

Plymouth Holdings LLC

PRELIMINARY PROPOSAL TO ACQUIRE CERTAIN HEALTHCARE ASSETS OF THE DAUGHTERS OF CHARITY HEALTH SYSTEM IN SAN JOSE, CALIFORNIA

March 28, 2014

VIA ELECTRONIC MAIL

DAUGHTERS OF CHARITY HEALTH SYSTEM
Attn: Mr. Geoffrey Ligibel
Houlihan Lokey
Director, Corporate Finance
123 North Wacker Dr.
Chicago, IL 60606

Dear Mr. Ligibel:

Plymouth Holdings LLC ("Plymouth" or "Buyer") is pleased to submit a preliminary of proposal to acquire, through a new acquisition vehicle, certain assets and the business of the DAUGHTERS OF CHARITY HEALTH SYSTEM IN CALIFORNIA ("DCHS"), specifically the O'Connor Hospital and the Saint Louise Regional Hospital, and owned and operated by affiliates of DAUGHTERS OF CHARITY HEALTH SYSTEM ("DCHS" and, collectively, "Seller"), all as more fully described in the February 2014 Confidential Information Memorandum ("Memorandum") and DCHS Supplemental MOB Materials dated March 2014 ("DCHS Supplemental"). For purposes herein, the acquisition by Plymouth of certain assets and the business of DCHS is hereafter referred to as the "Transaction."

Plymouth is a private equity organization focused on investments in the healthcare sector with significant and long standing interest in the health care and well-being of Californians. Plymouth and its principles have been leaders in the healthcare industry for years. We are committed to making DCHS a leading medical resource in the San Jose area. Plymouth has no vested competitive interest in DCHS other than bringing excellence and innovation to the hospital system. Moreover, as a new owner of hospital services in the region, Plymouth would not face any potential anti-competitive barriers to the Transaction.

It is presently contemplated that the Transaction would be upon the following terms and conditions:

1. Purchase Price

Based upon the information contained in the Memorandum, and subject to the completion of our due diligence and the Assumptions described below, Buyer proposes a cash purchase price of One-Hundred-Million-Dollars (\$100 Million) ("Purchase Price"), payable in full at Closing (as defined herein). As set forth more fully below, our proposed Purchase Price takes into account the need for Buyer to additionally invest approximately \$25 Million to address capital and working capital needs of DCHS. To be clear, Buyer will pay Seller a cash Purchase Price of \$100 Million at Closing, in addition to assuming the obligation to invest the necessary capital and working capital in DCHS to address DCHS needs.

If we were to calculate the proposed Purchase Price as a multiple of CY 2012-2013 EBITDA, then the multiple (based upon our proposed Purchase Price) would be approximately 6.7 times. Our proposed Purchase Price is based upon the total enterprise value of DCHS and is derived from an analysis of discounted cash flow, price per bed methodologies and multiples of EBITDA employed in similar transactions. The Purchase Price excludes therefrom all cash, cash equivalents and accounts receivable of DCHS as of the Closing (as defined herein) and is subject to the Net Working Capital adjustment described below.

2. Form and Source of Financing

Buyer will acquire the assets and Net Working Capital of DCHS (the "DCHS Assets"), free and clear of all liens, claims and encumbrances. The majority equity owner of the new acquisition vehicle will be Plymouth Holdings, LLC ("Plymouth"), a diversified and well-capitalized investment firm specializing in the fields of private equity, real estate, and venture capital. Plymouth will make an equity investment in the new acquisition vehicle sufficient to cover the Purchase Price and net working capital needs of Buyer.

3. Material Assumptions

The Purchase Price proposed herein is based on the Assumptions (as defined below). Should any of the Assumptions prove to be incorrect, the Purchase Price will be adjusted.

a) The Purchase Price offer is based on the financial statements provided by Seller and takes into account an additional long-term capital investment of \$25 Million by Buyer.

b) At Closing, Buyer will only assume the current assets (pure asset purchase and no assumption of the liabilities) and current liabilities specifically defined in the Definitive Agreement (as defined herein) or as otherwise mutually agreed to by the parties. Buyer will neither acquire a current asset nor assume a current liability unless it is part of the Net Working Capital adjustment and specifically set forth in the Definitive Agreement.

c) The Definitive Agreement will provide for a "true up" at Closing on the assets and liabilities comprising Net Working Capital.

d) The Purchase Price proposal takes into account the fact that transitional management, administration and operational support service agreements (e.g., information

technology, billing and collection) with DCHS and/or its third party vendors may be necessary to operate DCHS as an ongoing concern post-Closing. The specifics of any existing third-party arrangements are subject to due diligence review by Buyer and the specifics of any transition services agreements between Buyer and Seller are subject to further negotiation.

4. Minimum Additional Data Requirements

Seller will cooperate fully with and facilitate Buyer's due diligence review as contemplated hereby, and will afford Buyer and its agents and representatives all reasonable opportunity and access to the data room contemplated by the Memorandum and Letter to inspect, investigate and audit DCHS's assets, liabilities, financial statements, cost reports, adjusted EBITDA, legal matters, real estate matters, environmental matters, employee benefits matters, contracts (including but not limited to payor contracts), legal proceedings, contingent liabilities, operations, relationships with employees, suppliers and customers (including interviews of the same), physicians and prospects, and Seller will promptly and completely provide all disclosures requested by or on behalf of Buyer.

5. Timing for Due Diligence and Transaction Closing

Because Buyer does not anticipate having to satisfy any financing contingencies or be subject to antitrust review in regard to the Transaction, it is the expectation of the Buyer that the closing ("Closing") will occur within sixty (60) to ninety (90) days of execution of a Definitive Agreement, upon receipt of all necessary licenses, permits and certifications, and upon completion of Buyer's due diligence (we understand that compliance with regulatory requirements may extend such time period, but Buyer will work with Seller to achieve as rapid of a conclusion to such matters and a timely Closing as is practicable).

6. Conditions Required to Consummate the Transaction

The Closing of the Transaction would be subject to:

- a) Approval of the Buyer's Board of Directors;
- b) Execution and delivery of a definitive asset purchase agreement ("Definitive Agreement") and related documents and consents in a form acceptable to Seller and Buyer;
- c) Buyer's interest in pursuing a Transaction is contingent upon Buyer's satisfaction (as determined in Buyer's sole discretion) with the results of its due diligence review;
- d) The Closing would be contingent upon receipt of satisfactory evidence that DCHS is eligible to participate in Federal health care programs without restriction or threat of exclusion and that DCHS is subject to satisfactory third-party payor contracts; and
- e) The Closing also would be subject to customary conditions, including: (i) obtaining any necessary consents, approvals or releases from governmental bodies, Seller's lenders, lessors, major customers and suppliers and other third parties with respect to the Transaction; (ii) absence of pending or threatened litigation, investigation or governmental proceeding regarding the

Transaction; (iii) absence of any material adverse change in the business, financial condition, assets, operations or prospects of DCHS; (iv) satisfaction of all necessary title and environmental inspections related to the real property; and (iv) delivery of customary legal opinions, closing certificates and other documentation.

7. Miscellaneous

a) Documentation. The Definitive Agreement will include such representations, warranties, covenants, indemnifications and conditions that are customarily included in an agreement for the sale and purchase of assets of this size and nature with customary materiality thresholds and knowledge qualifiers. Representations and warranties generally will survive for a period of twelve (12) months following the Closing, except as otherwise agreed to by Seller and Buyer.

b) Expenses. Buyer and Seller shall bear their own expenses in negotiating and closing the Transaction.

c) Confidentiality and Publicity. The terms and conditions of this letter and any information received by Buyer as part of the its due diligence of DCHS shall be subject to the confidentiality agreement dated February 7, 2014 by and between Buyer and Seller, which shall remain in full force and effect. No party shall issue any press release or other announcement regarding the Transaction unless such release or announcement has been mutually agreed to in writing by the parties or unless required by law.

d) Non-Binding Commitment. Except for the provisions of Sections 7(c) through Section 9(e), which shall be legally binding upon Buyer and Seller, and notwithstanding anything to the contrary contained in this letter, this letter is only for the sole purpose of setting forth a basis upon which the parties may be agreeable to proceeding toward a contemplated Transaction, and is not intended to be a legally binding contract or to impose any liabilities or obligations on any party. Other than as expressly indicated in the immediately preceding sentence, the legal obligations of the parties would arise only upon the execution of a Definitive Agreement in form and substance acceptable to the parties and their respective counsel. It is understood that this letter is not intended to set forth all of the terms of such Definitive Agreement.

e) Governing Law. This letter shall be governed by the internal laws of the State of California, without giving regard to its principles of conflicts of laws.

8. About Plymouth Holdings

a) Our Founders. (Please see attached biographical information) Plymouth founders are physician leaders with strong academic and entrepreneurial credentials. Board Member and Founder, Ralph Salimpour, MD, is a world-renowned physician-scientist and serves as Full Professor of Clinical Pediatrics at UCLA School of Medicine. For his work as a pioneer in medical discovery, Dr. Salimpour is an inductee into the

Congressional Record of the United States. Dr. Salimpour's medical practices are responsible for the care of nearly one in thirty children born in Los Angeles County.

Plymouth Founder, President, and CEO, Dr. Pejman Salimpour, is a Full Clinical Professor of Pediatrics at the UCLA School of Medicine and formerly served as Clinical Chief of Pediatrics at Cedars-Sinai Medical Center in Los Angeles. .

Plymouth Founder and Senior Vice President, Dr. Pedram Salimpour is the only person ever to have twice received the American College of Physicians' Research Award from this 119,000-member organization and is recipient of the prestigious Alpha Omega Alpha National Research Scholar Award. Dr. Salimpour is President-Elect of the Los Angeles County Medical Association and serves on a number of sub-specialty medical boards as well as the Board of Directors of the UCLA School of Public Health.

The Founders have in previous iterations held tens of millions of dollars in government grants and contracts and successfully fulfilled commitments to organizations such as the National Institutes of Health through the National Library of Medicine, the Proposition 10 Commission, First 5 Los Angeles, NBC – Telemundo Television and others. For their continuous efforts in promoting Excellence in Health Care, the Founders have been recognized by, among others, the Governor of the State of California in support of a "Distinguished Record of Service."

b) Why the interest in DCHS? We believe that hospitals are important parts of every community. Seminal moments in a community's life inevitably are intertwined with that of *"their"* hospital. The birth of a daughter or son, a diagnosis that is difficult to accept, complicated and painful treatment regimens, wonderful news of a long awaited cure, and the terrible burden of having to pass along the news of the death of a loved one. All of these are stories of the community borne in the halls of hospitals. And, we believe strongly that the hospital ought to become part of the community. Community partnerships that invite individuals and families into hospitals and bring the knowledge and credibility of the hospital's greatest asset, its doctors and nurses, to the community, will make DCHS the first choice for all health care needs.

DCHS offers an excellent opportunity for Plymouth to partner with the community of San Jose, California and showcase firsthand the value of the Plymouth in meeting the challenges of medical care in the 21st century. Plymouth Case Management and Disease Management Best Practices Models will combine with Plymouth's academic affiliations to advance DCHS to a position of academic prominence and institutional efficiency, creating a model of excellence for the delivery of exceptional and efficient health care. The application of Plymouth's proprietary technology platforms will provide unparalleled synergies, making DCHS among the most sought after centers for medical training and medical care in the region.

We look forward to participating in the next phase of negotiations and collecting necessary additional data for Plymouth to structure a definitive offer and to allow us to quickly engage in negotiations for a Definitive Agreement. If you should have any questions, please contact me at (818) 330-5501. I look forward to continuing our discussions.

Sincerely,

PLYMOUTH HOLDINGS

By:



Pejman Salimpour, MD

Its: Founder & CEO