

AHMC Healthcare Inc.

AHMC Anaheim Regional Medical Center
Garfield Medical Center
Greater El Monte Community Hospital
Monterey Park Hospital
San Gabriel Valley Medical Center
Whittier Hospital Medical Center

55 S. Raymond Avenue, Suite 105 • Alhambra CA 91801

March 21, 2013

Mr. Geoffrey Ligibel
Mr. Scott Jackson
Houlihan Loukey
123 N Wacker Drive- 4th Floor
Chicago IL 60606

Gentlemen:

I am pleased to submit on behalf of AHMC Healthcare Inc. our preliminary nonbinding proposal to Daughters of Charity Health System in response to their Offering Memorandum seeking buyers for St Francis Medical Center.

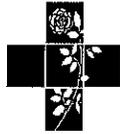
Overview of AHMC Healthcare Inc.

As one of the leading and most respected locally operated health care organizations in Southern California, with a demonstrated track record of successfully acquiring, integrating and operating essential acute care community hospitals, AHMC Healthcare Inc. is uniquely qualified and positioned to offer St Francis Medical Center a relationship that creates long-term value for the hospital, local physicians, employees and area residents.

AHMC Healthcare Inc. as a fully integrated and regionally focused health care system, well positioned for the changes associated with impending health care reform, is keenly aware of the need to optimize resources and has the demonstrated ability and capability to provide competitively priced, high-quality health care services. AHMC Healthcare Inc. has an established track record of successfully completing transactions of this type in California.

Testament to this fact is the successful transaction completed with CHW in 2008 relative to San Gabriel Valley Medical Center. Similarly, in 2009, we successfully completed the acquisition of Anaheim Memorial Medical Center, another major non-profit community based hospital in Orange County California. In each of these instances we have been warmly welcomed by all constituent groups and have expanded programs and services to the communities we serve.

As you know the Founder of AHMC Healthcare Inc., Dr. Jonathan Wu, has assembled and retained an experienced and well qualified team, lead by Eric Tuckman, who has a



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working relationship with many of the executives of Daughters of Charity Health System and who also enjoys a long standing trusted relationship with the regulatory and governmental agencies (including the California Attorney General's Office) assigned responsibility for transactions of this type.

We believe we are uniquely qualified and have more than sufficient resources available to complete this transaction in an expedited fashion. Subject to the performance of confirmatory due diligence and depending upon the review period utilized by the California Attorney General we are prepared to Close this transaction upon receipt of required regulatory and governmental approvals. We would require no longer than a 45 day due diligence period.

Our proposal outlines a structure that involves the acquisition of substantially all of the assets associated with St Francis Medical Center. We believe our proposal as presently structured provides the Daughters of Charity Health System with maximal economic value, preserves essential access to high quality services residents of the community have enjoyed for many years and delivers long-term value by creating an expanded comprehensive well-coordinated community-based regional health care delivery network.

We look forward to speaking with you in the near future and initiating the next steps outlined for this process process.

Sincerely,

Jonathan Wu M.D, PH.D
Chairman

Preliminary Non-Binding Expression of Interest

St Francis Medical Center

Description of Proposed Transaction

AHMC Healthcare Inc. (“AHMC Healthcare Inc.”) or its designated affiliate will acquire from Daughters of Charity Health System certain assets and assume identified liabilities of St Francis Medical Center relating to the operation of St Francis Medical Center, including certain businesses ancillary thereto (the “St Francis Medical Center Facilities”).

AHMC Healthcare Inc., in conjunction with its existing and affiliated health care facilities and licensed health care plan, envisions the development of an expanded regional and community based health care delivery system that stretches throughout Southern California.

With significant experience operating large urban hospitals, well-developed physician integration capabilities and extensive experience in managing defined populations utilizing risk based reimbursement AHMC Healthcare Inc. is uniquely positioned to succeed in the post reform healthcare environment.

In each of the communities we serve we enjoy unparalleled community support and appreciation due to AHMC Healthcare Inc.’s high ethical standards, commitment to quality patient care and active and direct involvement in numerous community services and activities. These organizational characteristics, along with our demonstrated track record of successful operating performance, has made AHMC Healthcare Inc. an integral and valued partner in communities throughout Southern California.

Building upon the existing base of services and organizational capabilities of AHMC Healthcare Inc. and its affiliated facilities and entities, we believe that in concert with St Francis Medical Center opportunities exists to develop new and innovative ways to deliver quality patient care, utilize and improve existing facilities to maintain current programs in the community, permit the delivery of coordinated population based medical services and maximize the efficient use of resources to permit the expansion of programs and services as part of an overall expanded regional health care delivery network.

Structure

The transaction structure AHMC Healthcare Inc. will utilize to consummate this transaction is an asset purchase agreement with customary warranties, representations, covenants and conditions and contractual terms consistent with transactions of this type and scope.

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 **125 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. For the purposes of this Preliminary Expression of Interest, AHMC Healthcare Inc. does not have sufficient information to 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.

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 **65 Million Dollars** for capital improvements, equipment, and/or working capital during such period.

Acquired Assets

Assets to be acquired or assigned include, but are not limited to (collectively, the "Assets"):

- The property, plant and equipment used in the operation of the St Francis Medical Center Facilities;
- Huntington Park Medical Office Building, Maywood Medical Office Building and the parking lot at 3663 Martin Luther King Jr. Blvd.
- St Francis Medical Center Facilities interest in any subsidiary entities, exclusive of any fundraising foundation entities.
- The St Francis Medical Center Facilities' prepaid expenses, useable inventory and supplies as of the Closing Date;
- St Francis Medical Center Facilities patient records, commercially reasonable contracts and leases, and, to the extent transferable, all licenses, accreditations and permits, including the assignment of existing provider agreements and numbers;
- Other assets (including intangibles) used in various operations supportive of and ancillary to the St Francis Medical Center Facilities' operations as mutually agreeable; including all names (exclusive of Daughters of Charity Health Services), including derivatives thereof, associated with the St Francis Medical Center Facilities.

All of the assets to be acquired or assigned shall be transferred free and clear of all liens, obligations or encumbrances of any kind.

Retained Assets

The Assets shall not include the following (the "Retained Assets").

- Cash and other investments, including assets whose use is limited;
- The St Francis Medical Center Facilities' accounts receivable, including estimated payments due under private third-party payment programs;
- Rights in bequests, donor-restricted gifts and the like.

Assumed Liabilities

Subject to due diligence, AHMC Healthcare Inc. will assume the following liabilities with respect to the St Francis Medical Center Facilities:

- Accrued payroll and related expenses;
- All commercially reasonable contracts and leases material to the St Francis Medical Center Facilities' current operations and other operating obligations of the St Francis Medical Center Facilities as mutually agreeable.

Excluded Liabilities

Liabilities to be excluded from the transaction include:

- Long-term debt and other long-term obligations (e.g. capital leases) including the current portion thereof. Daughters of Charity Health System and/or St Francis Medical Center or their respective affiliate or subsidiary entities shall be solely responsible for defeasing or otherwise extinguishing outstanding obligations such that the acquired assets are delivered at the Closing free and clear, except for expressly assumed liabilities.
- Medical malpractices liabilities to the extent arising before Closing and all liabilities related to St Francis Medical Center Facilities' employment and benefit programs;
- Daughters of Charity Health System system-wide tangibles and intangible assets
- St Francis Medical Center Foundation and its assets
- All employee benefit, retirement and pension plans, including but not limited to any defined benefit pension and post retirement plans
- All other liabilities arising prior to Closing including, without limitation, liability for all acts, omissions and occurrences prior to Closing.
- Liabilities associated with Retained Assets and other liabilities not specifically assumed.

Governance

As is its custom, AHMC Healthcare Inc. will establish a local governing body (“Governing Body”) at the St Francis Medical Center Facilities comprised of local community leader and Medical Staff members. The local Governing Body will act in a non-fiduciary capacity and will have primary responsibility for the maintenance of JCAHO requirements and ensuring quality of care.

Medical Staff

The existing Medical staff organization will continue to function in its historical role. We do not contemplate any significant changes in the activities or operations of the existing medical staff governance structure.

Pastoral Care Program

AHMC Healthcare Inc. will continue to conduct the activities of the St Francis Medical Center as a facility that maintains an “interfaith” mission. The historical policies and procedures, which have been utilized, to select chaplains and provide pastoral care services will be continued.

Charity Care and Community Benefit Programs

AHMC Healthcare Inc. recognizes and is willing to commit to the historical tradition of providing care to the underserved. In furtherance of this commitment, AHMC Healthcare Inc. will adopt St Francis Medical Center’s existing charity care practices and will contractually commit to providing historical levels of charity care and community benefit programs provided at the hospital in conformity with the methodology adopted by the California Attorney General in previous comparable transactions

Acute Care and Emergency Services

AHMC Healthcare Inc. is willing to contractually commit to the maintenance of St Francis Medical Center as an acute care facility providing a wide range of clinical services and programs to the community. AHMC Healthcare Inc. recognizes, acknowledges and will maintain the essential role the hospital serves in the delivery of emergency services to the community and as part of the County’s emergency services network.

Employee Matters

Each active St Francis Medical Center Facilities employee in good standing will be offered employment by AHMC Healthcare Inc. in accordance with AHMC Healthcare Inc.’s usual and customary policies. Employees will be given credit for length of service for purposes of determining eligibility for participation in various benefits plans and seniority consistent with AHMC Healthcare Inc.’s policies. AHMC HealthCare Inc. will

retain and honor the existing collective bargaining agreements with all labor unions representing employee bargaining units at the hospital,

Conditions to Close:

Conditions to Close will include:

- No material adverse change in operations or business prospects of the St Francis Medical Center Facilities;
- Completion of satisfactory operational, legal, fraud and abuse, and financial due diligence (diligence list to be provided separately);
- Receipt of a acceptable Phase I environmental survey to be delivered to AHMC Healthcare Inc. by St Francis Medical Center;
- Receipt of necessary state licensure and Attorney General approval;
- Receipt of an acceptable ALTA title insurance policy;
- The assignment of material contracts related to the operation of the St Francis Medical Center Facilities; and
- The approval of the Board of Directors of AHMC Healthcare Inc.

Closing Date

AHMC Healthcare Inc. is prepared to close this transaction in an expedited fashion. Consequently, subject to receipt of all regulatory and governmental approvals we are willing to negotiate a definitive purchase agreement that stipulates a Closing immediately upon receipt of such approvals and satisfaction of other mutually stipulated conditions.

THIS PROPOSAL IS A NON-BINDING EXPRESSION OF CERTAIN MATTERS ONLY FOR DISCUSSION PURPOSES AND SHALL NOT GIVE RISE TO ANY OBLIGATIONS OR LIABILITY BETWEEN THE PARTIES. UNTIL THE EXECUTION OF A MUTUALLY AGREEABLE DEFINITIVE AGREEMENT, NO BINDING AGREEMENT WILL EXIST BETWEEN THE PARTIES.