



# STRATEGIC GLOBAL MANAGEMENT, INC.

6800 Indiana Avenue, Suite 130, Riverside, California 92506

REDACTED

REDACTED

Kali P. Chaudhuri, M.D.  
F.A.C.S., F.I.C.S., F.A.A.O.S.  
Chairman and  
Chief Executive Officer

March 27, 2014

William E. Thomas, Esq.  
Executive Vice President  
and General Counsel  
REDACTED

SENT VIA EMAIL ([gligibel@hl.com](mailto:gligibel@hl.com) and [sjackson@hl.com](mailto:sjackson@hl.com))

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

Re: Preliminary Proposal – Daughters of Charity Health System

Dear Sirs:

Please find attached the Preliminary Proposal submitted by Strategic Global Management, Inc. (“Strategic”) with respect to the acquisition of the assets of Daughters of Charity Health System (“DCHS”).

Strategic is submitting two alternative proposals. Under one proposal, Strategic proposes to acquire substantially all the assets of DCHS, subject to clarification of the San Mateo County commitment for financial support for the replacement facility and satisfactory discussions with the physician leadership of the DCHS medical foundation. Under the second proposal, Strategic proposes to acquire the Southern California assets of DCHS.

Strategic and its affiliates own and operate numerous healthcare and other enterprises in the United States and abroad. Strategic’s affiliates own seven California hospitals in addition to medical groups, independent physician associations and ancillary healthcare businesses. Strategic and its affiliates have strong existing relations with several large financial institutions and have the financial capability to close this transaction quickly.

Strategic is familiar with the directives for Catholic Health Care Services established by the United States Conference of Catholic Bishops and would be prepared to abide by these standards.

These non-binding proposals are intended solely as preliminary expressions of general intention with the understanding that neither party shall have any contractual obligations to the other with respect to the matters referred herein unless and until a definitive agreement has been fully executed and delivered by the parties.

Please direct any questions to Bill Leyhe, Managing Director of The Peira Group, at  
REDACTED Thank you for this opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read 'William Thomas', with a long horizontal flourish extending to the right.

William Thomas  
Executive Vice President and General  
Counsel

**Daughters of Charity Health System Acquisition Opportunity  
Strategic Global Management, Inc. – Non-Binding Proposal One**

1. DESCRIPTION OF POTENTIAL ACQUIRER

Strategic Global Management, Inc. and its affiliates (collectively “Strategic”) are the majority owners of seven (7) hospitals:

- Victor Valley Global Medical Center
- Physicians for Healthy Hospitals, Inc. – Hemet Valley Medical Center and Menifee Valley Medical Center
- Integrated Healthcare Holdings Inc. –Western Medical Center- Santa Ana, Western Medical Center- Anaheim, Coastal Community Hospital and Chapman Medical Center

Strategic also owns medical groups, home health agencies, ambulatory surgery centers and other ancillary operations in Southern California as well as significant international healthcare holdings.

In the past four years Strategic and affiliates have closed transactions worth over \$350 million.

2. ASSETS TO BE ACQUIRED

Strategic proposes to purchase the following DCHS assets:

St Francis Medical Center  
St Vincent Medical Center  
O’Conner Hospital  
Seton Medical Center  
Seton Medical Center - Coastside  
DCHS Medical Foundation  
Medical Office Buildings [as identified in Tab H of DCHS’ Memorandum]  
Shared Services [as identified in Tab I of DCHS’ Memorandum]

3. TREATMENT OF THE MEDICAL FOUNDATION

Strategic would be acquiring the Medical Foundation subject to a determination that an appropriate structure can be established and satisfactory discussions with physician leadership.

4. AMOUNT AND FORM OF CONSIDERATION

The purchase price is \$500 million, which includes credit for assumed liabilities, provided however that this purchase price is subject to clarification of San Mateo County’s financial commitment to the Seton Medical Center project.

Strategic is reasonably flexible with respect to the structure of the purchase price, but would not assume any unfunded retirement plan liabilities of more than \$250 million.

It is Strategic's understanding that DCHS would prefer that the transaction not include any contingent payments, thus Strategic proposes to pay the purchase price at closing rather than have a portion of the purchase price dependent on the receipt of future Quality Assurance Fund ("QAF") payments by the facilities to be acquired. If DCHS' position changes with respect to this issue, Strategic would be prepared to restructure the purchase price such that DCHS would receive cash at closing plus a percentage of future QAF funds, resulting a reasonably higher overall purchase price.

## 5. WORKING CAPITAL ASSUMPTIONS

Strategic would assume the following non-cash balance sheet items represented on page 206 of the DCHS Confidential Information Memorandum ("Memorandum"):

- Patient Accounts Receivable
- Due from Government Agencies
- Other Current Assets

- Accounts Payable
- Due to Government Agencies
- Accrued Liabilities

## 6. CBA AGREEMENTS AND NON-UNION EMPLOYEE RETENTION

Strategic intends to assume DCHS' collective bargaining agreements, subject to Strategic's satisfactory review of such agreements. Strategic intends to retain substantially all current DCHS employees of the operations to be acquired.

## 7. POST-RETIREMENT OBLIGATIONS

Subject to satisfactory due diligence review, Strategic intends to assume all post-retirement plan obligations, subject to an overall liability limitation of \$250 million.

Strategic reserves the right to modify and amend future retirement and health benefits.

## 8. TREATMENT OF OTHER AGREEMENTS

Strategic does not intend to terminate or adjust any existing agreements related to the assets, subject to Strategic's satisfactory review of such agreements.

## 9. SOURCES OF CAPITAL

Strategic expects to use capital obtained from its financing partner, Apollo Global Management (previously MidCap Financial), and Rendina Companies, one of the ten largest medical office building developers in the United States. Strategic is presently

engaged with Highbridge Capital Management and Kohlberg Kravis Roberts and Co. on a very large non-hospital transaction and both companies have expressed interest in participating in this project.

#### 10. ANTICIPATED OPERATING PLAN AND CAPITAL COMMITMENTS

It is Strategic's understanding that approximately \$8-\$10 million per facility has been invested in the assets over the past three years. These figures appear reasonable (excluding the Seton Medical Center rebuild), however, until Strategic is able to complete an in-depth review of each facility and its capital requirements, it is difficult for Strategic to be more precise with respect to expected future capital commitments. Without further information, Strategic would anticipate future capital investment at a similar level as has been historical.

Strategic has had preliminary discussions with the largest medical groups in the market area of St. Vincent Medical Center and St. Francis Medical Center and would anticipate using its best efforts attempt to partner with these entities upon a successful acquisition.

#### 11. COMMUNITY SERVICE/CHARITY CARE

Strategic's affiliated hospitals serve populations with a high percentage of Medi-Cal and uninsured patients. Providing healthcare services for these populations has been and will continue to be a critical component of Strategic's mission just as it has been for DCHS. While Strategic has not yet reviewed the community service and charity care policies DCHS, Strategic has maintained the existing charity care policies for its recent acquisitions.

A copy of a representative charity care policy for Strategic's affiliates is attached.

#### 12. PROCESS AND TIMING

From the date Strategic's proposal is accepted, and assuming cooperation from DCHS, Strategic anticipates a due diligence period of ninety (90) to one hundred twenty days (120) to coincide with concurrent development of definitive documents. Strategic would expect to close within thirty (30) days thereafter.

#### 13. DUE DILIGENCE REQUIREMENT

Strategic's requested due diligence list is attached.

#### 14. SPECIFIC CONTINGENCIES TO CLOSURE

Strategic expects the transaction, and the timing thereof, to be consistent with usual and customary industry practices in similar transactions, with customary contingencies including, but not limited to, (1) completion and accuracy of all representations and warranties, (2) performance by the parties in all material respects of their respective obligations under the definitive agreements, (3) receipt of all required consents and

approvals from third parties and (4) the absence of any pending action or event that could have a material adverse effect to Strategic or the operation of the assets to be acquired.

15. OTHER PARTIES

Please see Section 9 for the identification of expected financing sources.

16. CONTACT INFORMATION THIRD PARTY ADVISORS

All inquiries should be directed to:

William Leyhe  
Managing Director  
The Peira Group  
544 East Rustic Road  
Santa Monica, CA 90402

REDACTED

REDACTED

Other advisors will include Apollo Global Management and Moss Adams.

**Daughters of Charity Health System Acquisition Opportunity  
Strategic Global Management, Inc. – Non-Binding Proposal Two**

1. DESCRIPTION OF POTENTIAL ACQUIRER

Strategic Global Management, Inc. and its affiliates (collectively “Strategic”) are the majority owners of seven (7) hospitals:

- Victor Valley Global Medical Center
- Physicians for Healthy Hospitals, Inc. – Hemet Valley Medical Center and Menifee Valley Medical Center
- Integrated Healthcare Holdings Inc. –Western Medical Center- Santa Ana, Western Medical Center- Anaheim, Coastal Community Hospital and Chapman Medical Center

Strategic also owns medical groups, home health agencies, ambulatory surgery centers and other ancillary operations in Southern California as well as significant international healthcare holdings.

In the past four years Strategic and affiliates have closed transactions worth over \$350 million.

2. ASSETS TO BE ACQUIRED

Strategic proposes to purchase the DCHS assets located in Southern California:

St Francis Medical Center  
St Vincent Medical Center  
Huntington Park Medical Office Building  
Maywood Medical Office Building  
St. Vincent Professional Office Building  
Ocean View Pavilion  
Parking Lot at 3653 Martin Luther King Blvd., Lynwood, CA  
House Ear Clinic

3. TREATMENT OF THE MEDICAL FOUNDATION

Strategic would not be acquiring the Medical Foundation.

4. AMOUNT AND FORM OF CONSIDERATION

The total purchase price would be \$195 million, which includes credit for assumed liabilities. Strategic is reasonably flexible with respect to the structure of the purchase price, but would limit assumption of any unfunded retirement plan obligations to \$100 million.

It is Strategic's understanding that DCHS would prefer that the transaction not include any contingent payments, thus Strategic proposes to pay the purchase price at closing rather than have a portion of the purchase price dependent on the receipt of future Quality Assurance Fund ("QAF") payments by the facilities to be acquired. If DCHS' position changes with respect to this issue, Strategic would be prepared to restructure the purchase price such that DCHS would receive cash at closing plus a percentage of future QAF funds, resulting a reasonably higher overall purchase price.

#### 5. WORKING CAPITAL ASSUMPTIONS

Strategic would assume the following non-cash balance sheet items represented on page 55 (with respect to St. Francis Medical Center) and page 80 (with respect to St. Vincent Medical Center) of the DCHS Confidential Information Memorandum ("Memorandum"):

- Patient Accounts Receivable
- Due from Government Agencies
- Other Current Assets

- Accounts Payable
- Due to Government Agencies
- Accrued Liabilities

#### 6. CBA AGREEMENTS AND NON-UNION EMPLOYEE RETENTION

Strategic intends to assume DCHS' collective bargaining agreements, subject to Strategic's satisfactory review of such agreements. Strategic intends to retain substantially all current DCHS employees of the operations to be acquired.

#### 7. POST-RETIREMENT OBLIGATIONS

Subject to satisfactory due diligence review, Strategic intends to assume all post-retirement plan obligations related to St. Vincent Medical Center and St. Francis Medical Center, subject to an overall liability limitation of \$100 million.

Strategic reserves the right to modify and amend future retirement and health benefits.

#### 8. TREATMENT OF OTHER AGREEMENTS

Strategic does not intend to terminate or adjust any existing agreements related to the assets, subject to Strategic's satisfactory review of such agreements.

#### 9. SOURCES OF CAPITAL

Strategic expects to use capital obtained from its financing partner, Apollo Global Management (previously MidCap Financial), and Rendina Companies, one of the ten largest medical office building developers in the United States. Strategic is presently engaged with Highbridge Capital Management and Kohlberg Kravis Roberts and Co. on

a very large non-hospital transaction and both companies have expressed interest in participating in this project.

#### 10. ANTICIPATED OPERATING PLAN AND CAPITAL COMMITMENTS

It is Strategic's understanding that approximately \$8-\$10 million per facility has been invested in the assets over the past three years. These figures appear reasonable (excluding the Seton Medical Center rebuild), however, until Strategic is able to complete an in-depth review of each facility and its capital requirements, it is difficult for Strategic to be more precise with respect to expected future capital commitments. Without further information, Strategic would anticipate future capital investment at a similar level as has been historical.

Strategic has had preliminary discussions with the largest medical groups in the market area of St. Vincent Medical Center and St. Francis Medical Center and would anticipate using its best efforts attempt to partner with these entities upon a successful acquisition.

#### 11. COMMUNITY SERVICE/CHARITY CARE

Strategic's affiliated hospitals serve populations with a high percentage of Medi-Cal and uninsured patients. Providing healthcare services for these populations has been and will continue to be a critical component of Strategic's mission just as it has been for DCHS. While Strategic has not yet reviewed the community service and charity care policies DCHS, Strategic has maintained the existing charity care policies for its recent acquisitions.

A copy of a representative charity care policy for Strategic's affiliates is attached.

#### 12. PROCESS AND TIMING

From the date Strategic's proposal is accepted, and assuming cooperation from DCHS, Strategic anticipates a due diligence period of ninety (90) to one hundred twenty days (120) to coincide with concurrent development of definitive documents. Strategic would expect to close within thirty (30) days thereafter.

#### 13. DUE DILIGENCE REQUIREMENT

Strategic's requested due diligence list is attached.

#### 14. SPECIFIC CONTINGENCIES TO CLOSURE

Strategic expects the transaction, and the timing thereof, to be consistent with usual and customary industry practices in similar transactions, with customary contingencies including, but not limited to, (1) completion and accuracy of all representations and warranties, (2) performance by the parties in all material respects of their respective obligations under the definitive agreements, (3) receipt of all required consents and approvals from third parties and (4) the absence of any pending action or event that could have a material adverse effect to Strategic or the operation of the assets to be acquired.

15. OTHER PARTIES

Please see Section 9 for the identification of expected financing sources.

16. CONTACT INFORMATION THIRD PARTY ADVISORS

All inquiries should be directed to:

William Leyhe  
Managing Director  
The Peira Group  
544 East Rustic Road  
Santa Monica, CA 90402

REDACTED

REDACTED

Other advisors will include Apollo Global Management and Moss Adams.