

May 21, 2014

Mr. Andrew R. Turnbull  
Managing Director  
Houlihan Lokey  
123 North Wacker Drive, 4<sup>th</sup> Fl.  
Chicago, Illinois 60606

Dear Mr. Turnbull,

In response to your procedures memorandum dated May 1, 2014, Providence Health & Services is pleased to submit this letter detailing the proposed overview of a transaction (the "Transaction") whereby Providence Health & Services or its affiliate ("Providence") would acquire substantially all of the assets and assume certain liabilities of St. Francis Medical Center ("SFMC") from the Daughters of Charity Health System ("DCHS"), subject to the limitations set forth herein. As stated in our earlier letter dated March 21, 2014, we believe that Providence would be the best steward of SFMC's important mission given our shared Catholic heritage and commitment to providing for the needs of the poor and vulnerable.

Our proposal provides DCHS with the greatest certainty of a prompt closing of the sale of SFMC:

- Providence is familiar with California Attorney General review of not-for-profit hospital sale transactions having recently completed the acquisition of Providence Saint John's Health Center and we have assembled a team to complete this Transaction efficiently;
- The Transaction would result in SFMC remaining a not-for-profit hospital rather than a more difficult to complete for-profit conversion;
- Providence has substantial cash and investment balances on hand and sufficient access to capital that our proposal would not have any financing contingency;
- Our proposal has been reviewed with Archbishop Gomez and would have a streamlined approval process with the Catholic Church approval process; and
- Providence has strong working relationships with organized labor and, once we are authorized to hold discussions with the labor unions that represent the SFMC employees, we believe that we would be able to negotiate mutually agreeable collective bargaining agreements more quickly than other potential bidders.

As one of the largest faith-based health care ministries in the United States, Providence provides compassionate, high-quality care, while remaining good stewards of resources. Our commitment to serving the poor and vulnerable is a mission we share with DCHS and we believe that we are uniquely positioned to successfully preserve this important part of SFMC's identity. A commitment to financial sustainability, coupled with the spirit and drive of the people of Providence, allows Providence to continue to deliver the highest quality care, provide a larger community benefit and offer an increased amount of free and discounted care to those in need. Providence can provide economies of scale, operating expertise and capital support to enable SFMC to thrive as the central piece of an integrated network oriented to serve the unique health care needs of the residents in the South Central Los Angeles area.

Moreover, as you know, we are in discussions with Molina Healthcare, Inc., which is interested in participating with Providence in the Transaction. Molina Healthcare, Inc., a FORTUNE 500 company, provides quality and cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals and to assist state agencies in their administration of the Medicaid program. Molina Healthcare has a long tradition of commitment to serving Medi-Cal and Medicare members with high quality, patient centered health care services. Molina provides services to nearly five million members that are enrolled in Medicaid, Medicare and other government-sponsored programs across 15 states. Molina provides managed Medicaid health plans to beneficiaries and delivers care through a network of clinics throughout its service area. Molina and Providence work together in overlapping markets including California and Washington.

We are not prepared to submit a revised Asset Purchase Agreement at this point in the process due to the considerable uncertainty related to many important transaction issues including, among others, the unfunded pension plans, the transition of the collective bargaining agreements, detailed diligence of Medicare and Medicaid billing processes and other compliance matters. We have refined our assessment of this opportunity, however, and outline below our proposed transaction terms and an overview of the process to close the Transaction successfully. For clarifying purposes, this letter is non-binding, it does not create any obligations and until such time, if any, that Providence, DCHS and SFMC enter into mutually satisfactory definitive agreements, no binding arrangement will exist as to the Transaction.

- **Structure.** The Transaction would be an asset purchase transaction whereby Providence would acquire the Acquired Assets described below and assume the Assumed Liabilities described below. The Transaction would be defined by an Asset Purchase Agreement and other agreements that will set forth in greater detail the terms and conditions of the transaction as negotiated among and agreed upon by Providence, DCHS and SFMC (the “Definitive Agreements”). The Definitive Agreements will contain representations, warranties, covenants, conditions, indemnification and other terms customary in transactions of this type and acceptable to Providence, DCHS and SFMC. All representations, warranties, covenants and indemnification will survive the closing of the transaction. We expect to discuss with you mutually agreeable limitations on indemnification for breaches of representations and warranties (i.e., limits on the survival of representations and warranties and indemnification baskets and caps customary in transactions of this type).
- **Purchase Price.** Providence would be prepared to pay SFMC \$100 million in cash and assume the Assumed Liabilities. Additionally, Providence would pay SFMC for the value of Net Working Capital, as defined herein, that is transferred at closing. Based upon our continued involvement in the partnership process, and subject to positive diligence findings, we are optimistic that we will be able to increase our offer pending more complete analysis of the near and mid-term capital needs of SFMC and the stability of the supplemental reimbursement streams including those related to the Quality Assurance Fee (“QAF”) program, SB 855 and SB 1255.
- **Sources of Capital.** Providence is currently rated Aa2/AA/AA by Moody’s, Standard & Poor’s and Fitch, respectively. Additionally, Providence has over \$5 billion in unrestricted cash and investments. Molina is a Fortune 500 company and publicly traded on the NYSE with a market capitalization of nearly \$1.9 billion. We are highly confident in our ability to finance the Transaction and, further, in our ability to make future investments to support SFMC’s strategic initiatives and growth.

- **Acquired Assets.** At closing, SFMC and DCHS will sell and assign to Providence, free and clear of liens, all assets owned or used by SFMC other than the Retained Assets defined below (the “Acquired Assets”), including the following:
  - All assets of SFMC; including the hospital, medical office buildings, physician clinics, joint venture interests, land, buildings, furniture and equipment (collectively, the “Facilities”).
  - All real property used in connection with the operation of the Facilities, or acquired for the benefit of the Facilities; including any other buildings, leaseholds, improvements or fixtures.
  - All tangible personal property; including, without limitation, all major, minor and other equipment, vehicles, furniture and furnishings.
  - All supplies and inventory.
  - Patient, medical, personnel and other records of the Facilities.
  - Licenses, permits and trade names.
  - Government authorizations, to the extent transferable.
  - Any prepaid expenses and deposits that have continuing value.
  - Certain assumable contracts relating to the Facilities.
  - Intangible rights and property, including patents, trademarks, copyrights, trade secrets, know-how and other intellectual property, and going concern value, goodwill, telephone, telecopy and e-mail addresses and listings.
  - Insurance benefits, including rights and proceeds, arising prior to closing.
  - Claims against third parties.
  - SFMC’s interest in all property, arising or acquired in the ordinary course of the operation of the business of the Facilities between the date hereof and the closing.
  - All assets owned or held by St. Francis Medical Center Foundation for the benefit of SFMC and/or the Facilities.
  - All other property, whether tangible or intangible, of every kind, character or description, owned by SFMC and used or held for use in the operation of the Facilities.
  
- **Excluded Assets.** The assets listed below would be retained by SFMC:
  - Cash and cash equivalents.
  - Investments and marketable securities.
  - Board-designated, restricted and trustee-held or escrowed funds (such as funded depreciation, debt service reserves, self-insurance trusts, working capital trust assets, and assets and investments restricted as to use), other donor restricted assets, beneficial interests in charitable trusts, and accrued earnings on all of the foregoing.
  - Accounts receivable.
  - Provider numbers and agreements, collective bargaining agreements and other agreements, leases and licenses that Providence excludes from the Acquired Assets.
  - DCHS and SFMC’s corporate names.
  - Receivables due from affiliates.
  - All of SFMC’s insurance proceeds arising in connection with the operation of the Facilities.
  - All amounts due or to become due to SFMC in respect of retrospective settlements of cost reports from the Medicare, Medicaid or other payer programs in respect of periods ended on or prior to closing.
  - Other assets to be identified and mutually agreed upon in the Definitive Agreement.

- **Assumed Liabilities.** Providence would assume the following specified liabilities of SFMC (the "Assumed Liabilities"): (a) the future obligation to pay and perform obligations under the assumed leases and contracts that arise after closing (other than any liability arising out of or relating to a breach that occurred on or prior to the date of closing) and (b) current liabilities specified in the Definitive Agreements and included in the Net Working Capital adjustment.
- **Retained Liabilities.** Except for the Assumed Liabilities as the parties may agree in the Definitive Agreement, Providence will not assume and SFMC will remain responsible for, and indemnify Providence against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever, including those which relate to the sale of the Acquired Assets or the operation of the Facilities prior to the closing, including, without limitation, environmental claims or claims associated with alleged violations of environmental laws for acts prior to closing, unfunded pension liabilities, tax matters and medical malpractice or general liability claims.
- **Net Working Capital.** Providence would purchase net working capital, which is defined as inventories and prepaid expenses that have continuing value to SFMC, less assumed accrued paid time off (e.g. holiday, sick, vacation pay) and deferred revenue at closing.
- **Supplemental Revenue Receipts.** Providence recognizes that important reimbursement streams for SFMC are recorded as revenue prior to the receipt of funds from governmental payers. Examples of such supplemental reimbursement would include QAF payments. To the extent that payments on these or similar programs are received by Providence after the Closing Date but are related, in whole or in part, to activities of SFMC prior to the Closing Date, such receipts will be pro-rated between DCHS and Providence. For example, if the Closing Date were November 1, 2014 and Providence were to receive \$60 million in QAF payments for the January 1, 2014 to December 31, 2014 time period designated for SFMC, Providence would pay \$50 million ( $\$60 \text{ million} * 10/12$ ) to DCHS.
- **Collective Bargaining Agreements.** Providence will offer all employees in good standing a position at closing. Providence would work with the DCHS' existing unions and Providence's own unions in order to facilitate an orderly and collaborative transition of employees. Providence will meet and confer with the unions that represent the work groups at SFMC but will not assume DCHS' collective bargaining agreements related to SFMC.
- **Pension Plans.** Providence would not assume DCHS' pension plans and any related liabilities or obligations. At this time, we would be most comfortable completing the Transaction contingent upon a bankruptcy court rendering a sale order that expressly disclaims Providence's liability for these plan as well as all other liens, claims, or interests.
- **Due Diligence.** If selected to participate in the next round of the process, Providence would provide DCHS a supplemental due diligence list identifying additional documents not already uploaded to the DCHS data room within five business days. Upon being provided access to a fully populated data room and acknowledgement by SFMC that Providence is the preferred partner, either through an exclusivity agreement or other instrument, Providence is prepared to move expeditiously, and to commit the resources necessary, to complete its diligence review within 60 days.
- **Reverse Due Diligence.** Providence would be prepared to make available to DCHS and SFMC all information and personnel necessary, as appropriate, to assist DCHS and SFMC in their reverse due diligence process. We believe that our Catholic ministry, strong financial

position, long and stable history, high quality and patient satisfaction ratings, and commitment to serving the poor and vulnerable will differentiate us from many of the other potential partners being contemplated.

- **Timing to Close.** Based upon the bankruptcy contingency described in the Pension Plans heading, we expect that this process may take a number of months to conclude. We believe that we are well positioned, nevertheless, to receive the necessary regulatory approvals in a timely fashion, having done so recently with Providence Saint John's Health Center.

Through our recent experience in affiliating with Providence Saint John's Health Center, we are familiar with the regulatory approval processes in California and have a strong working relationship with the Office of the Attorney General, which we expect will facilitate the expeditious completion of this Transaction. Furthermore, our proposal has been reviewed at a high level with Archbishop Gomez and we expect enthusiastic support from the Diocese, which should accelerate the Catholic Church approval processes.

Thank you again for the opportunity to present our thoughts to you. We believe we would be a great partner for SFMC and look forward to moving forward in the process.

Sincerely,

A handwritten signature in blue ink that reads "Michael Butler". The signature is written in a cursive, flowing style.

Mike Butler  
President, Operations and Services