



March 13, 2014

Houlihan Lokey
123 N. Wacker Dr., 4th Floor
Chicago, IL 60606

RE: Daughters of Charity Health System Acquisition Opportunity

To Whom It May Concern:

Prime Healthcare Services, Inc. (Prime Healthcare) is pleased to provide the following proposal to acquire the Daughters of Charity Health System (DCHS). The format of the proposal will adhere to the requirements set forth in the materials provided by your company.

Please accept the following.

- 1. *Description of Potential Acquirer.*** A detailed description of your organization, including a summary of your financial wherewithal and your experience in operating similar operations.

As is known, Prime Healthcare is an award winning Healthcare System based in Ontario, California. Prime Healthcare, by and through its subsidiaries, operates nineteen (19) acute care hospitals with 3,600 beds throughout California, Nevada, Pennsylvania, Kansas, Rhode Island and Texas. The hospitals are:

- Alvarado Hospital in San Diego, California (306 beds)
- (2) Centinela Hospital Medical Center in Inglewood, California (369 beds)
- (3) Chino Valley Medical Center in Chino, California (126 beds)
- (4) Dallas Medical Center in Dallas, Texas (155 beds)
- (5) Desert Valley Hospital in Victorville, California (148 beds)
- (6) Garden Grove Hospital Medical Center in Garden Grove, California (167 beds)
- (7) Harlingen Medical Center in Harlingen, Texas (112 beds)
- (8) La Palma Intercommunity Hospital in La Palma, California (141 beds)
- (9) Landmark Medical Center in Woonsocket, Rhode Island (214)
- (10) Lower Bucks Hospital in Bristol, Pennsylvania (156) beds
- (11) Paradise Valley Hospital in National City, California (301 beds)
- (12) Providence Medical Center, Kansas City, Kansas (400 beds)
- (13) Rehabilitation Hospital of Rhode Island (82 beds)
- (14) Roxborough Memorial Hospital in Philadelphia, Pennsylvania (140 beds)
- (15) Saint Mary's Regional Medical Center in Reno, Nevada (380 beds)
- (16) Saint John Hospital in Leavenworth, Kansas (80 beds)
- (17) San Dimas Community Hospital in San Dimas, California (101 beds)
- (18) Shasta Regional Medical Center in Redding, California (246 beds)
- (19) West Anaheim Medical Center in Anaheim, California (219 beds)

Prime Healthcare is also affiliated with Prime Healthcare Foundation, Inc., a 501(c)(3) public charity with assets in excess of \$800,000,000.00, which owns and operates six (6) acute care hospitals in California and in Texas.

- (1) Encino Hospital Medical Center in Encino, California (150 beds)
- (2) Huntington Beach Hospital in Huntington Beach, California (131 beds)
- (3) Knapp Medical Center in Weslaco, Texas (227 beds)
- (4) Montclair Hospital Medical Center in Montclair, California (102 beds)
- (5) Pampa Regional Medical Center in Pampa, Texas (115 beds)
- (6) Sherman Oaks Hospital in Sherman Oaks, California (153 beds)

It should be noted that Prime Healthcare has purchased three (3) hospitals (St. Mary's Regional Medical Center, Reno Nevada; Providence Medical Center, Kansas City, Kansas; Saint John Hospital, Leavenworth, Kansas) with Catholic affiliations within the past eighteen months wherein Prime Healthcare has maintained the religious and cultural identity of each of these institutions as promised. In addition, Prime Healthcare is poised to finalize transactions with three additional Catholic affiliated institutions in New Jersey wherein Prime Healthcare has committed to maintain the religious cultural identity of these institutions as promised.

One of the many strengths of Prime Healthcare is the focus on quality in providing care to its patient and the communities that are served by these hospitals. This experience in providing quality care directly correlates to the operations of these hospitals and how Prime Healthcare expects to operate the hospitals within DCHS.

Thomson Reuters/Truven Health Analytics, the world's leading source of intelligent information with more than 50,000 employees worldwide, ranked Prime Healthcare as one of the Top 10 Health Systems in the United States in 2009 and as one of the Top 15 Health Systems in the United States in 2011 & 2012. These accomplishments are especially remarkable when one considers that all of Prime Healthcare's hospitals were acquired in severe financial distress or in bankruptcy.

Additionally, the following hospitals were ranked as Top 100 Hospitals by Thomson Reuters/Truven Health Analytics twenty-one (21) times in the past five (5) years including:

- Centinela Hospital Medical Center- 3 Times including 2014
- Chino Valley Medical Center- 3 Times including 2014
- Desert Valley Hospital- 5 times
- Garden Grove Hospital Medical Center- 3 Times including 2014
- Montclair Hospital Medical Center – 2 Times including 2014
- Paradise Valley Hospital -2014
- San Dimas Community Hospital - 2 Times including 2014
- Shasta Regional Community Hospital- 2 Times including 2014
- West Anaheim Medical Center – 5 Times including 2014

Additionally, eight (8) of Prime Healthcare's hospitals were also recently recognized as Top Performers on Key Quality Measures by Joint Commission which put them among the top 18.7% of all Joint Commission accredited hospitals in the United States. The communities served by DCHS would be well served by having an entity like Prime Healthcare acquire and operate these hospitals. This is especially true when one considers that, according to Thomson Reuters/Truven Analytics' report, more than 47,000 Medicare beneficiaries would survive each year and more than 92,000 patient complications would be avoided in the Medicare population if all hospitals performed like Prime Healthcare's.

In addition to high accolades from Thomson Reuters/Truven Health Analytics, Prime Healthcare also has a track record of investing capital and improving patient care outcomes at each of the hospitals it has acquired and operates. For example, Prime Healthcare's Desert Valley Hospital recently completed a \$50 million expansion to better serve the needs of the High Desert communities in California, Prime Healthcare installed Cardiac Cath Labs at Desert Valley Hospital, Chino Valley

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Medical Center, Huntington Beach Hospital, and Sherman Oaks Hospital to better meet the needs of patients, and Prime Healthcare has purchased and installed new equipment and systems such as patient monitoring equipment, laboratory equipment, patient beds, and information systems at each of its hospitals to improve quality and cost effectiveness of patient care.

2. **Assets to be Acquired.** Please indicate the assets you are interested in purchasing, including the particular hospitals, central business office, medical office buildings, DCHS Medical Foundation and any ancillary properties. Please also indicate your expected treatment of the provider numbers related to the operations acquired. The system is willing to consider a wide range of proposals, including bids for individual or a group of DCHS businesses; however, preference will be given to Preliminary Proposals or combinations thereof that minimize the number of transactions balanced with the best terms for disposition of all of the System's operations.

Prime Healthcare is willing to acquire substantially all of the assets of the DCHS, including the five (5) hospitals, the central business office, the medical office buildings, DCHS Medical Foundation and any other ancillary businesses. Alternatively, as reflected in response to question number four (4), Prime Healthcare welcomes the opportunity to acquire part of the assets as deemed mutually agreeable by both parties.

3. **Treatment of the Medical Foundation.** An overview of the anticipated treatment of the System's Medical Foundation and related physicians.

Prime Healthcare anticipates treating the DCHS's Medical Foundation and related physicians in a manner similar to how they are presently constructed. As is known, Prime Healthcare is affiliated with the Prime Healthcare Foundation, which is a 501(c)(3) public charity, that is substantially debt free with assets in excess of \$800,000,000.00. The foundation was founded and funded by Prem Reddy, M.D. and his family. The foregoing is important to note indicating Prime's strength, commitment and understanding in operating similar Foundations.

4. **Amount and Form of Consideration.** The total purchase price and form of consideration to be paid (e.g. cash, securities, assumption of obligations). If your proposed acquired operations include medical office buildings and/or other non-hospital ancillary properties as outlined in Section 2H of the Memorandum, please indicate the portion of the purchase price attributable to this pool of assets and your willingness to exclude such assets from your proposal.

Prime Healthcare is committed to acquiring DCHS and is willing to work with the organization to consummate a transaction that is positive for both sides. To that end, Prime Healthcare offers the following three (3) proposals:

- (i) Purchase substantially all of the asset(s) of DCHS, including the five (5) Hospitals and ancillary property, for Five Hundred Million Dollars (\$500,000,000.00), including the assumption of Net Working Capital. The proceeds of the purchase price would allow the Long Term Debt and the Short Term portion of the Long Term Debt to be paid off;
- (ii) Stock Purchase Agreement with assumption of Balance Sheet with all assets and liabilities. Prime Healthcare would pay off the Long Term Debt and the Short Term Portion of the Long Term Debt;
- (iii) Purchase any and/ or all of the five (5) Hospitals and ancillary property broken down as follows:
 - a. St. Francis Medical Center- \$250,000,000.00
 - b. St. Vincent Medical Center- \$50,000,000.00
 - c. Seton Medical Center- \$80,000,000.00
 - d. O'Connor/ Saint Louise Medical Center- \$140,000,000.00

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5. **Working Capital Assumption-** Please indicate your expectations surrounding the acquisition of the System's working capital assets (excluding cash) and assumption of working capital liabilities.

Prime Healthcare anticipates that it will assume the System's Net Working Capital. For purposes of this Agreement, the term "Net Working Capital" shall mean the difference between the System's current assets and current liabilities, provided, however, that for purposes of calculating net working capital and identifying those liabilities to be assumed by Purchaser, System's current liabilities shall include only accounts payable and accrued expenses and other current liabilities reflected on the balance sheet.

6. **CBA Agreements and Non-Union Employee Retention.** Please provide an overview of your intentions to assume the System's collective bargaining agreements (understanding that your diligence so far has not made such agreements available to you, as well as the retention/ treatment of employees of the operations to be acquired. Preference will be given to Preliminary Proposals that maximize the retention of employees and assume the existing collective bargaining agreements.

Prime Healthcare anticipates providing employment to substantially all of the employees of the DCHS' umbrella. Prime Healthcare has an excellent reputation for maintaining current levels of employment post acquisition and actually increasing employment within the first six (6) months upon commencing operations.

With respect to any and/all Collective Bargaining Agreements, following diligent review of the same, Prime Healthcare may assume the agreements with the intent to renegotiate the agreements with the respective union organization. Prime Healthcare has a wonderful working relationship with the California Nurses Association in a multitude of its locations.

7. **Post-Retirement Obligations.** Please indicate your treatment of the System's post-retirement obligations including the: (i) Retirement Plan for Hospital Employees (a multiemployer defined benefit pension plan); (ii) DCHS Retirement Plan (a non-ERISA guaranteed single employer defined benefit pension plan) and (iii) retiree health insurance program. Preference will be given to Preliminary Proposals that contemplate the assumption of the post-retirement obligations.

Assuming DCHS accepts Prime Healthcare's second proposal wherein it assumes the balance sheet, Prime Healthcare will assume any and/all such retirement obligations as outlined above following further due diligence. However, if one of the other proposals are accepted, Prime Healthcare will work with DCHS to ascertain a program that makes financial sense in this regard. It would be expected that DCHS would satisfy many of the past and current post retirement obligations with the monies provided with such transaction proposals.

8. **Treatment of Other Agreements.** An overview of the anticipated treatment of any executor contracts, leases, etc. relating to the assets to be acquired. Please specify any intended contract modifications, assumptions and assignments of agreements.

With the caveat that Prime Healthcare still requires to complete its due diligence in this regard, it is anticipated that many if not all of the contracts will be assumed or agreed to be assigned with minimal or no changes.

9. **Sources of Capital.** A description of the anticipated sources of capital that you intend to use to fund the Transaction.

Prime Healthcare has considerable resources to consummate this deal quickly and without contingencies. As a point of reference, Prime Healthcare had more than \$2,100,000,000.00 in Net Revenue in 2013. Prime Healthcare anticipates that this deal will be finalized with both the recently announced \$475,000,000.00 financing for acquisitions and Real Estate Investment Trust Financing (REIT).

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10. Anticipated Operating Plan and Capital Commitments. A description of you anticipated business plan and any contemplated future capital commitments to reinvest in the acquired operations.

Prime Healthcare's primary focus is emergency medicine and we have focused on improving efficiencies in the emergency department by lowering the waiting time in the Emergency Departments. We have also successfully implemented systems to decrease the wall-time, waiting timing and average length of stay significantly. Additionally, Prime hospitals have various clinical programs such as Stroke, Heart/Cardiology, Obstetrics/Labor & Delivery, Cancer, Bariatric, Spine, Behavioral Health, Geriatric/Psychiatric Health, and Sub-Acute service lines.

To that end, this allows Prime Healthcare to not only maintain the current service lines, but to increase the service lines for the various communities that are being served to better treat its patients. Prime Healthcare anticipates its operational efficiencies will allow each of these hospital(s) to grow significantly within the first six (6) months of operation.

With respect to Capital Commitments, Prime Healthcare will commit to providing Capital improvements in the amount of \$100,000,000.00 over the next five (5) years.

11. Community Service and Charity Care. A description of the planned community and charity care.

Prime Healthcare has a proven track record of supporting the communities it inhabits. Prime Healthcare is committed to being a solid corporate and charitable citizen in this regard. In particular, Prime Healthcare operates free clinics in multiple communities allowing those with little or no resources the ability to be provided important healthcare.

With respect to charity care, Prime Healthcare will commit to charity care policies at the current level or better for the DCHS facilities. Since 2010, Prime Healthcare has provided more than \$1,500,000,000.00 in charity and/or uncompensated care. In 2013, the amount of charity care that was provided was \$635,000,000.00. As such, it is clear that Prime Healthcare will continue the vision of DCHS in providing care for our most vulnerable.

12. Process and Timing. A proposed timetable and implementation strategy for consummation of the Transaction.

Preference will be given to proposals that contemplate a prompt diligence review period and expected timeline to closing.

Prime Healthcare will complete any and all diligence within thirty (30) days and closing of the transaction within ninety (90) days following being chosen as the successful bidder and approval of Attorney General's office.

13. Due Diligence. A detailed description of additional information and due diligence required to submit a binding offer and execution of a final definitive agreement related to a Transaction. Such description should include specific outline of topics, documents or facilities to be reviewed.

As stated above, Prime Healthcare moves quickly within its diligence process. It anticipates a physical review of each facility and review of the following material(s):

- (i) Financials;
- (ii) Employment Agreements;
- (iii) Contracts;
- (iv) Real Estate Reports;
- (v) Environmental Studies;
- (vi) OSHPD Reports;
- (vii) Pension and other Retirement Reports.

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14. Specific Contingencies to Closure. A description of any material conditions or contingencies to the consummation of a Transaction (regulatory approval, board approval, financing, etc.) and your experience and expectations regarding the estimated timing required to obtain such approvals.

Prime Healthcare's obligations to close the transaction will be subject to normal and customary closing conditions including, without limitation, the following:

- (i) Prime Healthcare being satisfied in its sole discretion with the results of its due diligence investigation; and
- (ii) Approval by all necessary federal, state, and local agencies without the imposition of conditions that would have a material adverse effect on Prime Healthcare.

Prime Healthcare does not anticipate either of the foregoing as being an impediment to the closing of this transaction. Within the past two (2) years, Prime Healthcare has completed transactions and obtained regulatory approval without exception in several states on five (5) separate occasions. Prime Healthcare anticipates that this transaction will be completed in a similar manner.

15. Other Parties. The identification and detailed description of any other parties, other than your organization, that will participate in the consummation of the Transaction.

None anticipated.

16. Contact Information. The name and contact information for the individual(s) as to whom all inquiries related to the Preliminary Proposal should be made and the identity of any third party advisors you intend to utilize in the process.

All inquiries related to the Preliminary Proposal should be submitted as follows:

Mike Sarian
President of Operations
Prime Healthcare Management, Inc.
3300 East Guasti Road, Third Floor
Ontario, CA 91761

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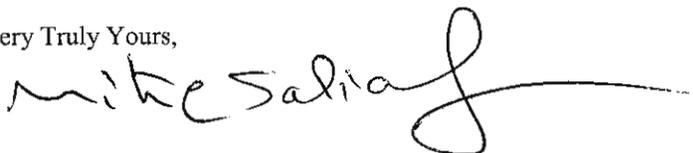
Troy Schell, Esq.
General Counsel
Prime Healthcare Management, Inc.
3300 East Guasti Road, Third Floor
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Thank you again for your consideration of our proposal. Should you have any questions, please do not hesitate to contact the undersigned.

Very Truly Yours,



Mike Sarian
President of Operations

cc: Prem Reddy, M.D.
Troy A. Schell

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