



STRATEGIC GLOBAL MANAGEMENT, INC.

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May 21, 2014

SENT VIA EMAIL (gligibel@hl.com and sjackson@hl.com)

Geoffrey Ligibel
Scott Jackson
Houlihan Lokey
123 N. Wacker Dr., 4th Floor
Chicago, IL 60606

Re: Preliminary Proposal – Daughters of Charity Health System

Dear Sirs:

This letter is in response to your May 1, 2014 letter inviting Strategic Global Management, Inc. ("SGM") to submit a proposal for the acquisition of the Daughters of Charity Health System ("DCHS"). Thank you for the opportunity. Please see our enclosed proposal.

We have been extremely impressed by the quality of the assets and the incredible culture of the Daughters of Charity organization. The facilities and campuses were very well maintained. Most impressive was the obvious pride in the facilities' mission as exhibited by every employee we met during our tours and your commitment to quality is visible throughout the facilities.

This culture is something that DCHS should be extremely proud and something that SGM will strive to maintain. Should we be selected to move on to the next round, we would like to meet with the leadership of DCHS to discuss how best to accomplish this goal and to ensure that DCHS commitments are honored. At a minimum we would adhere to The Ethical and Religious Directives for Catholic Health Care Services developed by the United States Conference of Catholic Bishops.

The seven hospitals affiliated with SGM in California are about the same size as DCHS. To be successful we would need to utilize the skills and strengths of both organizations. We

anticipate that a form of best practices merger may be the best method for accomplishing this goal.

Please direct any questions or request for further information to Bill Leyhe, Managing Director of the Peira Group, at bill@thepeiragroup.com or 310-365-8882. Thank you again for the opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read "William E. Thomas". The signature is fluid and cursive, with a prominent initial "W" and "E".

William E. Thomas
Executive Vice President and General Counsel

STRATEGIC GLOBAL MANGEMENT, INC.
PRELIMINARY PROPOSAL

1. Purchase Price

The proposed purchase price is **\$816,000,000**, structured as follows:

- Cash disbursement of \$125,000,000
- Assumption of the pension plan liability of approximately \$283,000,000
- Assume or acquire other long-term debt of approximately \$272,000,000
- Assumption of current liabilities of approximately \$136,000,000

The purchase price presumes the acquisition of, without limitation, the following assets:

- Current Assets:
 - Patient accounts receivable (net)
 - Due from government agencies
 - Inventories
 - Other current assets
- Long Term Assets
 - Property, Plant & Equipment ("PP&E") (Include DCHS Medical Foundation)
 - Other long term assets

**The above figures are based on totals as of December 31, 2013 and are subject to re-evaluation based on current information.

Assets to be acquired include the PP&E of:

O'Conner Hospital
Saint Louise Regional Medical Center
St. Francis Medical Center
Seton Medical Center
Seton Medical Center Coastside
Caritas Business Services
Marillac Insurance Company Ltd
St. Vincent de Paul Ethics Corporation
St. Vincent Dialysis Center
De Paul Ventures LLC
DCHS Medical Foundation

2. Sources of Capital

SGM intends to obtain financing from MidCap Financial, LLC, which has provided financing for the other hospital acquisitions by SGM's affiliates. A letter from MidCap Financial LLC/Apollo Global Management Inc. is attached.

In addition, SGM is in discussions with Rendina, one of the nation's ten largest medical office building ("MOB") developer/operators, regarding a potential sale/leaseback arrangement with respect to the MOB properties.

3. Collective Bargaining Agreement

It would be our intent to honor all existing collective bargaining agreements through the end of their terms. SGM affiliates have extensive experience with unions, especially SEIU and CNA. Five of our hospitals are presently unionized. We feel our existing union/management relations are excellent.

4. Pension Plans

It would be our intent to assume the existing DCHS pension plan obligation. We would have a 'hard freeze' on the existing plan at the time of acquisition. As required by law we would honor all existing pension obligations incurred prior to the change of ownership.

We would negotiate with the unions and non-unionized employees' new pension plans on a "go forward" basis. The form of the new plans would be either defined contribution or 401(K). The terms would be negotiated with the unions.

5. Further Due Diligence

We would anticipate completing our due diligence within 45-60 days. We have further work to complete in the real estate evaluation/disposition, Seton Proposition A funding issues and structure for the DCHS Medical Foundation.

6. Contingencies

SGM would intend to close the transaction with customary contingencies including, without limitation, (1) no material adverse changes in operations or financial performance of the seller's facilities, (2) receipt of necessary state licensure and necessary governmental approval, including that of the Attorney General.

No further internal approvals are required with respect to SGM as its sole shareholder and Chief Executive Officer has final approval for this transaction.

7. Timing to Closing

We would anticipate receipt of the appropriate governmental (e.g. CDPH, CMS) and Attorney General approvals will take a minimum of four to six months. We would be prepared to close the transaction within 30 days after receiving these approvals.

8. Purchaser Due Diligence

Currently SGM and its affiliates own and manage seven hospitals in Riverside, San Bernardino and Orange County. All of our hospitals represent diverse, somewhat medically underserved communities that were struggling financially prior to SGM's involvement. SGM anticipates forming a special purpose vehicle for the purpose of this acquisition.

Victor Valley Global Medical Center ("VVGMC") is a safety net provider located in Victorville. It was acquired out of bankruptcy in 2012.

Physicians for Healthy Hospitals ("PHH") acquired Hemet Valley Medical Center and Menifee Valley Medical Center from Valley Health System, a district hospital system, out of bankruptcy in 2010.

SGM's affiliate, Integrated Healthcare Holdings, Inc., owns and operates Western Medical Center – Santa Ana, Western Medical Center – Anaheim, Chapman Medical Center, and Coastal Communities Hospital in Orange County.

We are proud of our hospitals' accomplishments over the few years of SGM ownership. Some of the key accomplishments are as follows:

All SGM hospitals service large economically depressed population with significant medical needs.

All SGM hospitals were in danger of closing if SGM did not assume ownership.

When VVGMC was acquired out of bankruptcy in 2012, many of its services were closed or suspended. In the first year of SGM operations, the laboratory that was closed by CLIA was reopened, the cardiac catheterization lab was reopened and the NICU was taken out of suspension and reopened.

VVGMC received full Joint Commission accreditation for the first time in 2014. (It had previously been accredited by the Health Facilities Accreditation Program.)

VVGMC's financial performance has improved from a pre-acquisition monthly loss of \$500,000 a month to profitability in 2014.

VVGMC has invested over \$6,000,000 in new equipment over the past year.

VVGMC is the largest MediCal provider in the high desert area and the largest provider for Inland Empire Health Plan.

The PHH facilities, which were purchased out of bankruptcy with annual losses in excess of \$6,000,000, have generated positive EBITDA since their acquisition.

PHH has invested over \$10,000,000 in capital purchases over the past 18 months.

Additional attachments:

Letter from MidCap Financial
Redline of Asset Purchase Agreement
Consolidated financials of SGM and affiliates