



March 21, 2014

CONFIDENTIAL

VIA EMAIL AND OVERNIGHT MAIL

BLigibel@HL.com

Daughters of Charity Health System  
c/o Geoffrey Ligibel  
Houlihan Lokey  
123 N. Wacker Drive, 4<sup>th</sup> Floor  
Chicago, IL 60606

Dear Geoff:

On behalf of Aeoro LLC (“Aeoro”), we submit this preliminary, non-binding indication of interest (the “Offer”) for the proposed transaction described herein (the “Transaction”) between Aeoro, a Delaware LLC and newly formed subsidiaries thereof (in either case, the “Buyer”), and Daughters of Charity Health System (the “DCHS”).

After consideration of the Confidential Information Memorandum, we would like to confirm our interest in moving forward to the due diligence stage of the process.

1. **Overview of Aeoro.** Aeoro is a qualified and strong candidate for the acquisition of DCHS’s hospital assets and committed to continuing the mission of healthcare service to the communities DCHS’s hospitals serve. The management team of Aeoro is comprised of healthcare professionals who have strong ties to the communities served by DCHS’s hospitals – many of them have been residents or grew up in these respective communities. Moreover, each person on the initial management team has a distinguished career of service in his/her respective profession within the healthcare industry.

***Roy Santarella, Chief Executive Officer***

Roy has 30 years of experience in healthcare at multiple not-for-profit health systems, including faith-based and non-faith based organizations. Roy’s foundation in healthcare management is rooted in his twelve years as Chief Operating Officer and Chief Financial Officer of Mercy Health System - Western Ohio (currently Catholic Health Partners). Roy experience includes tenure as CFO at Stanford Medical Center, Chief Administrative Officer at West Penn Allegheny Health System, CFO at University of Massachusetts, and CFO at Crozer Keystone. Roy was also CFO at Prime Healthcare Services, a for-profit organization based in California.



***Mark Uffer, Regional President***

Mark has more than 35 years healthcare management expertise in the for-profit, not-for-profit, and public health environment. He is skilled in a broad range of areas including: operations, budget development and control, strategic planning, physician relations and development of physician partnerships, human resource management, program design and development, joint venture development, off-site projects, management development, team building, and in designing systems to control operating expenses. As the Regional Chief Executive Officer for Prime Healthcare in 2012, Mark managed the acquisition and integration of Saint Mary's Regional Medical Center, a Dignity Healthcare facility in Reno, Nevada.

***Sharyn Alcaraz, EVP and General Counsel***

Sharyn has 20 years of experience as a business attorney and, for the last decade, has served as General Counsel of healthcare sector companies. Sharyn has served largely as General Counsel of community and critical access hospital systems/stand-alone hospitals, and investor-owned systems which integrated non-profit hospitals from Catholic Healthcare West (now Dignity Health) and MemorialCare. Sharyn served as the General Counsel for these systems during the integration and turn-around process of the not-for-profit acquisitions and she is known in Southern California as a General Counsel for profoundly distressed and turn-around hospital systems. Sharyn is currently serving as Chairman of the Board for Pacific Healthcare, one of the portfolio holdings of the largest privately held hospital groups in Europe.

***David Kiehn, CPA Chief Financial Officer***

A former healthcare partner at Ernst & Young, David has over 35 years of healthcare financial and operational leadership, including VP Financial Operations at Stanford Medical Center and Chief Financial Officer at West Penn Allegheny Health System and at LSU Academic Medical Center. David's extensive experience includes financial management, treasury, payor contracting and negotiation, service line strategy and rationalization, physician management companies, revenue cycle management, and financial restructuring and turnaround.

***Corporate President***

Aeoro's President has 27 years experience in leading revenue growth and organizational transformation in multiple industries. He has founded five and sold three companies, including a strategic consulting firm focused on corporate mergers, acquisitions, and portfolio management. Our President's experience in health care includes C-level tenure at health systems in the mid-west, where he also coordinated technology transfer and commercialization of healthcare technology innovations. Prior to founding his own companies, he served as global group president of five divisions for an international manufacturing and logistics company.



### ***Vice President, Revenue Cycle***

Aeoro's VP of Revenue Cycle has 25 years of healthcare industry experience and a national reputation in revenue cycle management, including tenure as Corporate VP Revenue Cycle Operations and VP Physician Systems at two mid-west health systems. Her expertise includes both hospital and physician revenue cycle management, billing and reimbursement including business process re-engineering, organizational restructuring, and technology-enabled collection methods. Our VP also has extensive experience in implementation and optimization of electronic medical records ("EMR"), clinical documentation and coding, meaningful use compliance, and ICD-10 compliance.

### ***Controller, CPA***

Aeoro's Controller has 23 years of experience in the healthcare field, ranging from for-profit companies such as Prime Healthcare Services to Big 4 and regional accounting firms. Our Controller has an extensive background in many aspects of healthcare finance, including reimbursement, revenue cycle management, contract modeling, financial analysis and operational improvements. He has worked with large hospital systems, multi-specialty medical groups, managed care companies, long term care facilities and visiting nurse associations.

Importantly, Roy, Mark, Sharyn and Aeoro's Controller met at Prime Healthcare Services, Inc. and understand Prime's "model." This is a model that incorporates many of the turn-around strategies that Roy, Mark and Sharyn have employed or worked with for years. The experience of this management team allows them to discern which aspects of Prime's model should be adopted and how to implement them with greater effect and improved results while maintaining faithful purpose to the organization's mission. ***It should be noted that the Prime executive responsible for leading the most successful religious non-profit acquisition turn-around by Prime Healthcare to date is Mark Uffer (St. Mary's in Reno, Nevada, formerly of Dignity Health). Mark was able to lead a team to achieve these results successfully with the least disruption to continued employment of the employee ranks of St. Mary's and with fidelity to the faith-based legacy of the organization.***

**2. Strategic Rationale.** The sale of DCHS assets to Aeoro is compelling for both DCHS and Aeoro. Aeoro has formulated a unique business model that will preserve the productivity and ensure the survival of community hospitals. Our business model is an amalgam of the deep experience of our senior executives, earned from decades of collective and individual experience with large non-profit systems and critical access and community hospital systems across the nation. Many on Aeoro's management team call and have called California – Northern California and Southern California – home, and have personal and professional interests in preserving healthcare services for its communities. Finally, the management team of Aeoro, to a person, holds personal beliefs and principals in common with the Daughters of Charity and are therefore committed to preserving the founding order's legacy.



Strategically, the sale of DCHS assets to Aeoro is equally compelling. Aeoro is not encumbered by the same challenges that will inevitably face other offerors for the DCHS system, such as summary and absolute denial or withholding of approval by the California Attorney General's office.

**3. Assets to be Acquired.** Aeoro envisions acquiring substantially all of the assets of DCHS (other than cash, cash equivalents and other assets customarily excluded) (the "Assets"), free and clear of all liens, liabilities, charges and encumbrances.

**Hospitals**

St. Francis Medical Center  
St. Vincent Medical Center  
O'Connor Hospital  
Saint Louis Regional Hospital  
Seton Medical Center  
Seton Medical Center- Coastside

**Medical Foundation**

DCHS Medical Foundation

**Medical Office Buildings**

Huntington Park Medical Office Building (St. Francis)  
Maywood Medical Office Building (St. Francis)  
St. Vincent Professional Office Building (St. Vincent)  
Ocean View Pavilion (St. Vincent)  
O'Connor Medical Office Building (O'Connor)  
Clarmar Building (O'Connor)  
Morgan Hill Medical Office Building (St. Louise)  
Serra Monte Medical Dental Building (Seton)  
Seton Medical Office Building #1 (Seton)  
Seton Medical Office Building #2 (Seton)

**Captive Insurance Company**

Conditioned upon Aeoro's satisfactory diligence review, Aeoro intends to assume the Marillac Insurance Company, Ltd.

**Caritas Business Services**

Although Aeoro will not purchase the Assets associated with Caritas Business Services ("CBS"), Aeoro will enter into a term Transition Services Agreement with DCHS for the services provided by CBS.

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**Provider Numbers**

Conditioned upon Aeoro's satisfactory diligence review, Aeoro intends to assume the provider numbers/national provider identification numbers associated with each hospital, respectively.

Aeoro's priority and intent is acquisition of the entire DCHS system, with the exception of Caritas Business Services. However, if necessary, Aeoro is willing to purchase individual or select assets.

4. **Liabilities.** Buyer shall not assume any liabilities for obligations of Seller, known or unknown, contingent or otherwise, except as otherwise considered herein.

5. **Amount and Form of Consideration.** Based on a review of the information provided to date, as the consideration for the sale of the Assets, Aeoro intends to pay DCHS an aggregate purchase price in the range of Three Hundred Twenty-Five Million Dollars (\$325,000,000) to Four Hundred Million Dollars (\$400,000,000) (the "Aggregate Purchase Price"), with the final purchase price to be determined after and subject to Aeoro's diligence review.

The Purchase Price is anticipated to be paid in cash at Closing. A percentage to be determined of the Purchase Price shall be subject to a holdback for a period of twenty-four (24) months as a non-exclusive source to satisfy Buyer's indemnification claims against Seller. The Purchase Price shall be subject to a customary working capital adjustment.

6. **Working Capital Assumption.** Aeoro will not acquire the Accounts Receivable of DCHS.

7. **Collective Bargaining Agreements and Non-Union Employee Retention.** Aeoro, upon review of any existing collective bargaining agreements, may assume the collective bargaining agreements with the intent to renegotiate the agreements with the respective union organizations.

Aeoro expects to offer employment to substantially all of DCHS's hospital employees, upon satisfactory completion of the application process, including interview/screening and background check. DCHS shall cooperate to identify employees of DCHS who are necessary or desirable for Aeoro's proposed operations, provided that Aeoro shall have no obligation to employ any employees of DCHS after the Closing.



Aeoro may offer employment or consulting agreements to DCHS system executives.

**8. Post-Retirement Obligations.** Aeoro may assume the pension plan liabilities, contingent upon its review of the pension plans and their current position(s).

**9. Treatment of Other Obligations.** Prior to the execution of the definitive Transaction agreement, DCHS shall provide Aeoro with copies of all contracts and leases of the DCHS relating to the acquired Assets, including, without limitation, managed care contracts, employment agreements, and vendor agreements. Upon execution of the definitive Transaction agreement, Aeoro shall designate which of the listed contracts and leases it shall assume at the Closing. DCHS shall be responsible for obtaining any necessary consents for the assignment of such assumed contracts and leases to Aeoro at the Closing.

**10. Sources of Capital.** Aeoro expects to fund the Transaction through a combination of third-party debt and equity in partnership with League Park Ventures, a partner of Cerberus Capital Management.

**11. Anticipated Operating Plan and Capital Commitments.** Aeoro shall make reasonable and appropriate investments in property, plant, equipment, technology and working capital to support the continued operations of the DCHS health system and anticipates committing Two Hundred Million Dollars to Three Hundred Million Dollars (\$200,000,000 - \$300,000,000) over the next three (3) years to capital expenditures.

**12. Community Service and Planned Charity Care.** Aeoro is committed to maintaining the faith-based and cultural identity of the DCHS hospitals, without exception. Consistent with this commitment, Aeoro will continue and maintain community services and programs currently provided and supported by the DCHS hospitals.

With respect to charity care, Aeoro recognizes that the adoption of robust charity care policies is beneficial to the community and to the hospital and is committed to maintaining favorable charity care policies.

**13. Process and Timing.** Aeoro will work in collaboration with DCHS and its representatives to meet the timelines prescribed in completion of facility site visits, management interviews, and due diligence.



14. **Due Diligence.** As soon as practicable after execution of this letter of intent, a diligence checklist standard to hospital asset acquisitions will be provided to Seller and Buyer, its agents, employees and representatives shall be permitted to make a full and complete due diligence review of Seller's business and affairs relating to the Assets, subject to any limitations set forth in the parties' Confidentiality Agreement.

15. **Specific Closing Conditions.** Customary conditions to be satisfied before the parties are obligated to close the Transaction, include, without limitation the following specific conditions:

(a) **Due Diligence.** Buyer shall have completed to its satisfaction its due diligence review, including, without limitation, the assets and liabilities relating thereto, and the Seller shall have furnished to Seller such information and access to such books and records and personnel as Buyer.

(b) **Regulatory Matters.** Buyer shall have received and reviewed to its satisfaction copies of all licenses, permits, and other regulatory materials and approval requirements pertaining to the acquired Assets. The Seller shall be in material compliance with all standards of licensure and other applicable legal requirements, including, without limitation, all building, zoning, occupational safety and health, environmental, and health care laws, ordinances, and regulations relating to the business, its Assets, its personnel and its operations. In addition, Buyer shall have been issued all necessary licenses, permits and approvals including, without limitation, licenses issued by CDPH and necessary for its operation of the acquired hospital Assets after the change of control contemplated hereunder.

(c) **Government, Board and Lender Approvals.** Buyer shall have received prior to the Closing all necessary governmental (including, but not limited to California Attorney General), board of director approvals and all required lender approvals.

(d) **Personnel.** Substantially all of the Seller employees to whom an offer of employment has been extended by Buyer shall have accepted employment with Buyer on the terms and conditions offered by Buyer.

(e) **Material Adverse Change.** There shall not have been any material adverse change in the condition (financial or otherwise) of the assets, properties or operations of the Assets.

16. **Indemnification.** Seller will indemnify Buyer for certain liabilities with customary limitations and terms.



17. **Advisors.** League Park Ventures and related partners may act financial advisors to Aeoro in the evaluation of this opportunity.

This letter does not constitute or create any commitment, undertaking or other binding obligation or limitation on the part of Aeoro in any respect. Only obligations set forth in fully executed and delivered definitive Transaction documents will be binding upon the parties.

Please address any correspondence or questions concerning this offer to the below contacts at League Park Ventures:

Joe Chinnici  
Chief Executive Officer

REDACTED

Joe Foley  
Director

REDACTED

This letter and this offer are strictly confidential and may not be disclosed to any party other than DCHS and their advisors without the prior written consent of Aeoro. This letter and this offer are governed by the laws of the State of Delaware.

We look forward to working with you.

Very truly yours,

Roy Santarella  
Chief Executive Officer  
AEORO LLC