

May 21, 2014

Mr. Geoffrey Ligibel
Mr. Scott Jackson
Houlihan Loukey
123 N. Wacker Drive- 4th Floor
Chicago, Illinois

Gentlemen:

On behalf of AHMC Healthcare Inc. thank you for the opportunity to submit a second round proposal in connections with the process the Daughters of Charity Health System is conducting relative to the sale of its hospitals.

Except as provided otherwise below, the terms and condition of our Preliminary Non-Binding Expression of Interest submitted on March 21, 2014 remain applicable.

As instructed by your letter of May 1, 2014 the responses below address each of the additional elements you have requested:

1. **Purchase Agreement-** Attached is a redlined version of the proposed Asset Purchase Agreement that was submitted to us with your letter of May 1, 2014.

This redlined version articulates our position with respect to the substantive matters contained in the Definitive Agreement. While we appreciate you desire to obtain some clarity with respect to the legal position of the various bidders, it has been our experience that arriving at a final purchase document requires the initiation of a negotiation process. We are prepared to enter into such a process in good faith and with due haste.

The redlined version of the APA we have provided will provide you with guidance as to our preferred position on various matters. Please note that while we have now included in this Agreement customary indemnification provisions, we are willing to discuss reasonable economic provisions associated with this indemnity such as attachment points, deductible and basket provisions.

As indicated in our Redlined APA we propose that the transaction be structured as an asset purchase in substantial accordance with the terms set forth in the previously submitted Preliminary Nonbinding Expression of Interest (except as modified in Section 2 below).

2. **Purchase Price:** We have elected to increase the cash consideration component of our proposal and modify the future capital commitment as follow:

Total Acquisition Consideration

The total consideration for the proposed transaction will be financed internally by AHMC Healthcare and will be structured as follows:

Cash Payments

- a. The sum of *135 Million Dollars*, plus or minus the book value of the Net Working Capital (defined below) of the St Francis Medical Center Facilities (inclusive of all outpatient/ ancillary sites and the two professional building described in the Offering Memorandum), as of the Closing Date. In connection with executing an Asset Purchase Agreement AHMC Healthcare will attribute a value to the two professional buildings; however, we expect this valuation to be relatively minimal.
- b. An amount each year for a period of three years and calculated on an annual basis from the date of Closing equal to 27.5% of all net amounts received by St Francis Medical Center under the California Provider Fee Program and MediCal DSH Program (both SB 855 and SB 1255). For the purposes of this Section “net amounts” shall mean those amounts retained after payment of applicable Provider Tax and contribution of required amounts to the CHA Foundation.

The term “Net Working Capital” is defined as an amount equal to the difference between (i) the current assets of the St Francis Medical Center Facilities, which shall include only useable inventories and prepaid expenses which provide benefits to AHMC Healthcare Inc. after Closing as set forth on the unaudited balance sheet dated immediately prior to the Closing and (ii) the current liabilities of St Francis Medical Center, which shall consist only of accrued payroll and related expenses recorded consistent with historical accounting policies and practices.

(Please note that while it is not our preference to acquire the accounts receivable we are willing to evaluate doing so and discuss a proper valuation methodology for such assets.

Additionally, while we concur with the use of a Schedule to precisely identify amounts attributed to the QAF program and potentially payable as considerations, it is our understanding that at this point not all governmental approvals have been received and the amounts contained in the Schedule are only estimates and not capable of precise quantification. We will work with the Seller to develop a mutually agreeable mechanism to specify the additional consideration payable in connection with QAF and DSH funds.)

Future Capital Commitment

During the period commencing on the date of Closing and ending on the five (5) year anniversary date of Closing, AHMC Healthcare Inc. is willing to commit to invest no less than **35 Million Dollars** for capital additions and improvements, equipment, and/or working capital during such period.

3. **Sources of Capital:** The capital necessary to consummate this transaction will be internal sources. As a nearly 1 billion dollar enterprise we have sufficient access to internal capital to complete this transaction; however, we may elect to use external sources of funding from a publicly traded commercial bank that has a more than ten year history of funding AHMC Healthcare acquisitions, including the San Gabriel Medical Center and Anaheim Regional Medical Center transactions. We are prepared to provide additional details and commitment documentation regarding this source, if selected and if we elect to utilize this source of external capital.
4. **Plans with Respect to Collective Bargaining Agreements-** AHMC Healthcare has enjoyed a long and productive relationship with organized labor and we are prepared to assume the existing collective bargaining agreements.
5. **Plans with Respect to Pension Plans-** All employee benefit, retirement and pension plans would be excluded assets and not assumed as part of the transaction.
6. **Contingencies:** The Conditions to Close would be as specified in Article IX of the Redlined Asset Purchase Agreement.

Note: With respect to confirmatory diligence we are prepared to complete this activity within 30 days and this activity can be completed concurrently with negotiating and executing final definitive agreements. During this 30-day period we would identify those contracts that would require assignment and would be identified on a schedule to the Asset Purchase Agreement.

7. **Timing to Close-** We are prepared to commit to close this transaction in an expedited fashion and immediately upon receipt of all necessary regulatory approvals.

Purchase Due Diligence- We provided in our Preliminary Nonbinding Expression of Interest a detailed description of AHMC Healthcare Inc. and its affiliated entities. We have also outlined AHMC Healthcare's successful track record of acquiring other California nonprofit hospitals, securing regulatory approvals and successfully operating those hospitals on a long-term basis.

We are proud of our accomplishments in this regard and the high quality service we have provided to the numerous communities served by our hospitals. Rather than espouse our own accomplishments, we believe the best way to evaluate and validate our performance is to have independent physicians and constituents in the involved communities speak directly to representatives of the Daughters of Charity Health System. We will immediately facilitate such a meeting, if selected, as well as enable other forms of reverse diligence requested. The fiscal and operational performance of our facilities is also reflected in the detailed OSHPD reports we periodically submit and available on the State's public website

Our hospitals have received numerous awards, including being selected among the best in the nation in various specialties. Garfield Medical Center, a hospital very similar in size and scope to St Francis Medical Center, is perennially ranked as one of the highest rated hospitals in the nation in the field of cardiac services as well as in other subspecialty areas.

Central Health Plan, an affiliated organization that operates a Knox Keene Health Plan and offers a Medicare Advantage Plan, is one of the fastest growing health plans in Southern California. Recently, Central Health Plan was audited by CMS as part of its routine audit process and Central Health Plan received the fourth highest audit rating of all health plans in the United States. Central Health Plan operates in conjunction with AHMC Healthcare facilities to offer communities throughout the Southland one of the most highly integrated delivery systems in California.

We hope we have provided you with the additional information you have request. If any additional information or clarification is necessary please do not hesitate to call me directly.

Sincerely,

Eric Tuckman
Submitted on behalf of AHMC Healthcare Inc.