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VIA EMAIL ONLY

September 12, 2014

Mr. Andrew Turnbull
Managing Director
Houlihan Lokey
123 N. Wacker Drive, 4th Floor
Chicago, IL 60606

Dear Andrew:

Attached please find an Asset Purchase Agreement (“APA”), (which is substantially complete), for the purchase of all of the assets of the Daughters of Charity Health Systems (“DCHS”) and its subsidiaries by Prospect Medical Holdings, Inc. (“Prospect”).

We believe that the APA addresses all the material issues. As discussed this afternoon, the following concepts have been incorporated into the most current draft:

Church Plan

Prospect would assume the Church Plan upon the closing of the transaction when the Church Plan is successfully modified into a compliant ERISA plan pursuant to applicable ERISA rules and regulations promulgated by the Internal Revenue Service and the PBGC.

However, if the Church Plan has not yet been modified such that it is an ERISA compliant plan by the time of the closing, then Prospect would provide sufficient cash to DCHS that DCHS could use to fully fund the Church Plan at closing. Furthermore, Prospect would also deliver a long term promissory note in favor of DCHS. DCHS could use the interest payments on promissory note to continue to fund the Church Plan for the benefit of its participants. Once the Church Plan is ERISA compliant, then Prospect would assume the Church Plan in exchange for cancelation of all outstanding principal and interest on the promissory note.

Also, upon DCHS discretion, DCHS may “merge” the Church Plan with the Multiemployer Plan (in compliance with all rules and regulations) either before or after the closing. In the event that

DCHS successfully merges the Church Plan with the Multiemployer Plan before the closing, then Prospect would assume DCCHS' obligations under the Multiemployer Plan at the closing.

Similar to the above, if the Church Plan has not yet merged with the Multiemployer Plan by the time of the closing, Prospect would provide sufficient cash to DCCHS that DCCHS could use to fully fund the Church Plan at closing. Furthermore, Prospect would also deliver a long term promissory note in favor of DCCHS. As with the previous alternative, DCCHS could use the interest payments on the promissory note to continue to fund the Church Plan for the benefit of its participants. Once the Church Plan is merged with the Multiemployer Plan after the closing, then Prospect would assume the additional obligations under the Multiemployer Plan in exchange for cancelation of all outstanding principal and interest on the promissory note.

Consulting Arrangement

Prospect requests that it be paid a consulting fee for the services it provides between the signing of the APA and the closing of the transaction. To the extent that we successfully close the transaction, there is no impact to either Prospect or DCCHS. However, to the extent that Prospect is selected by DCCHS as the buyer of the assets, and a third party succeeds (however unlikely) in interfering with our transaction, then we believe that it is only fair that Prospect to have been compensated for having improved the assets.

Prospect's Commitment to Close the Transaction

Prospect is committed to closing the transaction with DCCHS. As such, Prospect agrees that bankruptcy by DCCHS would not be considered a material adverse condition under the APA. In exchange, Prospect expects that in the event of bankruptcy that DCCHS select Prospect as the "stalking horse" bidder under Section 363 of the Bankruptcy code. Furthermore, in the event that Prospect is not successful in purchasing DCCHS' assets that Prospect be entitled to break up fee equal to 2.5% of the aggregate consideration offered by Prospect.

We recognize that choosing a buyer involves more than financial considerations and legal structures. Our proposal is about preserving and enhancing a community resource in a way that honors DCCHS's stated mission and vision.

Having said that, we believe that we have met the financial requirements and demands of DCCHS. Furthermore, we believe that we satisfy all of the criteria of DCCHS's Board of Directors as an appropriate buyer the assets set forth above. The criteria as we understand them are as follows:

- **Ability to invest in capital improvements at the facilities**

Prospect is committed to investing capital at DCCHS facilities. Prospect has agreed to invest \$300 million over five years at the DCCHS facilities.

- **Whether buyer can meet the DCCHS's timeline for the closing of the transaction.**

Prospect is committed to closing the transaction as soon as possible.

- **Ability to provide certainty of close via the Attorney General approval process**

We are unaware of any issues related to Prospect that would prohibit or even delay the approval process. Please note that Prospect recently obtained the approval of the RI Attorney General and the RI Department of Health in a similar transaction.

- **Whether Buyer can continue to meet the healthcare needs of the surrounding communities**

As you know, Prospect is an experienced and successful operator of hospitals nationally. We are committed to providing quality healthcare services to the communities we serve. Please note that similar to DCHS, Prospect operates safety net hospitals in California and is a member of PEACH.

- **The satisfaction of any sale contingencies**

Prospect has no special contingencies to the closing of the transaction, other than union approval of the arrangement related to Church Plan (if such approval is required).

- **The satisfactory treatment of the collective bargaining agreements**

Prospect agrees to recognize all collective bargaining units and to assume all current collective bargaining agreements.

- **Experience running hospital systems**

Currently, Prospect successfully operates 13 facilities with 2,258 licensed beds. Furthermore, through our IPA segment, Prospect manages the health of approximately 260,000 members.

- **Avoid Bankruptcy**

It is Prospect's intent and sincere desire to avoid subjecting DCHS to a bankruptcy proceeding as a result of transaction.

- **Financial stability and willingness to meet DCHS's Board of Directors at a fair price**

Prospect is willing and able to consummate the transaction as outlined above and as communicated to you on our call today. Furthermore, we are providing fair market value consideration for the assets and have met the pricing criteria you communicated to us.

Mr. Andrew Turnbull
Managing Director
Houlihan Lokey
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While we have completed our diligence for the transaction, we would like to continue our review of the documents in the data room as DCHS Board of Directors conducts its final selection process. Our review of documents is for the purpose of solidifying our operational plans for the DCHS system should Prospect be selected as the purchaser of the assets.

If you have any questions or comments, please do not hesitate to contact me.

We look forward to closing this transaction.

 Sincerely,


Steven M. Aleman
Chief Financial Officer
Prospect Medical Holdings
Enclosure