses	$229,602,782	$53,569,715	$54,646,950	$49,291,194	$72,094,923
Net From Operations	($978,637)	($3,738,048)	$858,321	($2,300,506)	$4,201,596
Non-operating Revenue	$4,079,401	$670,815	$1,199,472	$968,783	$1,240,331
Non-operating Expenses	$257,635	$0	$271,366	$12,360	($26,091)
Provision for Taxes	$0	$0	$0	$0	$0
Net Income	$2,843,125	($3,067,233)	$1,786,427	($1,344,083)	$5,468,014
Other Financial:					
Charity Care Charges	$7,235,861	$862,638	$2,901,928	$276,772	$3,194,523
Bad Debt Charges	$91,168,065	$18,008,998	$22,926,813	$18,462,644	$31,769,610
Total Uncompensated Care	$98,403,926	$18,871,636	$25,828,741	$18,739,416	$34,964,133
Cost to Charge Ratio	26.6%	28.2%	25.6%	30.9%	24.2%
Cost of Charity	$1,928,162	$242,986	$742,388	$85,565	$771,837
Uncompensated Care as % of Chgs.	11.5%	10.0%	12.2%	11.8%	11.8%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

Key Statistics

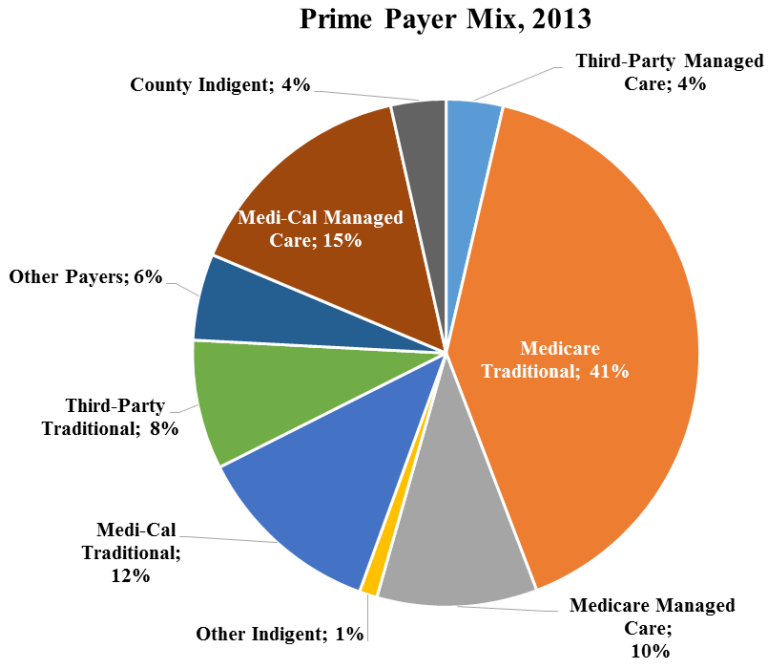
Key statistics for Prime's California hospitals include the following:

- In FY 2013, Centinela Hospital Medical Center was Prime's top performing hospital, reporting $38.9 million in net income. However, six of Prime's hospitals reported a net loss in FY 2013, with the most substantial loss reported at Alvarado Hospital Medical Center ($20.7 million); and

- In FY 2013, Prime operated 2,712 licensed beds with an average occupancy rate of 42% and an average daily census of 1,126 patients.

Payer Mix

In 2013, Prime's California inpatient payer mix consisted of predominantly Medicare Traditional (41%), Medi-Cal Managed Care (15%), Medi-Cal Traditional (12%), and Medicare Managed Care (10%). The remaining 23% of the Hospital's inpatient discharges is made up of Third-Party Traditional (8%), Other Payers* (6%), Indigent (5%), and Third-Party Managed Care (4%).



Total Discharges: 94,333
* "Other" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Disclosure Reports, 2013

Quality & Awards

All of Prime's California hospitals have received accreditation as indicated below:

Hospital	Hospital Accreditation	Effective Date
Alvarado Hospital Medical Center	The Joint Commission	6/7/2014
Centinela Hospital Medical Center	The Joint Commission	12/8/2011
Chino Valley Medical Center	Healthcare Facilities Accreditation Program	current
Desert Valley Hospital	Healthcare Facilities Accreditation Program	current
Encino Hospital Medical Center	The Joint Commission	7/25/2014
Garden Grove Hospital Medical Center	The Joint Commission	12/3/2011
Glendora Community Hospital	Healthcare Facilities Accreditation Program	current
Huntington Beach Hospital	The Joint Commission	9/9/2011
La Palma Intercommunity Hospital	The Joint Commission	4/19/2014
Montclair Hospital Medical Center	The Joint Commission	12/10/2011
Paradise Valley Hospital	The Joint Commission	6/1/2013
San Dimas Community Hospital	The Joint Commission	11/2/2011
Shasta Regional Medical Center	The Joint Commission	10/15/2011
Sherman Oaks Hospital	Healthcare Facilities Accreditation Program	current
West Anaheim Medical Center	The Joint Commission	9/1/2011

Source: The Joint Commission Accreditation Program and Health Facilities Accreditation Program

Prime has received several accolades and achievements, some of which include:

- *Healthcare IT News*' "Best Hospital IT Departments" ranked Prime's information technology department fifth in the "Super Hospital" category;

- Centers of Medicare and Medicaid Services' Hospital Value-Based Purchasing Program named Centinela Hospital Medical Center as one of the top 25 hospitals nationwide based on value-based purchasing scores; and

- The Joint Commission recognized 11 of Prime's hospitals as Top Performers on Key Quality Measures. The hospitals in California include: Centinela Hospital Medical Center, Encino Hospital Medical Center, Garden Grove Hospital Medical Center, Huntington Beach Hospital, La Palma Intercommunity Hospital, Paradise Valley Hospital, San Dimas Community Hospital, and Shasta Regional Medical Center; in Kansas: Saint John Hospital; in Pennsylvania: Roxborough Memorial Hospital; and in Texas: Harlingen Medical Center.

The following table reports Prime's FY 2014 quality scores for measures of evidence-based care, patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average:

QUALITY SCORES COMPARISON: FY 2014				
Domain	**Measure**	**Prime Average**	**California Average**	**National Average**
Clinical Process of Care Domain	Evidence-Based Care	**98.8%**	98.1%	98.3%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	**61.0%**	68.0%	71.0%
	% of Patients Willing to Recommend the Hospital to Others	**62.0%**	70.0%	71.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	**10.4%**	12.0%	12.3%

Source: Daughters

- For measures of evidence-based care, Prime scored higher than the national average (98.8% and 98.3%, respectively);
- Prime scored 10% lower than the national average for the percentage of patients who were highly satisfied with the Hospital;
- The percentage of patients willing to recommend Prime's facilities to others (62%) was 9% lower than the national average of 71%; and
- Prime had a lower 30-day mortality rate (10.4%) for heart failure, heart attack, pneumonia, and surgical care patients than the national average of 12.3%.

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days of discharge. Hospital readmissions following treatment for heart attack, heart failure, and pneumonia are considered to be indicative of poor quality. In FY 2015, 223 California hospitals will be penalized by reducing federal reimbursement at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

The following graph shows Prime's 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Prime Average	**California Average**	**National Average**
20.6%	19.9%	19.9%

Source: Daughters

- Prime had slightly higher 30-day readmissions (20.6%) than the national average of 19.9%;

- For FY 2015, Prime Inc.'s hospitals will be penalized at an average reported estimate of 0.27%: Alvarado Hospital Medical Center (0.05%), Centinela Hospital Medical Center (0.79%), Chino Valley Medical Center (0.02%), Desert Valley Hospital (0.38%), Garden Grove Hospital Medical Center (0.13%), Glendora Community Hospital (0.00%), La Palma Intercommunity Hospital (0.20%), Paradise Valley Hospital (0.05%), San Dimas Community Hospital (0.46%), Shasta Regional Medical Center (0.65%), and West Anaheim Medical Center (0.29%);

- For FY 2015, Prime Foundation's hospitals will be penalized at an average reported estimate of 0.36%: Encino Hospital Medical Center (0.35%), Huntington Beach Hospital (0.38%), Montclair Hospital Medical Center (0.20%), and Sherman Oaks Hospital (0.49%); and

- Prime's combined hospitals will be penalized at an average reported estimate of 0.30% for FY 2015.

Dr. Prem Reddy Family Foundation

The Dr. Prem Reddy Family Foundation, located in Victorville, is a nonprofit 501(c)(3) charitable organization established in 1986 for the purpose of providing and supporting healthcare education for residents of Southern California and the High Desert communities.

It supports community educational programs, diabetes educational programs, AARP 55 Drive Alive Program, and Lamaze classes for expectant mothers:

- Educational scholarships include: support for students pursuing careers in healthcare, including the Academic Excellence Endowed Scholarship for California State University, San Bernardino, the Western University of Health Sciences, Chaffey Community College, and the Weekend Nursing Program at Victor Valley College;

- Public Health Library includes: books, journals, magazines, videos, and Internet for access to health-related topics. The library, located in Victorville, provides resources for college students, and offers tours for pre-school through high school groups;

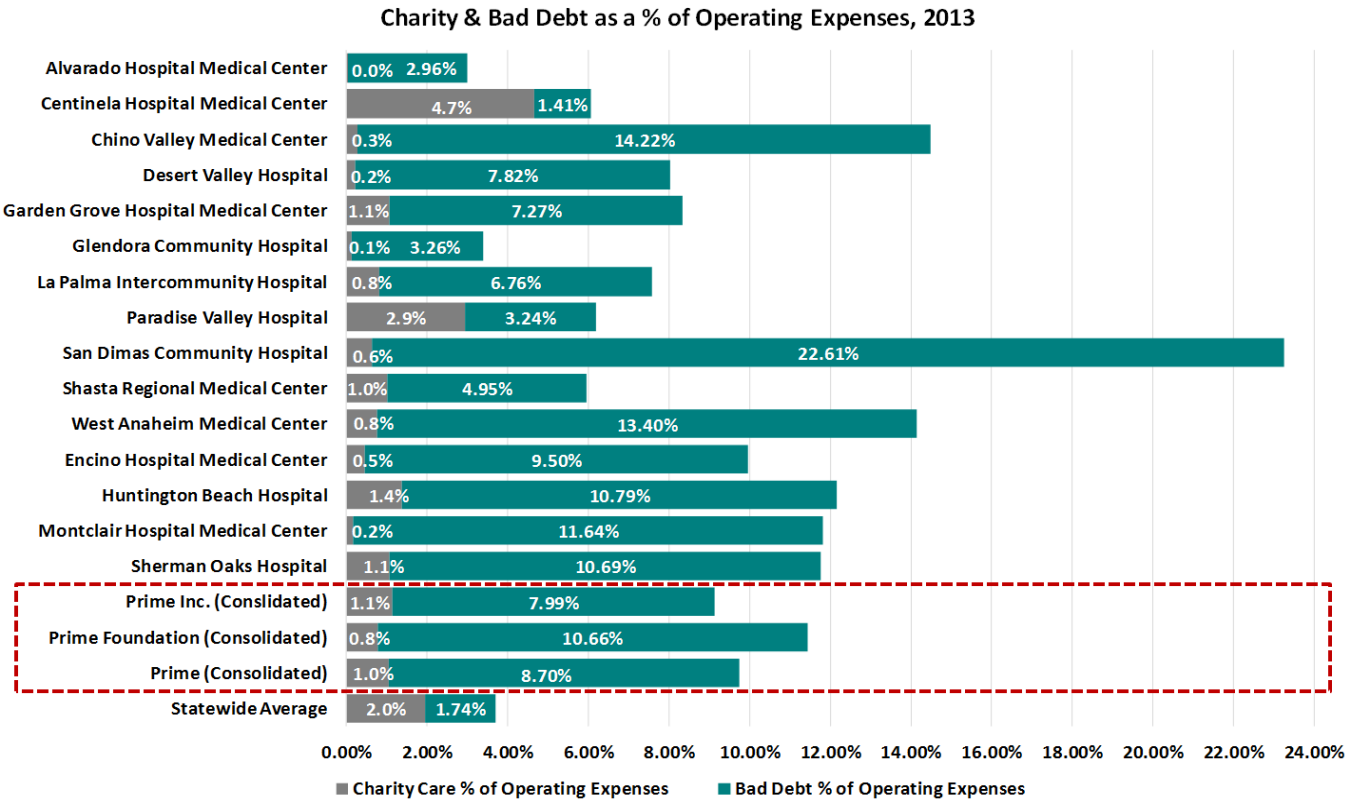
- Circle of Care Foundation includes: the S+AGE program for seniors and the Circle of Care Leeza's Place that offers assistance to individuals and their caregivers who are affected by memory disorders;

- Circle of Friends Program includes: healthcare services at a community health clinic in Huntington Beach for the senior community of Orange County; and

- Kelly Lukart's Vision for the Future Program includes: free eyeglasses for elementary school children.

Charity Care and Bad Debt

The table below shows Prime's charity care and bad debt as a percentage of operating expenses in comparison to the statewide average. Overall, Prime's charity care as a percentage of operating expenses is 1.0% compared to the statewide average of 2.0%. Prime's percentage of charity care and bad debt combined as a percentage of operating expenses (9.7%) far exceeds the statewide average of 3.7%.



Source: OSHPD Disclosure Reports, 2013

ANALYSIS OF SAINT LOUISE REGIONAL HOSPITAL'S SERVICE AREA

Service Area Definition

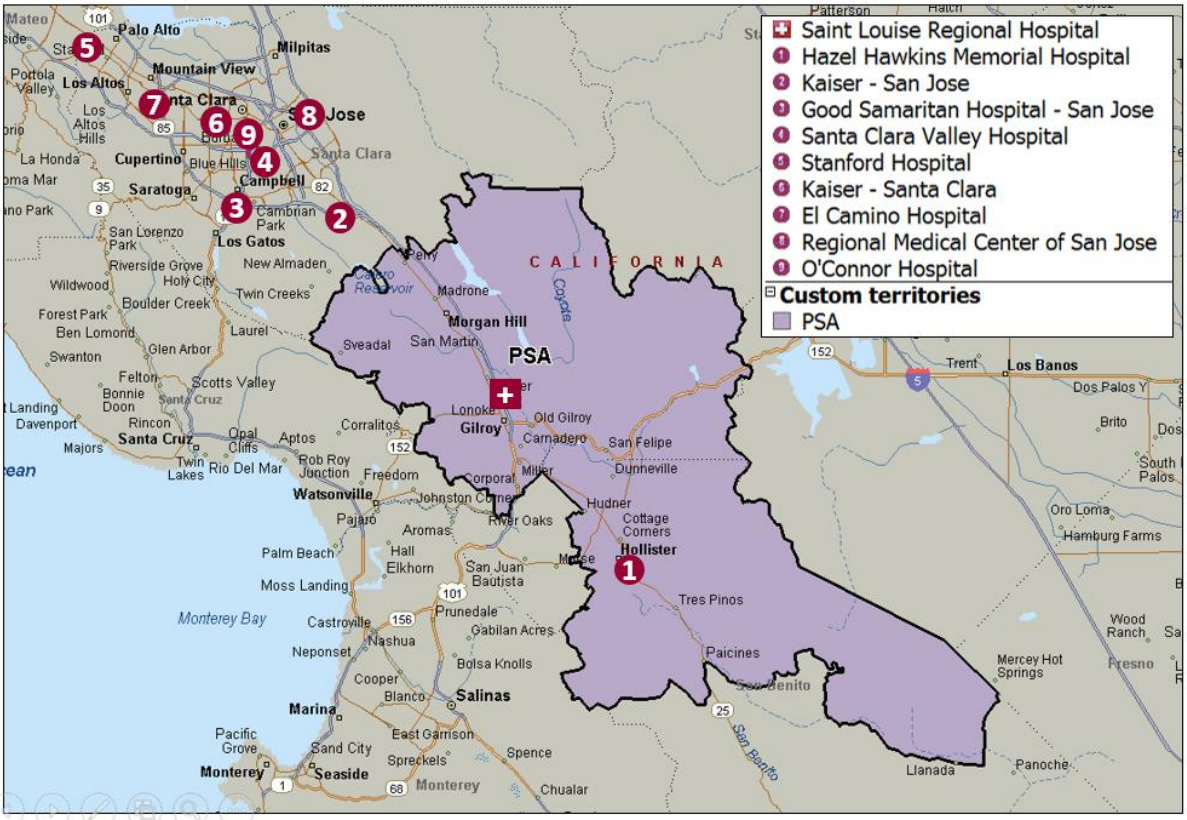
The Hospital's service area is comprised of seven ZIP Codes, from which approximately 90% of its discharges originated in 2013. Approximately 49% of the Hospital's discharges came from the top ZIP Code, located in Gilroy. In 2013, the Hospital's market share in the service area was nearly 21%.

SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2013						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95020	Gilroy	1,465	48.6%	48.6%	4,545	32.2%
95037	Morgan Hill	726	24.1%	72.6%	3,334	21.8%
95023	Hollister	275	9.1%	81.7%	4,124	6.7%
95046	San Martin	122	4.0%	85.8%	517	23.6%
95021	Gilroy	55	1.8%	87.6%	156	35.3%
95045	San Juan Bautista	42	1.4%	89.0%	373	11.3%
95038	Morgan Hill	24	0.8%	89.8%	139	17.3%
Sub-Total		**2,709**	**89.8%**	**89.8%**	**13,188**	**20.5%**
All Other		308	10.2%	100%		
Total		**3,017**	**100%**			

Source: OSHPD Patient Discharge Database, 2013
Note: Excludes normal new borns

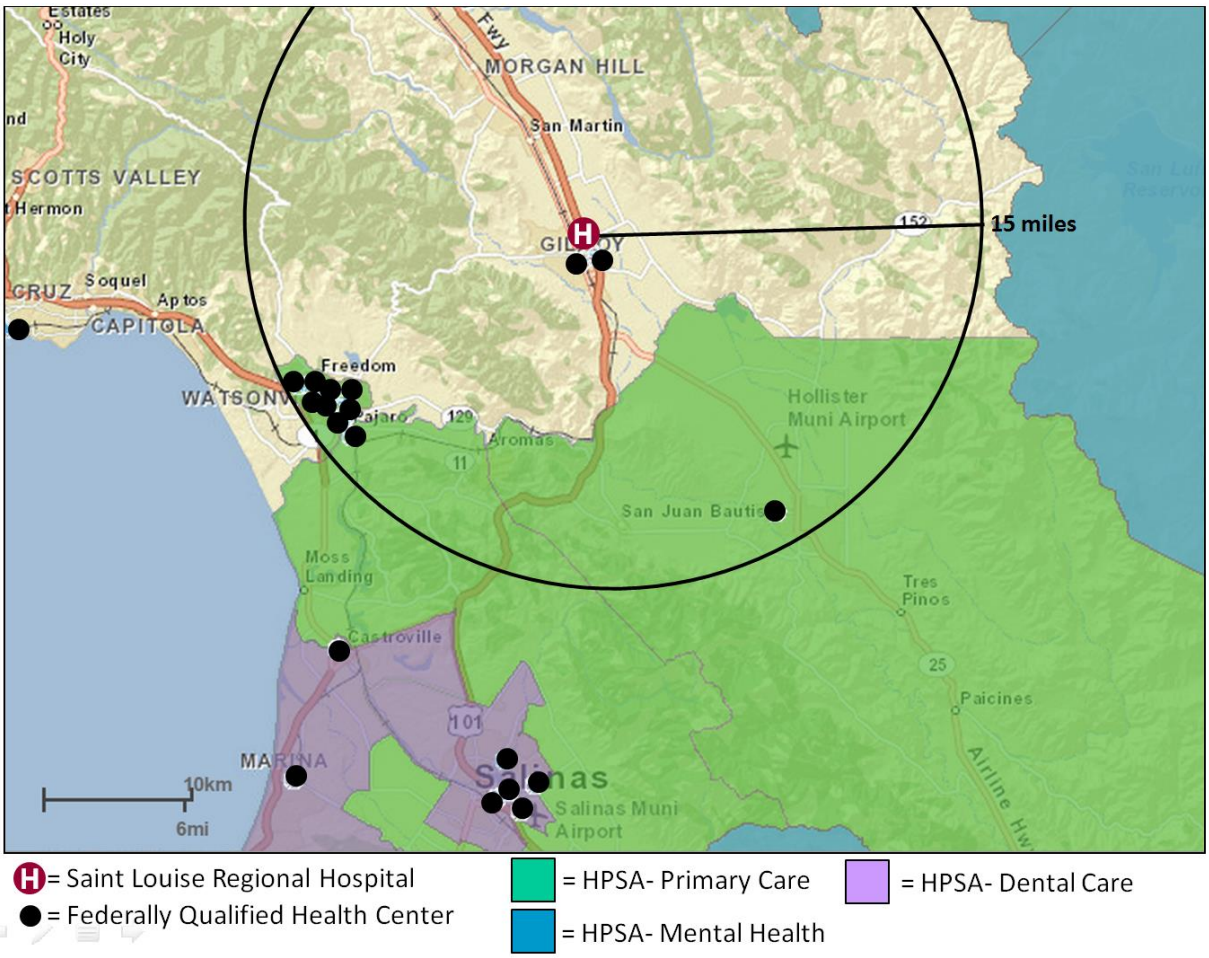
Service Area Map

The Hospital's service area, with more than 173,000 residents, includes the communities of Gilroy, Morgan Hill, Hollister, San Martin, and San Juan Bautista. Hazel Hawkins Memorial Hospital is the only other hospital located within the Hospital's service area, with the remaining competitors located north of the Hospital.



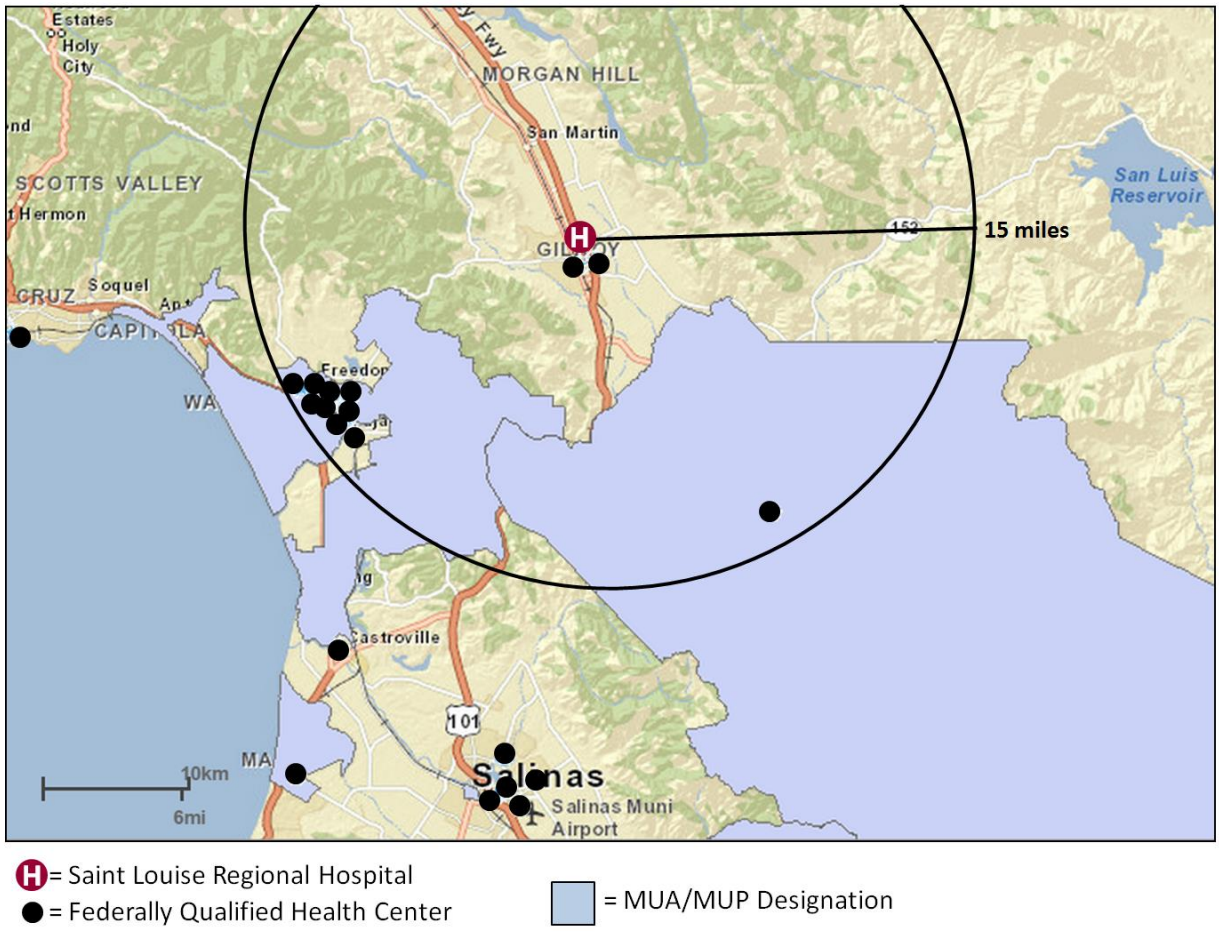
Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Despite the Hospital not being located in a Health Professional Shortage Area, a large portion of the service area, especially the area to the south and east, is designated a Health Professional Shortage Area, suggesting the area has a shortage of primary care, dental care, and/or mental health providers. The map below depicts these shortage areas relative to the Hospital's location.



Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local

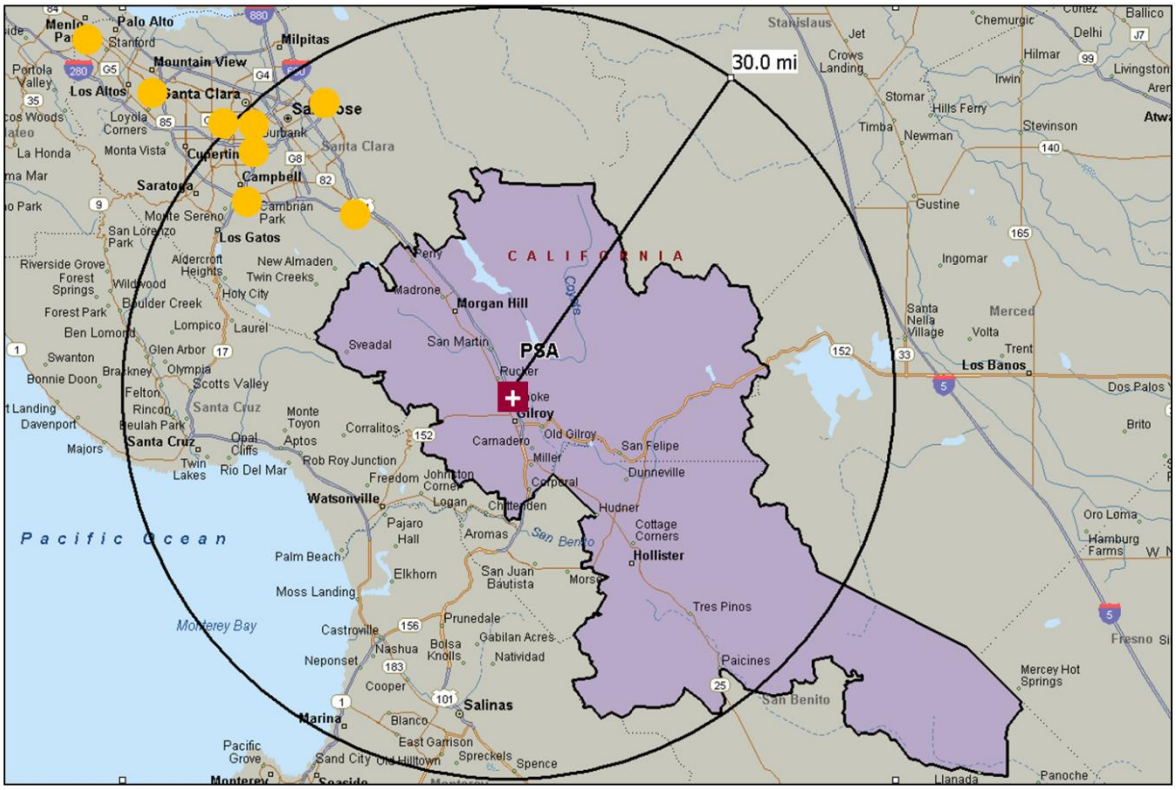
conditions that result in access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts the Medically Underserved Areas/Medical Underserved Populations relative to the Hospital location.



Despite the Hospital not being situated in a designated Medically Underserved Area/Medical Underserved Population area, the majority of the Hospital's service area to the south is a Medically Underserved Area/Medical Underserved Population area, suggesting there is a shortage of healthcare services in this area. There are also twelve Federally Qualified Health Centers within a 15 mile radius of the Hospital, two of which are located in Gilroy. Federally Qualified Health Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

Certified Stroke Centers in Santa Clara County

There are nine Joint Commission-Certified Stroke Centers in Santa Clara County, including three Comprehensive Stroke Centers, located at Stanford Hospital, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose, and six Primary Stroke Centers, located at the Hospital, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, O'Connor Hospital, and Santa Clara Valley Medical Center. The Hospital is the only certified Primary Stroke Center within its service area.



Demographic Profile

The Hospital's service area population is projected to grow by 4.4% over the next five years. This is higher than the expected growth rate for Santa Clara County (2.9%), but lower than the expected growth rate statewide (4.0%).

SERVICE AREA POPULATION STATISTICS 2014-2019			
	2014 Estimate	2019 Projection	% Change
Total Population	173,804	181,383	4.4%
Households	53,441	56,032	4.8%
Percentage Female	50.1%	50.0%	4.3%

Source: Alteryx's Analytic Apps

The median age of the population in the Hospital's service area is 35.3 years, slightly lower than the statewide median age of 35.5 years. The percentage of adults over the age of 65 is the fastest-growing age cohort increasing by approximately 21% between 2014 and 2019. The number of women of child-bearing age is expected to increase slightly over the next five years.

SERVICE AREA POPULATION AGE DISTRIBUTION: 2014-2019				
	2014 Estimate		2019 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	40,215	23.1%	40,346	22.2%
Age 15-44	69,789	40.2%	71,364	39.3%
Age 45-64	45,874	26.4%	47,973	26.4%
Age 65+	17,926	10.3%	21,700	12.0%
Total	**173,804**	**100%**	**181,383**	**100%**
Female 15-44	34,478	19.8%	35,098	19.4%
Median Age	35.3		36.0	

Source: Alteryx's Analytic Apps

The largest population cohorts in the Hospital's service area are White (62.4%) and "Some Other Race" (22.5%). Approximately 50% of the service area is of Non-Hispanic ethnicity. This is lower than the Santa Clara County Non-Hispanic ethnic population (73%) and the California Non-Hispanic ethnic population (61%).

SERVICE AREA POPULATION RACE/ETHNICITY: 2014-2019		
	2014	2019
White	62.4%	60.7%
Black	1.4%	1.4%
American Indian or Alaska Native	1.4%	1.4%
Asian or Pacific Islander	7.0%	7.3%
Some Other Race	22.5%	23.4%
Two or More Races	5.3%	5.7%
Total	**100%**	**100%**
Hispanic Ethnicity	49.9%	51.7%
Non-Hispanic or Latino	50.1%	48.3%
Total	**100%**	**100%**

Source: Alteryx's Analytic Apps

The Hospital's service area's households are relatively affluent with an average household income of $112,123. This is nearly 14% below the county average of $127,720, but 22% above the statewide average of $87,521. Projections anticipate that the percentage of higher income households ($150,000+) in the Hospital's service area will grow at slower rate (26.6%) than those for the county (31.8%), but at a higher rate than the state (15.4%).

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2014-2019												
	2014 Estimate						2019 Projection					
	Service Area		Santa Clara County		California		Service Area		Santa Clara County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
$0 - $15,000	3,957	7.4%	46,564	7.3%	1,484,147	11.3%	3,226	5.8%	37,912	5.8%	1,275,300	9.3%
$15,000 - $24,999	4,012	7.5%	40,286	6.3%	1,325,082	10.1%	3,534	6.3%	35,680	5.4%	1,235,052	9.0%
$25,000 - $34,999	3,987	7.5%	38,626	6.0%	1,220,260	9.3%	3,611	6.4%	34,444	5.2%	1,144,140	8.4%
$35,000 - $49,999	5,667	10.6%	57,881	9.1%	1,672,179	12.7%	5,106	9.1%	51,576	7.8%	1,576,670	11.5%
$50,000 - $74,999	7,440	13.9%	84,688	13.3%	2,235,800	17.0%	6,236	11.1%	69,331	10.5%	2,142,699	15.7%
$75,000 - $99,999	6,759	12.6%	77,594	12.2%	1,600,574	12.2%	6,156	11.0%	63,676	9.7%	1,749,144	12.8%
$100,000 - $149,999	10,764	20.1%	134,416	21.1%	1,944,936	14.8%	13,281	23.7%	156,776	23.8%	2,453,231	17.9%
$150,000 +	10,856	20.3%	158,453	24.8%	1,644,190	12.5%	14,881	26.6%	209,533	31.8%	2,108,282	15.4%
Total	**53,442**	**100%**	**638,508**	**100%**	**13,127,168**	**100%**	**56,032**	**100%**	**658,928**	**100%**	**13,684,518**	**100%**
Average Household Income	**$112,123**		**$127,720**		**$87,521**		**$134,532**		**$152,108**		**$100,285**	

Source: Alteryx's Analytic Apps

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 19% of the population in the Hospital's service area was eligible for Medi-Cal. With the implementation of the ACA and the expansion of Medi-Cal, the number and percentage of the State of California's population that is currently eligible for Medi-Cal has greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. By 2015, California's total number of Medi-Cal beneficiaries is expected to increase to approximately 11.5 million individuals. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 28% Medi-Cal patients, many of the service area residents will qualify for Medi-Cal coverage under the expansion.

Selected Health Indicators

A review of health indicators for Santa Clara County (deaths, diseases, and births) supports the following conclusions:

- The percentage of low birth weight infants is equal to that of California and superior to the national goal;
- Santa Clara County measures above California and the national goal for first trimester prenatal care; and
- The rate for adequate/adequate plus care is lower than California and the national goal.

NATALITY STATISTICS: 2014			
Health Status Indicator	Santa Clara County	California	National Goal
Low birth weight infants	6.8%	6.8%	7.8%
First Trimester Prenatal Care	85.2%	83.6%	77.9%
Adequate/Adequate Plus Care	77.3%	79.5%	77.6%

Source: California Department of Health Care Services

The overall age-adjusted mortality rate for Santa Clara County is lower than the statewide rate. Santa Clara County's rates for sixteen of the eighteen causes are lower than the statewide rate. Santa Clara County achieved thirteen out of the fourteen reported national goals based on underlying and contributing cause of death.

MORTALITY STATISTICS: 2014 RATE PER 100,000 POPULATION				
	Santa Clara County		(Age Adjusted)	
Selected cause	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	507.2	526.9	641.5	n/a
- All Cancers	130.6	136.5	153.3	160.6
- Colorectal Cancer	12.1	12.4	14.2	14.5
- Lung Cancer	26.4	28.1	34.8	45.5
- Female Breast Cancer	19.3	17.8	20.9	20.6
- Prostate Cancer	13.0	17.1	20.5	21.2
- Diabetes	21.0	22.2	20.4	n/a
- Alzheimer's Disease	37.5	39.1	30.5	n/a
- Coronary Heart Disease	70.7	73.6	106.2	100.8
- Cerebrovascular Disease (Stroke)	25.2	26.5	36.6	33.8
- Influenza/Pneumonia	12.8	13.3	16.1	n/a
- Chronic Lower Respiratory Disease	22.9	24.5	36.2	n/a
- Chronic Liver Disease And Cirrhosis	9.5	9.1	11.5	8.2
- Accidents (Unintentional Injuries)	23.0	22.9	27.3	36.0
- Motor Vehicle Traffic Crashes	5.1	5.1	7.3	12.4
- Suicide	8.4	8.1	10.1	10.2
- Homicide	2.8	2.8	5.2	5.5
- Firearm-Related Deaths	4.3	4.3	7.7	9.2
- Drug-Induced Deaths	7.9	7.5	10.8	11.3

Source: California Department of Public Health, Center for Health Statistics, 2014

Santa Clara County has lower morbidity rates than California and the national goal overall, with the exception of tuberculosis.

MORBIDITY STATISTICS: 2014 RATE PER 100,000 POPULATION			
Health Status Indicator	Santa Clara County	California	National Goal
AIDS	7.7	8.6	12.4
Chlamydia	308.8	434.5	n/a
Gonorrhea Female 15-44	69.6	139.6	251.9
Gonorrhea Male 15-44	98.4	186.6	194.8
Tuberculosis	10.1	6.1	1.0

Source: California Department of Health Care Services, 2014

2013 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed in 2013 in partnership with the Santa Clara County Community Benefit Coalition. The Coalition targeted both Santa Clara County and San Benito County, while the Hospital specifically targeted the areas of Gilroy, Morgan Hill, Hollister, San Juan Bautista, and San Martin.

Based upon the defined service area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided below:

- The percentage of overweight adults in Santa Clara County (36%) exceeds the Healthy People 2020 Benchmark (31%);
- More children within the service area are overweight/obese (36%) than the Healthy People 2020 benchmark (10%);
- 78% of adults within Santa Clara County report receiving adequate social and emotional support, compared to 75% statewide and 80% nationwide;
- Approximately 16% of youth report the condition of their teeth as fair or poor due to a lack of or poor dental health; and
- Adults have been told by a health professional that they have high cholesterol (29%) at higher rates than the Healthy People 2020 benchmark (13.5%).

The most important healthcare needs in the community were identified to be the following:

- Diabetes;
- Obesity;
- Violence;
- Poor Mental Health;
- Poor Oral/Dental Health;
- Cardiovascular Disease, Heart Disease, and Stroke;
- Substance Abuse;
- Cancer;
- Respiratory Conditions;
- STDs/HIV-AIDS;
- Birth Outcomes; and
- Alzheimer's.

Hospital Supply, Demand, and Market Share

The Hospital and Hazel Hawkins Memorial Hospital have a combined total of 269 licensed beds and an aggregate occupancy rate of 54%. The Hospital runs at an occupancy rate of nearly 33%. Hazel Hawkins Memorial Hospital runs at an occupancy rate of 66%. The Hospital's 93 licensed beds represent approximately 35% of the area's beds, and its inpatient volume accounts for approximately 55% of discharges and 21% of patient days.

An analysis of the services offered by the Hospital, in comparison to services offered by other providers, is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service and bed type.

AREA HOSPITAL DATA: 2013

Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
Saint Louise Regional Hospital	**Daughters of Charity Health System**	**Gilroy**	**X**	**93**	**3,021**	**11,026**	**30**	**32.5%**	**-**
Hazel Hawkins Memorial Hospital	San Benito Health Care District	Hollister	X	176	2,519	42,407	116	66.0%	19.4
SUB-TOTAL				**269**	**5,540**	**53,433**	**146**	**54.4%**	
Watsonville Community Hospital	Community Health Systems, Inc.	Watsonville		106	4,541	17,387	48	44.9%	20.7
Kaiser - San Jose	Kaiser Foundation Hospitals	San Jose		242	11,051	39,380	108	44.5%	22.8
Regional Medical Center of San Jose	Hospital Corporation of America	San Jose		282	11,955	63,338	173	61.4%	29.5
Good Samaritan Hospital - San Jose	Hospital Corporation of America	San Jose		474	16,307	78,632	215	45.4%	30.7
Salinas Valley Memorial Hospital	Salinas Valley Memorial Healthcare System	Salinas		269	10,314	45,460	125	46.3%	32.8
Santa Clara Valley Medical Center	County of Santa Clara	San Jose		574	21,730	117,503	322	56.1%	34.2
O'Connor Hospital	Daughters of Charity Health System	San Jose		358	11,751	52,175	143	39.9%	34.8
Kaiser - Santa Clara	Kaiser Foundation Hospitals	Santa Clara		327	20,776	84,368	231	70.7%	38.6
El Camino Hospital	El Camino Hospital District	Mountain View		443	19,104	84,670	232	52.4%	41.0
TOTAL				**3,344**	**133,069**	**636,346**	**1,743**	**52.1%**	

Source: OSHPD Disclosure Reports, 2013

- Despite the low occupancy rate of 33%, the Hospital is an important provider of healthcare services to the 175,000 people living within the service area and the city of Gilroy. Many Gilroy residents would have to travel 20 miles or more to reach another hospital if the Hospital's services were not available or accessible. Any significant reduction in the levels of services could be detrimental to the surrounding community.

Hospital Market Share

The table below shows the market share of inpatient discharges for hospitals providing services to the service area residents between FY 2009 and FY 2013:

HOSPITAL MARKET SHARE: FY 2009-2013						
Hospital	**2009**	**2010**	**2011**	**2012**	**2013**	**Trend**
Saint Louise Regional Hospital	**24.0%**	**24.5%**	**23.8%**	**21.7%**	**20.4%**	↘
Hazel Hawkins Memorial Hospital	19.7%	19.6%	19.2%	17.4%	17.9%	↘
Kaiser Fnd Hosp - San Jose	14.5%	15.2%	14.9%	15.2%	16.2%	↗
Good Samaritan Hospital - San Jose	8.9%	7.8%	7.9%	7.9%	9.3%	↗
Santa Clara Valley Medical Center	9.0%	8.3%	8.9%	9.0%	8.8%	↔
Stanford Hospital	3.7%	3.8%	3.9%	4.2%	4.7%	↗
Kaiser Fnd Hosp - Santa Clara	3.0%	3.4%	3.7%	3.8%	3.2%	↔
El Camino Hospital	1.6%	2.1%	2.7%	3.1%	2.8%	↗
Regional Medical of San Jose	1.4%	1.5%	1.7%	2.2%	2.3%	↗
O'connor Hospital - San Jose	**2.0%**	**2.3%**	**1.8%**	**2.0%**	**2.0%**	↔
Other Discharges	12.2%	11.6%	11.6%	13.4%	12.4%	↔
Total Percentage	**100%**	**100%**	**100%**	**100%**	**100%**	
Total Discharges	**13,313**	**13,513**	**13,593**	**13,212**	**13,387**	↔

Source: OSHPD Patient Discharge Database, 2009-2013

Note: Excludes normal new borns

- The number of discharges in the Hospital's service area has remained relatively stable between FY 2009 and FY 2013 with an average 13,400 discharges per year;

- Over the last five years, the Hospital has consistently ranked first in overall market share for its service area based on discharges (20% in FY 2013). However, the Hospital's market share has dropped from 24% in FY 2009 to 20% in FY 2013;

- Hazel Hawkins Memorial Hospital has consistently ranked second in terms of overall market share based on discharges (18% in FY 2013). However, the market share has dropped from nearly 20% in FY 2009 to 18% in FY 2013;

- Kaiser Foundation Hospital – San Jose and Good Samaritan Hospital – San Jose, ranked third and fourth in terms of overall market share for the service area, both increased market share in FY 2013 to 16% and 9%, respectively;

- Santa Clara Valley Medical Center has a 9.0% market share of service area discharges; and

- O'Connor Hospital also has a small market share presence in the Hospital's service area (2.0% in FY 2013).

Market Share by Payer Type

The following table illustrates hospital market share by payer category as reported by OSHPD for 2013:

Hospital Market Share by Payer Type, 2013											
Payer Type	Total Discharges	Saint Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Fnd Hosp - San Jose	Good Samaritan Hospital-San Jose	Santa Clara Valley Medical Center	Stanford Hospital	Kaiser Fnd Hosp - Santa Clara	El Camino Hospital	All Others	Total
Private Coverage	4,769	**12.1%**	12.1%	25.7%	15.6%	2.3%	3.9%	5.8%	4.3%	18.2%	100%
Medicare	4,582	**28.1%**	19.9%	18.8%	5.7%	1.6%	5.4%	2.9%	3.2%	14.2%	100%
Medi-Cal	2,858	**26.7%**	24.2%	2.0%	5.1%	25.6%	3.2%	0.5%	0.3%	12.2%	100%
All Other	899	**7.6%**	15.2%	1.0%	7.0%	29.6%	7.7%	0.0%	1.7%	30.3%	100%
Self Pay	279	**10.8%**	24.0%	6.8%	12.2%	0.0%	11.5%	1.8%	0.7%	32.3%	100%
		20.4%	**17.9%**	**16.2%**	**9.3%**	**8.8%**	**4.7%**	**3.2%**	**2.8%**	**16.7%**	**100%**
Grand Total	**13,387**	**2,726**	**2,390**	**2,172**	**1,249**	**1,181**	**628**	**430**	**381**	**2,230**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are Private Coverage at 36%, followed by Medicare at 34%, and Medi-Cal at 21%;
- The Hospital is the market share leader for Medicare (28%) and Medi-Cal (27%);
- Hazel Hawkins Memorial Hospital is the market share leader for Self Pay (24%); and
- Kaiser – San Jose ranks first in Private Coverage (26%).

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2013:

HOSPITAL MARKET SHARE BY SERVICE LINE, 2013											
Service Line	Total Discharges	Saint Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Fnd Hosp - San Jose	Good Samaritan Hospital-San Jose	Santa Clara Valley Medical Center	Stanford Hospital	Kaiser Fnd Hosp - Santa Clara	El Camino Hospital	All Others	Total
General Medicine	3,835	**28.0%**	21.5%	17.2%	6.0%	8.1%	4.5%	2.4%	1.0%	11.3%	100%
Obstetrics	2,288	**23.8%**	19.7%	18.8%	14.0%	9.2%	0.2%	3.1%	2.4%	8.9%	100%
Cardiac Services	1,231	**23.4%**	18.0%	15.5%	7.5%	6.7%	4.6%	8.0%	0.6%	15.7%	100%
General Surgery	1,219	**18.9%**	16.2%	16.6%	10.6%	8.3%	7.5%	3.1%	2.5%	16.2%	100%
Orthopedics	997	**14.7%**	12.9%	19.5%	7.2%	4.8%	9.0%	3.4%	10.6%	17.8%	100%
Neonatology	697	**8.8%**	17.6%	20.9%	19.2%	17.6%	0.0%	3.6%	1.7%	10.5%	100%
Behavioral Health	598	**1.3%**	3.0%	1.0%	9.9%	12.7%	1.7%	0.7%	3.3%	66.4%	100%
Neurology	469	**29.2%**	13.9%	16.4%	9.4%	9.0%	5.8%	1.5%	0.9%	14.1%	100%
Spine	367	**12.0%**	2.5%	23.2%	9.0%	5.4%	7.9%	0.5%	6.8%	32.7%	100%
Oncology/Hematology	315	**15.9%**	10.2%	15.2%	7.0%	7.3%	11.1%	3.5%	1.6%	28.3%	100%
Rehabilitation	311	**0.0%**	68.2%	0.0%	8.4%	7.7%	0.0%	0.0%	9.0%	6.8%	100%
Gynecology	253	**19.0%**	19.8%	14.2%	7.5%	13.4%	4.0%	4.7%	8.7%	8.7%	100%
Vascular Services	191	**19.4%**	8.4%	17.3%	6.8%	3.7%	9.9%	1.6%	8.4%	24.6%	100%
ENT	169	**8.3%**	11.2%	12.4%	8.9%	17.8%	8.9%	7.1%	1.8%	23.7%	100%
Other	168	**10.7%**	4.2%	4.8%	6.0%	14.9%	9.5%	4.8%	1.8%	43.5%	100%
Urology	152	**13.2%**	6.6%	17.8%	8.6%	10.5%	18.4%	5.9%	3.3%	15.8%	100%
Neurosurgery	97	**4.1%**	2.1%	6.2%	12.4%	7.2%	14.4%	3.1%	1.0%	49.5%	100%
All Others	30	**0.0%**	23.3%	10.0%	10.0%	13.3%	26.7%	0.0%	0.0%	16.7%	100%
Total Percentage		**20.4%**	**17.9%**	**16.2%**	**9.3%**	**8.8%**	**4.7%**	**3.2%**	**2.8%**	**16.7%**	**100%**
Total Discharges	**13,387**	**2,726**	**2,390**	**2,172**	**1,249**	**1,181**	**628**	**430**	**381**	**2,230**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The Hospital is the service line leader in seven out of sixteen service lines including general medicine (28%), obstetrics (24%), cardiology (23%), general surgery (19%), neurology (29%), oncology/hematology (16%), and vascular services (19%);

- Other service lines where the Hospital has a notable market share include gynecology (19%), orthopedics (15%), spine services (12%), and urology (13%);

- Hazel Hawkins Memorial Hospital has 68.2% of the rehabilitation market share and 20% of the gynecology market share; and

- Stanford Hospital has the highest market share in urology (18%) and neurosurgery (14%).

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP Code for 2013:

HOSPITAL MARKET SHARE BY ZIP CODE												
ZIP Code	Community	Total Discharges	Saint Louise Regional Hospital	Hazel Hawkins Memorial Hospital	Kaiser Fnd Hosp - San Jose	Good Samaritan Hospital-San Jose	Santa Clara Valley Medical Center	Stanford Hospital	Kaiser Fnd Hosp - Santa Clara	El Camino Hospital	All Others	Total
95020	Gilroy	4,545	**32.2%**	0.4%	20.3%	8.2%	14.8%	4.2%	4.5%	3.1%	12.2%	100%
95023	Hollister	4,124	**6.7%**	51.7%	4.5%	7.8%	1.7%	5.5%	0.9%	1.5%	19.6%	100%
95037	Morgan Hill	3,334	**21.8%**	0.7%	24.7%	13.8%	9.5%	4.9%	4.6%	4.4%	15.7%	100%
95046	San Martin	517	**23.6%**	0.0%	29.8%	5.4%	13.7%	2.5%	3.7%	2.9%	18.4%	100%
95045	San Juan Bautista	373	**11.3%**	29.8%	7.5%	11.0%	1.9%	2.4%	0.8%	1.9%	33.5%	100%
95024	Hollister	199	**8.5%**	49.7%	4.0%	3.5%	1.0%	8.5%	0.0%	1.0%	23.6%	100%
95021	Gilroy	156	**35.3%**	1.3%	19.2%	4.5%	15.4%	3.8%	1.3%	2.6%	16.7%	100%
95038	Morgan Hill	139	**17.3%**	0.0%	15.8%	10.1%	12.2%	1.4%	5.8%	1.4%	36.0%	100%
Total Percentage			**20.4%**	**17.9%**	**16.2%**	**9.3%**	**8.8%**	**4.7%**	**3.2%**	**2.8%**	**16.7%**	**100%**
Total Discharges		**13,387**	**2,726**	**2,390**	**2,172**	**1,249**	**1,181**	**628**	**430**	**381**	**2,230**	

Note: Excludes normal newborns

Source: OSHPD Patient Discharge Database

- The Hospital is the market share leader in three of the ZIP Codes within its service area. In two of these ZIP Codes, the Hospital had over 32% of the market share in 2013. In the third ZIP Code, the Hospital had 17% of the market share in 2013. The communities represented by these ZIP Codes include Gilroy and Morgan Hill;

- Hazel Hawkins Memorial Hospital is the market share leader in three service area ZIP Codes, located in Hollister, San Juan Bautista, and Hollister, with 52%, 30%, and 50% market share, respectively; and

- Kaiser Foundation Hospital – San Jose is the market share leader in two of the seven ZIP Codes, located in Morgan Hill and San Martin, with 25% and 30% market share, respectively.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, neonatal, and emergency services (FY 2013 data).

Medical/Surgical Capacity Analysis

There are 79 medical/surgical beds within the Hospital's service area that run at an overall occupancy rate of approximately 43%.

MEDICAL/SURGICAL BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**48**	**2,143**	**7,983**	**21.9**	**45.6%**
Hazel Hawkins Memorial Hospital	19.4	X	31	1,443	4,483	12.3	39.6%
SUB-TOTAL			**79**	**3,586**	**12,466**	**34.2**	**43.2%**
Watsonville Community Hospital*	20.7		73	2,196	11,711	32.1	44.0%
Kaiser - San Jose*	22.8		175	8,438	21,238	58.2	33.2%
Regional Medical Center of San Jose*	29.5		160	6,577	28,561	78.2	48.9%
Good Samaritan Hospital - San Jose*	30.7		211	9,426	36,797	100.8	47.8%
Salinas Valley Memorial Hospital	32.8		161	6,125	25,607	70.2	43.6%
Santa Clara Valley Medical Center*	34.2		209	9,710	42,036	115.2	55.1%
O'Connor Hospital*	34.8		236	6,854	28,847	79.0	33.5%
Kaiser - Santa Clara*	38.6		185	13,878	53,886	147.6	79.8%
El Camino Hospital*	41.0		231	11,575	41,532	113.8	49.3%
TOTAL			**1,720**	**78,365**	**302,681**	**829**	**48.2%**

Source: OSHPD Disclosure Reports, 2013

*Unaudited

- The Hospital reported approximately 2,143 inpatient hospital discharges and 7,983 patient days resulting in an occupancy rate of 45.6%;
- The Hospital's 48 medical/surgical beds represented 61% of the beds in this category for the service area overall; and
- The closest medical/surgical beds to the hospital are located approximately 20 miles away. A reduction to the number of medical/surgical beds and services offered at the hospital could affect access to these services for the local communities.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 16 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 50%. The Hospital has four licensed intensive care unit beds and four licensed coronary care beds with a combined average occupancy rate of 59% in 2013 (average daily census of five).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**8**	**191**	**1,728**	**4.7**	**59.2%**
Hazel Hawkins Memorial Hospital	19.4	X	8	230	1,163	3.2	39.8%
SUB-TOTAL			**16**	**421**	**2,891**	**7.9**	**49.5%**
Watsonville Community Hospital*	20.7		6	388	1,135	3.1	51.8%
Kaiser - San Jose*	22.8		24	287	3,730	10.2	42.6%
Regional Medical Center of San Jose*	29.5		34	615	11,043	30.3	89.0%
Good Samaritan Hospital - San Jose*	30.7		63	661	10,238	28.0	44.5%
Salinas Valley Memorial Hospital	32.8		13	156	3,360	9.2	70.8%
Santa Clara Valley Medical Center*	34.2		32	454	8,877	24.3	76.0%
O'Connor Hospital*	34.8		22	1,178	4,848	13.3	60.4%
Kaiser - Santa Clara*	38.6		38	704	9,705	26.6	70.0%
El Camino Hospital*	41.0		39	364	5,496	15.1	38.6%
TOTAL			**287**	**5,228**	**61,323**	**168.0**	**58.5%**

Source: OSHPD Disclosure Reports, 2013

*Unaudited

- The average daily census for all service area hospitals was eight based on 2,891 patient days; and

- The Hospital provided 50% of the service area's intensive care unit/coronary care unit beds in 2013.

Obstetrics Capacity Analysis

As shown below, in 2013, there were 26 obstetric beds located in the service area with an aggregate occupancy rate of 26%. The Hospital has 16 licensed obstetric beds with an occupancy rate of 23%.

OBSTETRICS BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**16**	**687**	**1,315**	**3.6**	**22.5%**
Hazel Hawkins Memorial Hospital	19.4	X	10	487	1,108	3.0	30.4%
SUB-TOTAL			**26**	**1,174**	**2,423**	**6.6**	**25.5%**
Watsonville Community Hospital*	20.7		17	1,376	3,789	10.4	61.1%
Kaiser - San Jose*	22.8		31	2,127	3,525	9.7	31.2%
Regional Medical Center of San Jose*	29.5		6	390	928	2.5	42.4%
Good Samaritan Hospital - San Jose*	30.7		69	4,006	11,813	32.4	46.9%
Salinas Valley Memorial Hospital	32.8		35	1,851	4,397	12.0	34.4%
Santa Clara Valley Medical Center*	34.2		82	4,609	11,859	32.5	39.6%
O'Connor Hospital*	34.8		39	3,195	8,195	22.5	57.6%
Kaiser - Santa Clara*	38.6		52	4,399	8,662	23.7	45.6%
El Camino Hospital*	41.0		68	5,161	13,600	37.3	54.8%
TOTAL			**425**	**28,288**	**69,191**	**189.6**	**44.6%**

Source: OSHPD Disclosure Reports, 2013

*Unaudited

(1) Kaiser - San Jose, Kaiser - Santa Clara, and Kaiser - Redwood City have Alternate Birthing Centers

- The Hospital provides nearly 62% of obstetric beds in the service area and has an average daily census of four patients per day; and

- Hazel Hawkins Memorial Hospital has 10 licensed obstetrics beds and runs at an occupancy rate of 30%.

Skilled Nursing Capacity Analysis

There are 311 skilled nursing beds located in the service area with an aggregate occupancy rate of 82%. The Hospital has 21 licensed skilled nursing beds. Ten of the Hospital's skilled nursing beds are used for wound care services, and the remaining 11 beds are currently in suspense.

SKILLED NURSING BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
Saint Louise Regional Hospital	**-**	**X**	**21**	**-**	**-**	**-**	**-**
Caremeridian - Gilroy	3.0	X	12	18	4,104	11.2	93.7%
Hillview Convalescent Hospital	8.8	X	52	70	18,905	51.8	99.6%
Pacific Hills Manor*	8.9	X	99	490	34,268	93.9	94.8%
Hazel Hawkins Memorial Hospital	19.4	X	127	270	35,494	97.2	76.6%
SUB-TOTAL			**311**	**848**	**92,771**	**254.2**	**81.7%**
Watsonville Community Hospital*	20.7		-	-	-	-	-
Kaiser - San Jose*	22.8		-	-	-	-	-
Regional Medical Center of San Jose*	29.5		-	-	-	-	-
Good Samaritan Hospital - San Jose*	30.7		27	-	-	-	-
Salinas Valley Memorial Hospital	32.8		-	-	-	-	-
Santa Clara Valley Medical Center*	34.2		-	-	-	-	-
O'Connor Hospital*	34.8		-	-	-	-	-
Kaiser - Santa Clara*	38.6		-	-	-	-	-
El Camino Hospital*	41.0		-	-	-	-	-
TOTAL			**338**	**848**	**92,771**	**254.2**	**75.2%**

Source: OSHPD Disclosure Reports, 2013

*Unaudited

- Three of the providers of skilled nursing beds within the service area, Caremeridian – Gilroy, Hillview Convalescent Hospital, and Pacific Hills Manor, are skilled nursing facilities that ran at an occupancy rate of 88%. During 2013, they provided 52% of skilled nursing beds within the service area.

Emergency Department Volume at Hospitals in the Service Area

In 2013, the Hospital had eight emergency treatment stations. In total, there are 26 treatment stations among the service area hospitals. As shown below, the Hospital reported 27,834 visits, totaling 63% of the visits among the service area hospitals (44,407 visits). In order to better meet the needs of the Hospital's Emergency Department, the Hospital recently developed an Emergency Expansion project that includes waiting area and registration renovations, increased triage space, and four additional emergency treatment stations. The Hospital submitted its plans to OSHPD and is awaiting approval.

The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System.[22]

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2013												
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
Saint Louise Regional Hospital	**-**	**X**	**Basic**	**8**	**27,834**	**2,844**	**14,581**	**7,901**	**2,393**	**115**	**8.4%**	**0**
Hazel Hawkins Memorial Hospital	19.4	X	Basic	18	16,573	253	6,354	5,093	3,159	1,714	**9.4%**	2
SUB-TOTAL				**26**	**44,407**	**3,097**	**20,935**	**12,994**	**5,552**	**1,829**	**8.8%**	**2**
Kaiser - San Jose	22.8		Basic	28	53,250	18,889	6,270	10,764	14,328	2,999	**11.5%**	19
Regional Medical Center of San Jose	29.5		-	-	-	-	-	-	-	-	**-**	-
Good Samaritan Hospital - San Jose	30.7		Basic	29	47,330	449	12,768	28,210	5,642	261	**16.3%**	29
Salinas Valley Memorial Hospital	32.8		Basic	20	44,607	334	4,666	17,671	13,142	8,794	**14.9%**	0
Santa Clara Valley Medical Center	34.2		Comprehensive	24	78,934	316	6,064	22,229	28,398	21,927	**23.1%**	451
O'Connor Hospital	34.8		Basic	23	48,229	4,228	7,898	16,509	15,335	4,259	**17.6%**	180
Kaiser - Santa Clara	38.6		Basic	32	65,092	16,050	7,347	11,331	24,770	5,594	**13.8%**	42
El Camino Hospital	41.0		Basic	28	43,780	288	10,171	13,334	9,803	10,184	**15.6%**	254
TOTAL				**210**	**425,629**	**43,651**	**76,119**	**133,042**	**116,970**	**55,847**	**15.7%**	**977**

Source: OSHPD Alirts Annual Utilization Reports

- The Hospital has eight emergency department stations and is classified as "basic." In 2013, the Hospital had nearly 28,000 visits, admitting approximately 8% of patients;

- The Hospital did not have any hours of diverted emergency department traffic in 2013. Hazel Hawkins Memorial Hospital reported only two hours of division;

- Nearly 55% of the Hospital's emergency department visits are classified as minor to low/moderate in severity (this is in contrast to all other listed area hospitals at 22%). This indicates that the Hospital's emergency department is often used for primary care services that could otherwise be provided at a physician office or urgent care center. The ACA, which allows for the expansion of Medi-Cal, has led to an increase in emergency department utilization as a result of patients seeking primary care services; and

- In 2013, approximately 9% of service area emergency department visits resulted in an inpatient admission.

[22] The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in 2013, the Hospital's emergency department was operating at 174% of its eight-bed capacity. Emergency department capacity at Hazel Hawkins Memorial Hospital is below capacity (46%).

EMERGENCY DEPARTMENT CAPACITY 2013							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	
Saint Louise Regional Hospital	**-**	**X**	**Basic**	**8**	**27,834**	**16,000**	**(11,834)**
Hazel Hawkins Memorial Hospital	19.4	X	Basic	18	16,573	36,000	19,427
SUB-TOTAL				**26**	**44,407**	**52,000**	**7,593**
Kaiser - San Jose	22.8		Basic	28	53,250	56,000	2,750
Regional Medical Center of San Jose	29.5		-	-	-	-	-
Good Samaritan Hospital - San Jose	30.7		Basic	29	47,330	58,000	10,670
Salinas Valley Memorial Hospital	32.8		Basic	20	44,607	40,000	(4,607)
Santa Clara Valley Medical Center	34.2		Comprehensive	24	78,934	48,000	(30,934)
O'Connor Hospital	34.8		Basic	23	48,229	46,000	(2,229)
Kaiser - Santa Clara	38.6		Basic	32	65,092	64,000	(1,092)
El Camino Hospital	41.0		Basic	28	43,780	56,000	12,220
TOTAL				**210**	**425,629**	**420,000**	**(5,629)**

Source: OSHPD Alirts Annual Utilization Reports

- Approximately 8% of the Hospital's emergency department visits resulted in admission;
- Total emergency department visits have remained relatively unchanged since 2011; and
- Overall, service area hospitals' emergency departments are at approximately 85% capacity. Any reduction in the number of emergency treatment stations within the service area could impact availability and accessibility of emergency care for service area residents.

SUMMARY OF INTERVIEWS

In August, November, and December of 2014, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, DCHS Medical Foundation, and Prime, as well as physicians, Santa Clara County representatives, health plan representatives, hospital employees, union representatives, local Federally Qualified Health Center representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed change in governance and control of the ownership and operations from Ministry and Daughters to Prime Inc. and Prime Foundation. The list of individuals who were interviewed is located in the Appendices of this report. The major findings of these interviews are summarized below:

Reasons for the Proposed Transaction

Those interviewed cited a number of reasons for why a transaction was necessary, including the following:

- Without a transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could potentially lead to the reduction of services or the closure of the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;

- Given the Hospital's role in providing healthcare for the poor, without a transaction the community could be at risk of losing key services that are essential for the uninsured and under-insured patient population;

- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital;

- Almost all interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing;

- Many interviewed believed that the Health Facilities needed to be sold as a group rather than individually, stating some of the following reasons:

    - Individual sale of the Health Facilities may result in the closure of some of Daughters' hospitals or reduced services;

- The Health Facilities are an obligated group for liabilities associated with the bonds and pension plans;
- Daughters' commitment to services and patients is more likely to continue with a single buyer;
- Selling individual Health Facilities is more complicated and would not result in the highest value; and
- The timing required to sell individual Health Facilities would extend beyond the time that Daughters could financially sustain losing operations.

Many community members and advocacy groups interviewed believed that although a transaction was necessary for Daughters, the Hospital and O'Connor Hospital should instead be sold to the County of Santa Clara, separately from the other Daughters' hospitals.

Importance of the Hospital to the Community

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community and known for providing essential services to the uninsured and under-served populations. The Hospital holds the largest market share of inpatient discharges from its service area. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Obstetric services;
- Cancer services;
- Diagnostic imaging services;
- Stroke services;
- Surgical services;
- Women's services;
- Breast care services;
- DePaul Urgent Care Center;
- Wound care and hyperbaric treatment services;
- Pulmonary rehabilitation services; and

- Asthma and diabetes education.

Representatives of Santa Clara County, local Federally Qualified Health Centers, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers and continue to serve Medi-Cal patients and the uninsured.

If the Hospital does not maintain its current level of healthcare services and contracts for Medi-Cal, severe accessibility and availability issues would be created for residents of the communities served by the Hospital.

Selection of Prime for the Proposed Transaction

Members of the Hospital's management team and Saint Louise's Board who were interviewed explained that a number of factors were involved in finalizing the selection of Prime. While three other alternatives for a potential buyer were considered amongst the final bids, these offers were not believed to provide the same level of benefits and assurances as Prime. Some of the factors that resulted in the selection of Prime that were cited in the interviews include the following:

- Commitment to continue the operation of the Hospital and the other Daughters' facilities as general acute care hospitals;
- Commitment to retain services at the Health Facilities;
- Commitment to $150 million in capital investment;
- Ability to assume all debt and bond obligations;
- Ability to assume responsibility to fully fund the pension plans;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Ability of Prime Inc. to operate the Health Facilities efficiently and profitably;
- Prime's enhanced financial support and access to capital; and
- Ability to negotiate better contracts.

The majority of those interviewed from the Hospital's management and medical staff, as well as from Saint Louise's Board, were supportive of the proposed transaction and the selection of Prime. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for Daughters to engage in a transfer of ownership and operation for the system and its related facilities in order to become financially sustainable, fund the pension obligations, retire outstanding bond debt, avoid bankruptcy filings, and also to ensure continued operations of the Health Facilities.

While many of those interviewed believed that Prime was the best selection and the organization most likely to meet the aforementioned factors, many of these individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of Prime included the following:

- Prime Inc. may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care;

- Prime Inc. may reduce or eliminate unprofitable or unfavorable services that would negatively impact the accessibility and availability of essential healthcare services for the communities served by the Hospital;

- Prime Inc. may not have the same commitments as Daughters to Emergency Department on-call coverage, medical directorships, medical staff relations, employees, union contracts, charity care, community benefit programs, etc.; and

- Prime Inc. may not sustain the level of commitment, funding, or provider network breadth that is required to support the community's needs for healthcare;

Many nonprofit healthcare organizations, advocacy groups, County of Santa Clara, and other community representatives were against the selection of Prime for these same reasons and the following additional reasons:

- Prime Inc. has inappropriate business models that focus on profit;

- Prime Inc. inappropriately treats patients and discourages underinsured patients from receiving care;

- The Hospital, along with O'Connor Hospital, should be sold to Santa Clara County because:

    - Santa Clara County's mission is more aligned with Daughters;

    - It would save money for Santa Clara County, prevent the need for future construction and result in better reimbursement and financial stability for the Hospital;

    - Access to services would be improved;

    - Prime Inc. would close or reduce access to services and programs that were unprofitable; and

    - Prime Inc. would not serve the underinsured and uninsured as Daughters had.

The Hospital employees interviewed, some of which were also members of unions, including Service Employees International Union and California Nurses Association, understood the reasons for the transaction, mostly favored Prime, and believed that Prime was the only buyer that would keep the Health Facilities open, preserve jobs, and protect employee pensions. Some employees, however, believed that Blue Wolf Capital Partners, one of the four finalists, would be a better selection and more likely to keep the Health Facilities open.

Views of National Health Plan, Regional Health Plan, Independent Physician Association Representatives, and Federally Qualified Health Centers

The majority of health plan representatives expressed that they had strong, long-lasting relationships with Daughters. Their views are divided into two categories below: views from the larger, national health plans whose membership is primarily insured by commercial health products, and views from representatives of health plans that are regional, with a focus on lower-income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations.

The commercial-focused health plans stated that their relationships with Daughters have always been strong. These commercial plans tend to believe that there are alternatives to the Hospital, and therefore, are less concerned with the effects of the transaction on their membership. Despite some uncertainty regarding the reputation of Prime as being uncooperative in contract negotiations, they believe they would be able to establish a contractual relationship with Prime.

The views of representatives from more locally-based health plans and Independent Physician Associations were different as they expressed significant concern surrounding the selection of Prime. These payers are concerned that a willingness to cancel contracts or pass along rate increases and other changes by Prime could impact managed care and integrated delivery models, and reduce provider choice, patient access, and service availability.

Some health plan representatives cited the controversy surrounding Prime that has been reported in the press that includes questions about its coding practices. Others expressed concern about whether Prime will accept reasonable payments for hospital services as are currently in place. A serious issue mentioned in a number of interviews concerned Prime's reported history of alienating physicians who had privileges at the newly acquired hospitals. All of those interviewed emphasized the importance of preserving the scope of services as well as the breadth of providers at each of the Health Facilities.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the change of governance would lead to some level of change in regard to access and/or availability of certain services. While many believed that the transaction was necessary in order to keep the Health Facilities open as general acute care hospitals, and that Prime was in fact the best selection among the final proposals, they also believed there would be reductions and even elimination of some unprofitable services. Furthermore, a number of those interviewed who supported the selection of Prime felt that the selection of Prime would have a negative impact on the availability or accessibility of some healthcare services to lower-income and poor populations historically served by the Hospital.

Some of those interviewed also expressed concerns that the cost of healthcare may increase, quality may decrease, some services may be eliminated, and that community benefits and charity care contributions could be reduced.

Alternatives

The majority of those interviewed that were associated with the Hospital (management, the Saint Louise Board, physicians, and employees) believed that the transaction and the selection of Prime was necessary and that there were no other alternatives for Daughters in order to avoid insolvency and bankruptcy and to ensure the full protection of the Church and Multi-Employer Plans for the non-union and unionized employees. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. Additionally, many individuals believed Prime's offer was the strongest and provided the highest level of confidence in terms of the assumption and funding of the pension liabilities, continuation of the Health Facilities as general acute care hospitals, and future financial sustainability of the Health Facilities and their operations.

In contrast, many community nonprofit organizations and Santa Clara County representatives did not believe Prime was the best selection and stated that there were other alternatives that would provide greater benefits to the Hospital. They believed that the Hospital and O'Connor Hospital should be sold to the County of Santa Clara for the following reasons:

- It would enhance and preserve services and access as part of the safety net for uninsured and underinsured patients; and

- It would strengthen the financial performance of the Hospital by making it a Disproportionate Share Hospital.

Some employees believed that Blue Wolf Capital Partners would be a better selection for the transaction and offer more assurances of continued services and commitment to the pensions.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Importance of the Hospital to the Community

The Hospital is an important provider of healthcare services to the residents of the surrounding communities. The Hospital is especially essential for its provision of emergency and obstetrics services to residents within the service area. Other key services offered at the Hospital include cancer services, diagnostic imaging services, stroke services including designation as a Primary Stroke Receiving Center, surgical services, women's services, breast care services, wound care and hyperbaric treatment services, pulmonary rehabilitation services, as well as other programs and services. The only other hospital alternative is 19.4 miles away from the Hospital.

In addition to the provision of key medical services, the Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and under-insured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

In the Definitive Agreement, Prime states that it will continue to maintain the Hospital as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services. Additionally, Prime states this commitment shall also be subject to any changes that are deemed necessary, based on community needs, market demand, and the financial viability of such services.

The terms of the Definitive Agreement anticipate that there could be a reduction, or even elimination, of some programs and/or services that are currently offered at the Hospital. According to Prime, Prime will maintain the Hospital's services and provide the same levels of charity care and community benefit services.

Emergency Services

The Hospital's emergency department, with eight emergency treatment stations and approximately 27,834 visits in 2013, is heavily utilized and at 174% of capacity based on a standard of 2,000 visits per station, per year. The nearest alternative emergency department to the Hospital is located 19.4 miles away at Hazel Hawkins Memorial Hospital. As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization is expected to increase within the service area. Keeping the Hospital's emergency department open is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 48 licensed medical/surgical beds and an average daily census of approximately 22 patients, the Hospital is an important provider of medical/surgical services. Although the occupancy rate for medical/surgical services at the Hospital (46%) indicates some available capacity, these beds are critical to the surrounding community since the nearest alternative medical/surgical beds are located 19.4 miles away in the city of Hollister.

Intensive Care/Coronary Care Services

The Hospital has an occupancy rate of 59% on its eight licensed intensive care unit/coronary care unit beds. These services are an important resource for supporting the emergency department and other surgical and medical services. Hazel Hawkins Memorial Hospital is running at 40% occupancy and has an average daily census of approximately 3 patients. Reductions in intensive care unit/coronary care beds at the Hospital could negatively affect access and also impact services at Hazel Hawkins Memorial Hospital.

Obstetrics Services

The Hospital has an occupancy rate of 23% on its 16 obstetrical beds, with an average daily census of four patients. With 555 deliveries in 2013, the Hospital is an important obstetrical service provider for the service area. The Hospital is the largest provider of obstetrical services within the service area with approximately 24% market share. A significant reduction in the number of obstetrical beds at the Hospital could have an adverse effect on healthcare services in the community.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including over 550 obstetrical deliveries per year. Some women's reproductive health services are prohibited by the Ethical and Religious Directives of the Catholic Church, including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, the Hospital will no longer be required to adhere to the Ethical and Religious Directives. Since Prime will not be subject to the Ethical and Religious Directives, it is expected that patients will not be referred elsewhere for these services. It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Prime has stated in its interview with MDS that it will not prohibit physicians from offering or performing reproductive procedures and at the request of community members and physicians, Prime will support the addition of other reproductive procedures as may be needed. Additionally, without the Ethical and Religious Directives, physicians will no longer be prohibited from offering reproductive services in their campus offices, and access and availability of these services should improve. According to Prime, the physicians at its hospitals provide services that include sterilizations, access to contraception, and other reproductive services. Prime cited that these services have been added at St. Mary's Regional Medical Center, a formerly Catholic hospital in Reno, Nevada, that was purchased by Prime in 2012.

Below is a table showing instances where the Hospital recorded a small number of reproductive-related procedures that were in accordance with the Ethical and Religious Directives in 2013. The table shows Prime's combined California Hospitals providing a wider range of reproductive services when compared to the Hospital.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP		
Diagnostic Related Group	Saint Louise Regional Hospital	Prime
770: AbortionW D&C, Aspiration Curettage or Hysteroctomy	0	192
778: Threatened Abortion	2	81
779: Abortion w/o D&C	2	56
777: Ectopic Pregnancy	2	114
767: Vaginal Delivery W Sterilization &/OR D&C	1	180
Total 2013 Discharges	**7**	**623**

Source: OSHPD Patient Discharge Database

Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients

Approximately 70% of the Hospital's inpatients are reimbursed through Medicare (43%) and Medi-Cal (28%). Santa Clara County has a two plan Medi-Cal model including Santa Clara Family Health Plan and Anthem Blue Cross.

Prime has made a commitment in the Definitive Agreement to keep the Hospital's Emergency Department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. However, in order for the Medicare and Medi-Cal patients to access other key services not provided through the Hospital's Emergency Department, the Hospital must maintain its participation in both programs, as well as maintain its contractual agreements with payers. In the Definitive Agreement, Prime has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Prime committed to maintain current contractual agreements.

However, Prime has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that were comparable to other similarly situated hospitals, and Prime is also willing to accept the Medi-Cal default rate, which is likely to be higher, if it were to not contract for Medi-Cal managed care. Additionally, Prime will also commit to accepting Medi-Cal patients for elective medical procedures, and Prime stated that it currently contracts with Medi-Cal managed care plans in all of the California counties where Prime hospitals are located.

If the Hospital did not participate in the Medicare and Medi-Cal managed care programs, these classes of patients could be denied access to certain healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on the Hospital for healthcare services. The Hospital provides a higher percentage of charity care than the statewide average (4.1% of gross patient revenue for the Hospital, as compared to 3.7% for the state). The Hospital has historically provided a significant amount of charity care, averaging approximately $2.1 million per year over the last five years (on a cost basis). Prime has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital.

Effects on Community Benefit Programs

The Hospital has historically provided a reasonable amount of community benefit services, averaging $900,000 per year over the last five years (on a cost basis). The Hospital supports a significant number of community benefit programs that serve residents from the surrounding lower-income communities. Some of the Hospital's community benefit programs include Health Benefits Resource Center, breastfeeding support groups, Meals on Wheels, diabetes education, healthy nutrition classes, and hypertension and cholesterol screenings, among others. Prime has not made any specific commitments in the Definitive Agreement to maintain the Hospital's community benefit programs at historical levels of financial support for community benefit expenditures.

Effects on Staffing and Employee Rights

Prime has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital, DCHS Medical Foundation, and Caritas Business Services, who remain in good standing and are still employed by Daughters as of the closing date. Prime has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Prime will adhere to Daughters' severance pay obligations for a period of twelve months following the closing date.

In addition to the Hospital's employees, Prime has agreed to make offers of employment to Daughters' system office employees, Daughters' executives, the Health Facilities' CEOs, the DCHS Medical Foundation President and CMO, and the Caritas Business Services' Senior Directors, who remain in good standing and are still employed by Daughters as of the closing date. Prime shall offer salaries, wages, job titles, and duties that are comparable to those in place prior to the closing.

While Prime makes short-term commitments for employment, it is expected that Prime will reduce labor costs by eliminating some management and other positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases. Additionally, Prime is viewed as a tough negotiator of union agreements, and as a result, employees may experience changes to salaries, wages, and benefits when many of the union contracts expire in 2015.

Effects on Medical Staff

Prime has not made any specific commitments in the Definitive Agreement to maintain physician contracts, including contracts for on-call services, or the Hospital's medical staff. Additionally, Prime has not made any specific commitments to maintain the medical staff officers or the department or committee chairs/heads or vice-chairs/heads of the Hospital's medical staff.

Alternatives

Upon evaluation of the final four bids, Daughters' Board, Ministry's Board, and Saint Louise's Board did not believe that other alternatives offered the same advantages as Prime's offer in terms of ability to repay Daughters' outstanding bond debt, assume and fully fund the pensions, and financially sustain and operate the Health Facilities.

If the proposed transaction were not approved, Daughters would be forced to consider other options. It is possible that a previously submitted and negotiated Definitive Agreement could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by Prime. These alternatives may negatively impact the pension plans, the provision of services at the Health Facilities, the levels of community benefits and charity care provided, among other potential impacts, depending on the commitments made by these organizations.

As a result of Daughters' current pressing financial situation, the majority of those interviewed believed bankruptcy would occur, resulting in the possible reduction of services or closure of some of the Health Facilities. Bankruptcy could have a very negative impact on employees, employee pensions, creditors, and the services offered to the community.

CONCLUSIONS

Daughters contends the proposed Definitive Agreement and change in governance and control of Daughters and Saint Louise will help ensure continued operation of the medical services offered at the Hospital and avoid bankruptcy.

Potential Conditions for Transaction Approval by the California Attorney General

If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC recommends the following conditions be required in order to minimize any potential negative health impact that might result from the transaction:

1) For at least ten years from the closing date of the transaction, the Hospital shall continue to operate as a general acute care hospital;

2) For at least ten years from the closing date of the transaction, the Hospital shall maintain its eight licensed treatment stations, providing 24-hour emergency medical services at no less than current licensure and designation with the same types and/or levels of services. Additionally, the emergency expansion project shall be completed that renovates the waiting area, triage spaces, registration, and adds four additional emergency treatment stations.

3) For at least ten years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Critical Care Services, including a minimum of eight intensive care beds;
    b. Obstetric Services, including a minimum of 10 beds;
    c. Stroke services including telemedicine program for stroke patients and designation as a Primary Stroke Center; and
    d. Women's services including pregnancy and delivery services, maternal fetal medicine, mammography, stereotactic breast biopsy, and bone density screening.

4) For at least five years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Cancer services including medical, surgical, and radiation oncology:
    b. DePaul Urgent Care Center open and available to patients 7 days a week;
    c. Wound Care and Hyperbaric Medicine Services, including debridement, compression therapy, growth factor therapy, blood flow measurement, and hyperbaric oxygen therapy;
    d. Pulmonary Rehabilitation Program; and
    e. Asthma and diabetes education.

5) For at least ten years from the closing date of the transaction, the Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value;

6) For at least five years from the closing date of the transaction, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and the Hospital should provide an annual amount of Charity Care equal to or greater than $2,055,075 (the "Minimum Charity Care Amount"). For purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital. The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as that used by OSHPD for annual hospital reporting purposes. The minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California;

7) For at least five years from the closing date of the transaction, the Hospital shall continue to expend an average of no less than $879,353 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California. The following community benefit programs should be maintained with the same or greater level of financial support and in-kind services that are currently being provided:

    a. Health Benefits Resource Center;
    b. Meals on Wheels;
    c. Nursing Professional Education;
    d. Health Professional Education;
    e. Promotora Coordinator and Diabetes Education; and
    f. Rotacare Lab Tests.

8) Prime shall maintain privileges for current medical staff members at the Hospital who are in good standing as of the closing date of the transaction. Further, the closing shall not change the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain in good standing for the remainder of their tenure;

9) For at least ten years from the closing date of the transaction, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease in quality, or gap in contracted hospital coverage, including continuation of the following contracts:

    a. Santa Clara Family Health Plan;
    b. Santa Clara Valley Health Plan; and
    c. Anthem Blue Cross of California.

10) For at least ten years from the closing date of the transaction, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries by maintaining a Medicare Provider Number;

11) Prime shall comply with the $150 million “Capital Commitment” set forth in section 7.9 of the Definitive Agreement.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Alvarado	Dolores	Chief Executive Officer	Community Health Partnership
Angelino	Frank	Vice Chair, SLRH Foundation	Saint Louise Regional Hospital
Armstrong	Hilary	Supervising Attorney	Law Foundation of Silicon Valley
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Birchmier	Tim	Steward & Engineer, Facilities	International Union of Operating Engineers, Stationary Engineers, Local 39
Brownstein	Bob	Director of Policy & Research	Working Partnership
Carroll	David	CFO & Chief Business Development Officer	O'Connor Hospital / Saint Louise Regional Hospital
Chiala, Sr.	George	Board Chair, SLRH Foundation	Saint Louise Regional Hospital
Chicoine	Louis	Executive Director	Abode Services
Costa	Luciano	Director, Facilities	Saint Louise Regional Hospital
Cox	Pat	Chief Executive Officer	Valley Health Plan
Darrow	Elizabeth	Chief Executive Officer	Santa Clara Family Health Plan
Dean	Rosylie	Coalition Member	Coalition for a Downtown Hospital
Diedrich	Dee	Chief Medical Officer	Daughters of Charity Health System
Dover	James	President & CEO, O'Connor Hospital & Saint Louise Regional Hospital	O'Connor Hospital / Saint Louise Regional Hospital
Doyle	Jim	Coalition Member	Coalition for a Downtown Hospital
Enriquez	Manny	Field Vice President, Contracting	Humana
Espinoza	Rey	Chief Executive Officer	Gardner Family Health
Fergurson	Carol	Chief Administrative Officer	Saint Louise Regional Hospital
Fernandez	Rosa Vivian	CEO	San Benito Health Foundation
Ferrari	Lisa	Regional Vice President, Southern California	Anthem Blue Cross of California
Ferrer	Frederick	Chief Executive Officer	The Health Trust
Fisher	Donna	Steward & Registered Nurse, Med-Surg/ICU	California Nurses Association
Forrester	Shawn	Vice President, Network Management	Aetna
Fry	Louise	Nursing Director, Med/Surg, Maternal/Child Health	Saint Louise Regional Hospital
Gardner	Patricia	Chief Executive Officer	Silicon Valley Council of Nonprofits
Gilchrist	John	CEO, SLRH Foundation	Saint Louise Regional Hospital
Gill	Augustina	Chief Executive Officer	RotaCare Bay Area, Inc.
Goll	Peter	Chief Executive Officer	PMG of San Jose
Hansen	Todd	Chief Operating Officer	The Health Trust
Hayes	Allen	Vice Chair, SLRH Board of Directors	Saint Louise Regional Hospital
Heather	Mike	Chief Financial Officer	Prime Healthcare Services, Inc.
Hickey	Nancy	Coalition Member	Coalition for a Downtown Hospital
Ho	Wendy	Advocacy Program Manager	United Way Silicon Valley
Holmes	Ryan	Assistant Director of Healthcare Ethics	Markkula Center for Applied Ethics, Santa Clara University
Isaai	Robert	President & CEO	Daughters of Charity Health System
Javidi	Mitra	Regional Network Director	Health Net Community Solutions
Katterhagen	Lori	Chief Nursing Executive & Vice President of Patient Care & Clinical Services	Saint Louise Regional Hospital
King	Kathleen	Chief Executive Officer	Healthier Kids Foundation
Koff-Ginsborg	Elisa	Executive Director	Behavioral Health Contractors' Association
Konda	Richard	Executive Director	Asian Law Alliance
Kraft	Kersten	President	Santa Clara County Individual Practice Association (SCCIPA)
Leigh Hutton	Carole	Chief Executive Officer	United Way Silicon Valley
Leininger	Bob		Coalition for a Downtown Hospital
Leitao	Sister Ann	Chair, SLRH Board of Direcotrs	Saint Louise Regional Hospital
Lew	Michele	President & CEO	Asian Americans for Community Involvement
Lorenz	Paul	Chief Executive Officer	Valley Medical Center
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
O'Brien	Erin	President & CEO	Community Solutions
Pakuckas	Paul	Regional Vice President, Solutions Medicaid California	Anthem Blue Cross of California
Papouchian	Arminé	Vice President, Network Management	Blue Shield of California
Patel	Paryus	Corporate Chief Medical Officer	Prime Healthcare Services, Inc.
Quarles	Marc	Steward & Ultrasonographer, Radiology	Service Employees International Union
Rabin	Gaynor	Director, Managed Care	Daughters of Charity
Reddy, MD, FACC, FCCP	Prem	Chairman, President, & CEO	Prime Healthcare Services, Inc.
Santana	Arlene	Steward & Licensed Vocational Nurse, Med-Surg	California Licensed Vocational Nurses Association
Santiago	René	Director & Deputy County Executive	Santa Clara Valley Health & Hospital System
Schambach	Robert	Director, Emergency Department	Saint Louise Regional Hospital
Schell	Troy	General Counsel	Prime Healthcare Services, Inc.
Schwefler	Ernie	Regional Vice President, California	Anthem Blue Cross of California
Scott	Steve	Vice President, Payor Solutions	Anthem Blue Cross of California
Shabanian	Tina	Director, Provider Contracting and Specialty Networks	Blue Shield of California
Siebert	Greg	Vice President, Network Management	United HealthCare
Stuart, MD	Pamela	Medical Director, Emergency	Saint Louise Regional Hospital
Sulubika	Josepha	Steward & Lab Assistant	Service Employees International Union
Wallerstein	Ernie	President & CEO	DCHS Medical Foundation
Walters	Bob	Vice President, Facilitites Planning & Development	Daughters of Charity Health System
Weinstein	Diane	Senior Associate, General Counsel	Anthem Blue Cross of California
Wilder	Chris	Executive Director	VMC Foundation

Hospital License

License: 070000266
Effective: 01/01/2014
Expires: 12/31/2014
Licensed Capacity: 93

State of California
Department of Public Health

In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

this License to

Saint Louise Regional Hospital

to operate and maintain the following **General Acute Care Hospital**

SAINT LOUISE REGIONAL HOSPITAL
9400 No Name Uno
Gilroy, CA 95020-3528

Bed Classifications/Services
72 General Acute Care
16 Perinatal
4 Coronary Care
4 Intensive Care
48 Unspecified General Acute Care

Other Approved Services
Basic Emergency
Mobile Unit - MRI
Nuclear Medicine
Outpatient Services - Breast Care Center at 9460 No Name Uno, Suite 225, Gilroy
Outpatient Services - Urgent Care at DePaul Urgent Care Clinic, 18550 DePaul Drive, Suite 109, Morgan Hill
Physical Therapy
Respiratory Care Services

SAINT LOUISE REGIONAL HOSPITAL D/P SNF
9400 N Name Uno
Gilroy, CA 95020-3528

Bed Classifications/Services
21 Skilled Nursing

This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:
10 Skilled Nursing beds suspended from 01/01/2014 to 12/31/2014.
Six (6) beds in the Intensive Care Unit may also be used for Coronary Care.

Ron Chapman, MD, MPH
Director & State Health Officer

Charlene Popke, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 100 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1784

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