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To: Geoff Ligibel, Director and Scott Jackson, Director  
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From: Jeffrey Winter and Mark Meyers

Subject: Proposal To Purchase Assets of Daughters of Charity Health System

Date: May 21, 2014-Final

Integrity Healthcare Inc (IHI) is pleased to submit this proposal for the acquisition of assets of the Daughters of Charity Health System (DCHS). As specified in your invitation for proposals we set forth here the elements of our proposal and attach a Purchase Agreement that has been marked up with our proposal changes, as well as a list of additional diligence items. We also include information requested as Purchaser Due Diligence.

As you know we entered the process and received access to the Data Room only recently. Although we have worked diligently to complete our offer, we were not able to complete certain due diligence items. It is our expectation and intention to address these items expeditiously; we will not cause any undue delays in the process.

### **Section I. Purchase Agreement**

Our marked up Purchase Agreement is attached.

### **Section II. Proposal Letter Elements**

#### **1. Purchase Price**

The Purchase Price is Two Hundred and Seventy Million Dollars (\$272,000,000).<sup>1</sup>

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<sup>1</sup> Please note that the value of our offer is substantially in excess of this amount due to our pension commitment. See Section 4.

## **2. Source of Capital**

IHI's source of capital is LEPL, a multi-billion dollar property development, infrastructure development company located in Hyderabad, Andhra Pradesh, India. Founded in 1883 LEPL has participated in projects in the commercial, residential, education, power generation, aviation and health sectors. It is an equity investor that historically focused on real estate projects in its home country where it possesses significant holdings. It began to diversify approximately 10 years ago into the other sectors indicated above. Current healthcare investments include large teaching and tertiary care facilities. In recent years LEPL has expanded the geographic scope of its investment targets to include stable economies (such as the United States) because of its stated central stated tenet, ". . . To ensure the safety of investments."

LEPL has preferences for projects of certain size and scope and relies on input from close relationships with physicians that are engaged in healthcare leadership roles in the US. Based on this input they have concluded that the DCHS opportunity is a good fit with their investment preferences.

LEPL representatives have been involved with us in the evaluation of the DCHS and have been providing ongoing reports to the executive leadership of LEPL. They have participated fully in our due diligence process and in the preparation of this proposal and the purchase agreement to assure that its content and specifics are acceptable to LEPL, and have committed to us to fund this investment. An indication of interest from LEPL is enclosed. A formal commitment from LEPL will follow within the next three business days. The primary contact is Ramesh Lingamaneni, Executive Chairman LEPL Ltd. We would be happy to provide additional information about LEPL, or you can visit the LEPL website: [www.lepl.in](http://www.lepl.in).

## **3. Plans with Respect to Collective Bargaining Agreements**

IHI intends to accept the collective bargaining agreements. Of course, we will require the opportunity to read all CBA's and meet with the appropriate union officials to assure that our understanding of each CBA is consistent with the relevant union's understanding.

## **4. Plans with Respect to Pension Plans**

IHI will cover the unfunded pension liabilities of the three pension plans, provided that we receive all necessary information to make a precise determination of the amounts of these liabilities and provided that there is an acceptable schedule of payments to fund these liabilities. This commitment includes the Multi-employer plan and the Church Plan. We will commit to making appropriate annual payments to DCHS to fulfill the pension obligations.

IHI will continue the existing employer/employee defined contribution plans but may amend them from time to time.

## **5. Further Due Diligence**

We have reviewed the diligence material available in the Data Room and have noted certain omissions. Attached is a listing of categories of additional materials that we will need to complete our due diligence. We request that, as we move forward in the process, these materials be made available to us, or that we be directed to their respective locations in the Data Room.

## **6. Contingencies**

In addition to satisfactory completion of diligence, as noted above, and completion of the final purchase agreement, we have set forth in our markup of the Purchase Agreement customary conditions to closing. See Article X.

## **7. Timing to closing**

The number of operations and properties that are the subject of our offer is extensive. Nevertheless, we will work vigorously to complete due diligence, finalize the Purchase Agreement, obtain all necessary approvals and close the transaction. We believe that the transaction can be closed on or before December 31, 2014.

## **Section III. Purchaser Due Diligence**

Integrity Healthcare, Inc. (IHI) was established to own and operate healthcare organizations.

Our executives have each held leadership roles at the operating and corporate levels in multi-hospital systems for 20 to 35 years. IHI's core purpose is to revitalize community hospitals by implementing best practice strategies that match current challenges and prepare them to thrive in a rapidly changing healthcare environment. What follows is a description of the acquisition team who are also some of the principal executives of IHI.

All of the members of the IHI acquisition team have experience in the nation's premier health systems including Hospital Corporation of America, Tenet Healthcare, Kindred Healthcare, Providence Health and Services and Dignity Health, where they led dramatic hospital turnarounds and participated in leading edge management innovations. Their knowledge base includes information technology, sophisticated group purchasing practices, rapid cycle change, physician integration and health care reform. After years in mission driven organizations the team recognizes that significant changes

to improve operations and strategies can be made in a way that can honor the traditions of the Daughters of Charity Health system.

IHI has aligned with some of the strongest and most experienced partners in the state in the areas of medical practice management, ACO development, population management, care transition, management of dual eligible, hospitalist services and at-risk contracting. This experience will be invaluable as we design market-based solutions for each service site. Joining Jeff Winters and Mark Meyers and the two other Principals are several other senior executives that have agreed to join IHI.

Our core beliefs are expressed in the **Four Pillars of Integrity Health**:

- **Community hospitals must prepare for a more central role as health care reform's implements incentives to move patient care into lower cost and more accessible settings.**
- **Quality of care and employee retention are paramount priorities.**
- **The ultimate measures of success are patient satisfaction and clinical outcomes.**
- **Deploying the most advanced technology and most advanced management practices are important tools for health care organizations of the future.**

The following is a partial list of hospitals that have been operated successfully under the supervision of Mr. Winter and Mr. Meyers. In every case, these Hospitals were Joint Commission certified and satisfied all state regulatory requirements. In addition, all Hospitals achieved core measures success at or better than national benchmarks. Those hospitals identified as Catholic Healthcare West Hospitals (CHW) ranked in the upper third of that systems quality and patient satisfaction benchmarks. Those hospitals identified in bold required significant "turn-around" intervention and subsequently achieved success in both financial and quality measures.

Greater El Monte Community Hospital

Encino Hospital

**Riverside Community Hospital**

**St. Bernadine's Medical Center(CHW)**

**Bakersfield Memorial(CHW)**

Taft Hospital

**Mercy Bakersfield-2 campuses (CHW)**

**St. Francis Medical Center, San Francisco (CHW)**

**St. Mary's Medical Center, San Francisco (CHW)**

**St. Mary's Medical Center, Long. Beach (CHW)**

**Glendale Memorial (CHW)**

**Northridge Hospital Medical Center (CHW)**  
Sequoia Hospital, Redwood City  
**Community Hospital of San Bernadino (CHW)**  
**Saint Helena Parish Hospital**  
**Garden Grove Hospital**  
**Florida Medical Center**  
**Coastal Communities Hospital**  
**Western Medical Center Anaheim**  
**California Hospital Medical Center(CHW)**

Each hospital is a unique story, however the positive reversal of fortunes in the Bakersfield market is one of the most dramatic. In 2001, an external audit revealed a \$30MM loss for the entire market. Jeff Winter, as regional executive, stabilized each facility's operating performance, recruited exceptional leadership, and achieved excellent outcomes for quality, service and satisfaction. In the third year the Bakersfield market was earning operating income of \$30MM and thus became one of CHW's strongest markets.

Another dramatic turnaround was at California Hospital Medical Center, an inner city hospital that had negative earnings of \$3MM per month. Mark Meyers expanded programs and recruited physicians, resulting, within three years, in an increase in patient volumes of 55%. At the end of that three-year period earnings were a positive \$48MM, a \$70 MM turnaround. Additionally this hospital moved from the bottom rank to 2<sup>nd</sup> place in employee satisfaction and from bottom third to top 10% in patient satisfaction scores.

In the above portfolio of hospitals about one third had a very challenging payor mix—some with Medi-Cal and uninsured categories comprising 45% or more of the total. At those hospitals charity care and uncollectable accounts percentages were among the highest in California. Despite these challenges, we succeeded with these hospitals.

We no longer have access to the data and reports from the systems where Mr. Meyers and Mr. Winter were employed. However, we can highlight in general terms some of the performance measures. Catholic Healthcare West (now Dignity Health) routinely measured quality, patient satisfaction, employee satisfaction and physician satisfaction. With few exceptions hospitals under the supervision of Mr. Meyers and Mr. Winter ranked high in each category.

The leadership team at IHI has long experience supporting the values of Catholic Healthcare and would want to continue that support to the degree supported by the local clergy (and consistent with the requirements of law). Our preference is to continue with the existing local boards and we would be open to inviting current DCBS Board Members to continue in a governance role within IHI.

As for the plans for future services, we have no plan to discontinue any services or close any facilities. Our the intention is to continue access to vital emergency services and other services post closing. We also plan to continue to use the existing charity care guidelines and maintain charity care and community benefit commitments of the hospitals.

We are available to answer any questions about Integrity Healthcare and our proposal. Additionally, the acquisition team, which includes Francis LaPallo from the law firm of Manatt, Phelps & Phillips, LLP, will be ready to respond to any questions, comments, and requested changes to our Purchase Agreement as needed.

Please feel free to contact us at any time.

Sincerely

Jeffrey P Winter  
Mark Meyers