



PINNACLE HD

PINNACLE HEALTHCARE DEVELOPMENT

23 March 2014

Geoffrey Ligibel
Director
Houlihan Lokey

REDACTED

RE: Daughters of Charity Health System Hospitals: St. Francis Medical Center and St. Vincent Medical Center

Dear Mr. Ligibel:

We appreciate receiving the information from Houlihan Lokey adding to that which we obtained from Kaufman Hall regarding the DCHS assets, and would like to participate in the process. These challenged facilities would benefit greatly under our stewardship which combines experienced not for profit faith based hospital leaders and those with for profit system operations as well whose combined talents under physician leadership can continue to benefit the community as designed by the Daughters of Charity.

To address specifically your questions transmitted within the process letter, please reference the following:

1. Our principals are **closely related to the California Healthcare Market**, and have been so for decades. The assets in question have been previously visited by our principals. We have had the pleasure of visiting DCHS Headquarters, and engaging the Sisters and their administration. Our personal interactions and presentation left good information and evidence regarding the decades of experience embodied by our principals in hospital and system stewardship. The DCHS specific challenges regarding medical staff commitment are well understood, and will be particularly well addressed by the physician leadership of PinnacleHD. The combination of physician leadership and experienced healthcare executives differentiates our organization from others. It should give confidence to the Sisters that as a physician I too have taken a sacred oath to serve others.
2. ASSETS TO BE ACQUIRED:
 - a. O'Connor Hospital
 - b. St. Louise Regional Hospital
 - c. Seton Medical Center

- d. Seton Medical Center, Coastside
- e. St. Francis Medical Center
- f. St. Vincent Medical Center
- g. DCHS Medical Foundation
- h. Central Business Office

We are hospital operators, and recognize the value and convenience of adjacent MOB to the office facilities. However, unless the MOB is inextricable from the hospital asset, we would be more comfortable with the MOB being part of a transaction with another party. To that end, we do have several associates who would like to separately pursue MOB acquisition and may help facilitate such a relationship and transaction if so desired. The one exception is the business office which we represented to the Sisters we would want to acquire for support purposes, and we remain committed in that manner.

3. TREATMENT OF THE MEDICAL FOUNDATION

The Medical Foundation operates at a loss, but the strategic value to the associated hospitals exists as long as the system is purchased intact. Thus a purchase price of \$15M cash consideration to acquire the assets of the Foundation would be extended if PinnacleHD prevails on system acquisition. To prevail on some but not all of the LHMs would require re-evaluation of the associated physician practices and associated value to the suitor. The CIM is rather sparse on details regarding the Foundation, requiring due diligence and an associated reservation to adjust accordingly.

4. AMOUNT AND FORM OF CONSIDERATION:

Pursuant to an asset purchase agreement acceptable to Buyer And Sellers, Buyer as a holding company for its subsidiaries would agree to acquire, to the extent legally transferable, all of Sellers' right, title and interest in substantially all of the assets, tangible **or** intangible, real or personal, which are associated with or employed in connection with the business or operations of the Daughters of Charity Health System Local Health Ministries (6 total, enumerated above), "Caritas Business Office" and "Medical Foundation", with the businesses and facilities ancillary thereto (collectively, the "Hospitals"), including without limitation accounts receivable, prepaid expenses, equipment, inventory and other current assets agreed to by the parties to be included in Net Working Capital, other personal property, land, buildings and other improvements (other than Excluded Assets (defined below)) on the closing Date (collectively, the "Assets").



LHM	Transaction Value	Cash at Close	5-yr Capital Commitment
Seton Med Ctr & Coastside	\$132M	\$82M	\$50M
O'Connor	\$260M	\$190M	\$70M
Saint Louise	Incl. w/above	Incl. w/above	Incl. w/above
Saint Francis	\$390M	\$270M	\$120M
Saint Vincent	\$126M	\$66M	\$60M
Caritas & Foundation	\$15M	\$15M	
TOTAL for SYSTEM	\$923	\$623	\$300

5. WORKING CAPITAL ASSUMPTIONS:

PinnacleHD expects an asset only transaction, assuming neither cash nor working capital liabilities at the closure. This will bear further scrutiny and definition through the due diligence process and APA drafting given the rather sparse financial data initially available.

6. CBA AGREEMENTS AND NON-UNION EMPLOYEE RETENTION:

At Closing, PinnacleHD or its applicable affiliate ("Employer") would offer at will employment to all persons (other than physicians, of whom Buyer or its affiliate shall assume any existing employment agreement between Sellers and their affiliates and any such physician, subject to compliance with applicable laws and due diligence confirmation that such agreements contain reasonable terms) who are active employees of the Sellers in connection with the business or operation of the Hospital, who satisfy Employer's customary pre-employment screening procedures (each person, other than physicians, who accepts such offer of employment being referred to herein as a ("Hired Employee"). Such offers would be for positions and at wages comparable to that enjoyed by such Hired Employee immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer or its affiliates to employees at similar hospitals owned or operated by affiliates of Employer. Each Hired Employee would be eligible to participate in Employer's benefit plans with no waiting periods or pre-existing condition limitations. Seniority would be honored for all aspects of the owned or operated by affiliates of Employer. Each Hired immediately prior to Closing.



Such offers would include the opportunity to participate in employee benefit plans provided by Employer's benefit plans.

To the extent included in the calculation of Net Working Capital, the Assumed Liabilities would include the paid time off obligations of the Sellers to Hired Employees.

To the extent that there are collective bargaining agreements in place with the Seller which subject to successor clauses, the Buyer will make every attempt to either comply with the CBA in force or negotiate in good faith with permission from the Seller to arrive at a new CBA between the Buyer and parties to be executed before or simultaneously with the Definitive Purchase Agreement.

7. POST-RETIREMENT OBLIGATIONS:

PinnacleHD plans to assume the retirement benefit plans currently in place. Additional due diligence is planned for this evaluation and integration. It may well be that a plan substitution will occur over time, but retirement benefits will continue to be offered to employees in the manner to which they have become accustomed.

8. TREATMENT OF OTHER AGREEMENTS:

During the due diligence period, contracts relating to leases, service agreements, rentals, capital leases, real estate, maintenance, contract labor, and purchased services will be individually evaluated. At this time none are planned for cancellation or non-renewal but cost saving efforts will subject all contracts to careful evaluation.

9. SOURCES OF CAPITAL:

- a. Equity: GE Healthcare Finance; Sherman Financial Group LLC; Medical Properties Trust
- b. Senior Debt: GE Healthcare Finance; Stabilis Capital Management LP
- c. Real Estate Trust: Medical Properties Trust

10. ANTICIPATED OPERATING PLAN AND CAPITAL COMMITMENTS:

- a. Quality of Care and Patient Satisfaction: Commensurate with the historical performance of PinnacleHD principals and physician leadership, the highest standards of quality and patient satisfaction will be pursued relentlessly, in consort with promoting a culture of administrative, professional, and all other staff motivation, enthusiasm, dedication and alignment.



- b. Board of Trustees: The definitive purchase agreement would obligate Buyer to appoint and maintain an advisory board for the Hospital maintain an advisory board for the Hospital (the "Board of Trustees") consisting of physicians who are members of the medical staff, the Hospital's Chief Executive Officer, an individual appointed by DCHS and community representatives. Members of the Board of Trustees may attend meetings in person or participate via teleconference. In addition to those specific responsibilities of the Board of Trustees required by The Joint Commission, the Board of Trustees would approve the selection of the Hospital's Chief Executive Officer, adopt a vision, mission and values statement for the Hospital, participate in the development and review of strategic plans for the Hospital (which would include, among other matters, a physician recruitment plan), oversee medical staff issues and quality of patient care plans and performance, and identify new service and educational opportunities.

- c. Medical Staff Alignment: Buyer would adopt the Hospital's medical staff Bylaws, rules and regulation, subject to confirmation that such Bylaws, rules and regulations conform with national and regional norms (provided that the foregoing shall not prevent the buyer from proposing new Bylaws, rules and regulations for medical staff approval following the Closing). The purchase agreement will obligate the Buyer to agree that the Hospital's medical staff members in good standing as of the Closing shall maintain such medical staff privileges at the Hospital immediately following the Closing; provided, however, that this shall not limit the ability of the Buyer to great, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital's medical staff Bylaws following the Closing. PinnacleHD will develop an integration/alignment model with the Board of Trustees and Medical Staff designed to reinvigorate physician loyalty and strengthen current relationships. These models will be a result of the collective effort to evaluate and implement what is most valuable for Seton Medical Center and the community it serves.

- d. Physician Advisory Council: The purchase agreement would obligate the Buyer to establish a Physician Advisory council. This council would serve as one of the several methods by which the views and concerns of the Hospital's medical staff could be shared with the Hospital's management team.

- e. Risk Management and Quality Improvement Committee: Risk Management, Patient Safety and Quality Improvement Committees will be established by the Buyer to include select clinical and other physician members to monitor quality of care and create action plans for compliance and improvement in accordance with recognized metrics.



- f. Capital Improvement Commitment: PinnacleHD realizes the necessity of timely maintenance and required capital improvements, thus will commit between 3.0 and 6.0 % of Net Revenue per year for a 5-year period, totaling up to an Four-Hundred Million Dollar (**\$400,000,000.00**) commitment for the system. This commitment will result from the concerted efforts of PinnacleHD, the Hospital Board, Management and Physician leadership to identify and prioritize improvements.

11. COMMUNITY SERVICE AND CHARITY CARE:

The PinnacleHD commitment to assure a viable acute care hospital for the foreseeable future is unquestionable and additional service offerings will become a collaborative effort by all constituencies. Service area expansion and capture rate will receive immediate attention. Core services and programs provided by the Seller's hospital shall remain provided for five (5) years following closing. Any core service or program as named in the final purchase agreement selected for discontinuation prior to five (5) years after closing shall require the approval of the Board of Trustees.

12. PROCESS AND TIMING:

Seller will grant to Buyer an exclusivity period of 60 days to conduct due diligence, negotiate and complete definitive agreements between the parties. Extensions may be granted as mutually agreed upon if needed and necessary.

13. DUE DILIGENCE:

Industry standard due diligence will be necessary performed in conjunction with our source(s) for this planned transaction. Entrance into the "second round" and commensurate release of more detailed financial and operational data including all enforce contracts will generate any further diligence items outstanding. Anticipate 60 days for this process which will run simultaneously with Asset Purchase Agreement drafting.

14. SPECIFIC CONTINGENCIES TO CLOSURE:



- a. Tail Insurance: The purchase agreement would obligate Sellers to purchase, at their sole expense, extended reporting endorsement policies from all current liability insurance carriers at their expense, including endorsement policies for any employed physicians, in amounts satisfactory to Buyer. The parties would cooperate in connection with Sellers' obtaining such coverage.
- b. Excluded Assets: The purchase agreement would specify certain assets of the Sellers that would not be acquired, including without limitation cash, cash equivalents, including investments, restricted use assets, records which Sellers are required by law to retain and contracts that are not assumed by the Buyer ("**Excluded Assets**").
- c. Conduct of Business to Closing: Business of the Company shall be conducted in a manner totally consistent with historical practice with respect to accounts payable, inventory, collections, salaries, wages, benefits, assets and capital of any kind.
- d. Liabilities: The purchase agreement would specify certain liabilities of Sellers that would be assumed by Buyer or its designated subsidiary. Such liabilities would include the obligations of Sellers to satisfy (a) current trade accounts payable due to third parties to the extent included in the determination of Net Working Capital, (b) certain post-Closing contractual obligations acceptable to Buyer following closing, (c) post-Closing contractual obligations of Sellers in connection with existing physician employment agreements and professional services agreements with physicians (subject to compliance with applicable law and validation of fair market value compensation arrangements, each in the sole discretion of the Buyer) and (d) the paid time off obligations of Sellers to Hired Employees to the extent included in the determination of Net Working Capital (the "Assumed Liabilities").

Buyer will not assume any unusual liabilities, including without limitation legacy pension liabilities (current identified pension fund liability excluded) or guarantees of indebtedness, extraordinary past due payables or payables for goods and services incurred outside of the normal course of business, interest, penalties, and/or premium accrued on indebtedness as of the closing, neither intra or inter-company debt. The consideration also assumes that upon closing, the Company will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels.

Other than the Assumed Liabilities, the Buyer would not assume, and Sellers will remain responsible for and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind

whatsoever which relate to the business or operation of the Hospital prior to the Closing, including without limitation any governmental or third party payor claims, claims associated with alleged violations of laws, employee benefit plan liabilities, and medical malpractice or general liability claims.

15. OTHER PARTIES:

- a. GE Healthcare Finance
 - i. Senior Debt and Equity
- b. Medical Properties Trust
 - i. Real Estate Trust and Equity
- c. Sherman Financial Group LLC
 - i. Equity
- d. Stabilis Capital Management LP
 - i. Senior Debt and Equity

16. CONTACT INFORMATION:

- a. William O. Reed, Jr., MD, MBA

REDACTED

	<p>William O. Reed Jr. M... Pinnacle Healthcare Developmen... President, Board Chair REDACTED 2033 Gateway Place, 5th Floor San Jose, California, 95110 REDACTED</p>
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b. Randal L Schultz



17. Our principals have had leadership positions within not for profit **faith based** systems, specifically catholic, in the recent past.
18. Although currently pursuing our first acquisitions, the team has rescued a financially and legislatively distressed asset in Florida successfully, which was also facing a regulatory precipice in two weeks if we had not been allowed to intercede. Currently working with a distressed hospital in bankruptcy (Ch. 11) in Arizona, a turn-around situation, financially distressed.
19. Although our company is new, our principals have **experience** spanning decades who have come together under the differentiator of physician leadership to the benefit of physicians, employees and the community .
20. Please find included and Letters of Intent regarding the six LHM assets.

Sincerely,

William O. Reed, Jr., MD, MBA
President, Board Chairman

Enclosure:

- LOI DCHS



PINNACLE HEALTHCARE DEVELOPMENT

Monday, March 24, 2014

Non-Binding Letter of Intent

From

Pinnacle Healthcare Development LLC (“PinnacleHD”, or “the Buyer”) for the purchase of the Saint Francis Medical Center, asset of Daughters of Charity Health System (“DCHS” or “the Seller”)

Purchase Price: PinnacleHD is prepared to enter into a transaction for Saint Francis Medical Center acquiring all assets, with a transaction value of Three-hundred Ninety Million Dollars (\$390,000,000.00). This will be allocated into cash at closing, net working capital and capital commitments.

- 1) Transaction: Pursuant to an asset purchase agreement acceptable to Buyer And Sellers, Buyer as a holding company for its subsidiaries would agree to acquire, to the extent legally transferable, all of Sellers' right, title and interest in substantially all of the assets, tangible **or** intangible, real or personal, which are associated with or employed in connection with the business or operations of that 384 bed acute care facility located 3630 E Imperial Hwy, Lynwood, CA 90262, together with the businesses and facilities ancillary thereto (collectively, the "Hospital"), including without limitation accounts receivable, prepaid expenses, equipment, inventory and other current assets agreed to by the parties to be included in Net Working Capital, other personal property, land, buildings and other improvements (other than Excluded Assets (defined below)) on the closing Date (collectively, the “**Assets**”).
- 2) Excluded Assets: The purchase agreement would specify certain assets of the Sellers that would not be acquired, including without limitation cash, cash equivalents, including investments, restricted use assets, records which Sellers are required by law to retain and contracts that are not assumed by the Buyer (“**Excluded Assets**”).
- 3) Liabilities: The purchase agreement would specify certain liabilities of Sellers that would be assumed by Buyer or its designated subsidiary. Such liabilities would include the obligations of Sellers to satisfy (a) current trade accounts payable due to third parties to the extent included in the determination of Net Working Capital, (b) certain post-Closing contractual obligations acceptable to Buyer following closing, (c) post-Closing contractual obligations of Sellers in connection with existing physician

employment agreements and professional services agreements with physicians (subject to compliance with applicable law and validation of fair market value compensation arrangements, each in the sole discretion of the Buyer) and (d) the paid time off obligations of Sellers to Hired Employees to the extent included in the determination of Net Working Capital (the "Assumed Liabilities").

Buyer will not assume any unusual liabilities, including without limitation legacy pension liabilities (current identified pension fund liability excluded) or guarantees of indebtedness, extraordinary past due payables or payables for goods and services incurred outside of the normal course of business, interest, penalties, and/or premium accrued on indebtedness as of the closing, neither intra or inter-company debt. The consideration also assumes that upon closing, the Company will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels.

Other than the Assumed Liabilities, the Buyer would not assume, and Sellers will remain responsible for and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever which relate to the business or operation of the Hospital prior to the Closing, including without limitation any governmental or third party payor claims, claims associated with alleged violations of laws, employee benefit plan liabilities, and medical malpractice or general liability claims.

- 4) Consideration: The Purchase Price will be paid as Two-Hundred Seventy Million Dollars (**\$270,000,000.00**) in cash at closing, and assumes no debt, no capital leases or cash at closing. The consideration also assumes that upon closing, the Company(-ies) will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels. These figures are based upon 2014 CM submitted, and the right to adjust based upon updated 2014 financial during due process is reserved.
- 5) Capital Improvement Commitment: PinnacleHD senses the urgency of deferred maintenance and required capital improvements, thus will commit between 3.0% and 6.0% of Net Revenue per year for a 5-year period, totaling a One-Hundred Twenty Million Dollars (**\$120,000,000.00**) commitment. This commitment will result from the concerted efforts of PinnacleHD, the Hospital Board, Management and Physician leadership to identify and prioritize improvements.
- 6) Net Working Capital: As used herein, "**Net Working Capital**" shall mean the current assets of Sellers included within the Assets minus the current liabilities of Sellers included within the Assumed Liabilities.
- 7) Tail Insurance: The purchase agreement would obligate Sellers to purchase, at their sole expense, extended reporting endorsement policies from all current liability insurance carriers at their expense, including endorsement policies for any employed



physicians, in amounts satisfactory to Buyer. The parties would cooperate in connection with Sellers' obtaining such coverage.

- 8) Employees: At Closing, PinnacleHD or its applicable affiliate ("Employer") would offer at will employment to all persons (other than physicians, of whom Buyer or its affiliate shall assume any existing employment agreement between Sellers and their affiliates and any such physician, subject to compliance with applicable laws and due diligence confirmation that such agreements contain reasonable terms) who are active employees of the Sellers in connection with the business or operation of the Hospital, who satisfy Employer's customary pre-employment screening procedures (each person, other than physicians, who accepts such offer of employment being referred to herein as a ("Hired Employee")). Such offers would be for positions and at wages comparable to that enjoyed by such Hired Employee immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer or its affiliates to employees at similar hospitals owned or operated by affiliates of Employer. Each Hired Employee would be eligible to participate in Employer's benefit plans with no waiting periods or pre-existing condition limitations. Seniority would be honored for all aspects of the owned or operated by affiliates of Employer. Each Hired immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer's benefit plans.

To the extent included in the calculation of Net Working Capital, the Assumed Liabilities would include the paid time off obligations of the Sellers to Hired Employees.

To the extent that there are collective bargaining agreements in place with the Seller which subject to successor clauses, the Buyer will make every attempt to either comply with the CBA in force or negotiate in good faith with permission from the Seller to arrive at a new CBA between the Buyer and parties to be executed before or simultaneously with the Definitive Purchase Agreement.

- 9) Board of Trustees: The definitive purchase agreement would obligate Buyer to appoint and maintain an advisory board for the Hospital maintain an advisory board for the Hospital (the "Board of Trustees") consisting of physicians who are members of the medical staff, the Hospital's Chief Executive Officer, an individual appointed by DCHS and community representatives. Members of the Board of Trustees may attend meetings in person or participate via teleconference. In addition to those specific responsibilities of the Board of Trustees required by The Joint Commission, the Board of Trustees would approve the selection of the Hospital's Chief Executive Officer, adopt a vision, mission and values statement for the Hospital, participate in the development and review of strategic plans for the Hospital (which would include, among other matters, a physician recruitment plan), oversee medical staff issues and quality of patient care plans and performance, and identify new service and educational opportunities.

- 10) Medical Staff Alignment: Buyer would adopt the Hospital’s medical staff Bylaws, rules and regulation, subject to confirmation that such Bylaws, rules and regulations conform with national and regional norms (provided that the foregoing shall not prevent the buyer from proposing new Bylaws, rules and regulations for medical staff approval following the Closing). The purchase agreement will obligate the Buyer to agree that the Hospital’s medical staff members in good standing as of the Closing shall maintain such medical staff privileges at the Hospital immediately following the Closing; provided, however, that this shall not limit the ability of the Buyer to great, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital’s medical staff Bylaws following the Closing. PinnacleHD will develop an integration/alignment model with the Board of Trustees and Medical Staff designed to reinvigorate physician loyalty and strengthen current relationships. These models will be a result of the collective effort to evaluate and implement what is most valuable for Seton Medical Center and the community it serves.
- 11) Physician Advisory Council: The purchase agreement would obligate the Buyer to establish a Physician Advisory council. This council would serve as one of the several methods by which the views and concerns of the Hospital’s medical staff could be shared with the Hospital’s management team.
- 12) Risk Management and Quality Improvement Committee: Risk Management, Patient Safety and Quality Improvement Committees will be established by the Buyer to include select clinical and other physician members to monitor quality of care and create action plans for compliance and improvement in accordance with recognized metrics.
- 13) Continuity of Community Service and Indigent Care: The PinnacleHD commitment to assure a viable acute care hospital for the foreseeable future is unquestionable and additional service offerings will become a collaborative effort by all constituencies. Service area expansion and capture rate will receive immediate attention. Core services and programs provided by the Seller’s hospital shall remain provided for five (5) years following closing. Any core service or program as named in the final purchase agreement selected for discontinuation prior to five (5) years after closing shall require the approval of the Board of Trustees.
- 14) Service expansion: PinnacleHD is committed to the concerted effort to grow the Primary Care base of the hospital through its recruitment efforts and alignment with existing primary care base. A comprehensive recruitment plan and structure will be developed and implemented with significant physician engagement. Surgical Specialists and Services will be expanded to accommodate additional cases and surgical specialty strength through recruitment and augmentation of current staff.



- 15) Quality of Care and Patient Satisfaction: Commensurate with the historical performance of PinnacleHD principals and physician leadership, the highest standards of quality and patient satisfaction will be pursued relentlessly, in consort with promoting a culture of administrative, professional, and all other staff motivation, enthusiasm, dedication and alignment.
- 16) Source of Funds: Buyer will make suitable indication or confirmation of available capital source upon acceptance of this letter of intent, and “second round” invitation extended to Buyer.
- 17) Exclusivity Period: Seller will grant to Buyer an exclusivity period of 60 days to conduct due diligence, negotiate and complete definitive agreements between the parties. Extensions may be granted as mutually agreed upon if needed and necessary.
- 18) Conditions to Closing:
- a) Completion of remaining due diligence
 - b) Mutually satisfactory Definitive Purchase Agreement and related documents constructed
 - c) Confirmation of all governmental and regulatory approvals for transaction, and no legal transaction preclusions of any kind.
 - d) Sellers and any successors thereto would execute noncompetition and non-solicitation agreements in favor of Buyer on terms and conditions agreeable to the parties.
- 19) Physician Relations: Seller will provide and facilitate an opportunity for PinnacleHD to be introduced to the medical staff members, and employees of Seller in forums, locations, and timing to be discussed for the purpose of establishing and confirming synergy opportunities necessary for a bilaterally successful relationship.
- 20) Conduct of Business to Closing: Business of the Company shall be conducted in a manner totally consistent with historical practice with respect to accounts payable, inventory, collections, salaries, wages, benefits, assets and capital of any kind.
- 21) Representation and Warranties: Definitive agreements between the parties will include provisions for the joint and several indemnification of Buyer by Sellers and any successors) thereto with respect to: (i) breaches of the Sellers' representations, warranties and covenants; (ii) excluded assets and liabilities not assumed by Buyer; (iii) Sellers' ownership or operation of the assets prior to the effective time of the Closing the "Effective Time"); or (iv) Sellers' acts or omissions prior to the Effective Time. The purchase agreement also would contain provisions for the indemnification of Sellers by Buyer with respect to: (i) reaches of the Buyer's representations, warranties and covenants; and (ii) any liabilities assumed by Buyer.
- 22) Obligations: This proposal is not to be construed as complete, as there are matters to be decided and resolved within a Definitive Purchase Agreement requiring execution

for the transaction to be consummated. Nothing herein is to be construed as a legally binding offer by Buyer or final acceptance by Seller.

- 23) Expiration: This proposal will expire on June 15th, 2014 if PinnacleHD has not received communication from seller regarding direction and progression of this transaction.

Signature Page Follows:



Agreed and accepted on preceding date indicated:

Pinnacle Healthcare Development LLC

Daughters of Charity Health System



Name: William O. Reed, Jr., M.D.

Title: President, Board Chairman

Name:

Title:



PINNACLE HEALTHCARE DEVELOPMENT

Monday, March 24, 2014

Non-Binding Letter of Intent

From

Pinnacle Healthcare Development LLC (“PinnacleHD”, or “the Buyer”) for the purchase of the Saint Vincent Medical Center, asset of Daughters of Charity Health System (“DCHS” or “the Seller”)

Purchase Price: PinnacleHD is prepared to enter into a transaction for Saint Vincent Medical Center acquiring all assets, with a transaction value of One-hundred Twenty-Six Million Dollars (**\$126,000,000.00**). This will be allocated into cash at closing, net working capital and capital commitments.

- 1) Transaction: Pursuant to an asset purchase agreement acceptable to Buyer And Sellers, Buyer as a holding company for its subsidiaries would agree to acquire, to the extent legally transferable, all of Sellers' right, title and interest in substantially all of the assets, tangible **or** intangible, real or personal, which are associated with or employed in connection with the business or operations of that 366 bed acute care facility located 2131 W 3rd St, Los Angeles, CA 90057, together with the businesses and facilities ancillary thereto (collectively, the "Hospital"), including without limitation accounts receivable, prepaid expenses, equipment, inventory and other current assets agreed to by the parties to be included in Net Working Capital, other personal property, land, buildings and other improvements (other than Excluded Assets (defined below)) on the closing Date (collectively, the “**Assets**”).
- 2) Excluded Assets: The purchase agreement would specify certain assets of the Sellers that would not be acquired, including without limitation cash, cash equivalents, including investments, restricted use assets, records which Sellers are required by law to retain and contracts that are not assumed by the Buyer (“**Excluded Assets**”).
- 3) Liabilities: The purchase agreement would specify certain liabilities of Sellers that would be assumed by Buyer or its designated subsidiary. Such liabilities would include the obligations of Sellers to satisfy (a) current trade accounts payable due to third parties to the extent included in the determination of Net Working Capital, (b) certain post-Closing contractual obligations acceptable to Buyer following closing, (c) post-Closing contractual obligations of Sellers in connection with existing physician

employment agreements and professional services agreements with physicians (subject to compliance with applicable law and validation of fair market value compensation arrangements, each in the sole discretion of the Buyer) and (d) the paid time off obligations of Sellers to Hired Employees to the extent included in the determination of Net Working Capital (the "Assumed Liabilities").

Buyer will not assume any unusual liabilities, including without limitation legacy pension liabilities (current identified pension fund liability excluded) or guarantees of indebtedness, extraordinary past due payables or payables for goods and services incurred outside of the normal course of business, interest, penalties, and/or premium accrued on indebtedness as of the closing, neither intra or inter-company debt. The consideration also assumes that upon closing, the Company will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels.

Other than the Assumed Liabilities, the Buyer would not assume, and Sellers will remain responsible for and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever which relate to the business or operation of the Hospital prior to the Closing, including without limitation any governmental or third party payor claims, claims associated with alleged violations of laws, employee benefit plan liabilities, and medical malpractice or general liability claims.

- 4) Consideration: The Purchase Price will be paid as Sixty-Six Million Dollars (**\$66,000,000.00**) in cash at closing, and assumes no debt, no capital leases or cash at closing. The consideration also assumes that upon closing, the Company(-ies) will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels. These figures are based upon 2014 CM submitted, and the right to adjust based upon updated 2014 financial during due process is reserved.
- 5) Capital Improvement Commitment: PinnacleHD senses the urgency of deferred maintenance and required capital improvements, thus will commit between 3.0% and 6.0% of Net Revenue per year for a 5-year period, totaling a Sixty Million Dollars (**\$60,000,000.00**) commitment. This commitment will result from the concerted efforts of PinnacleHD, the Hospital Board, Management and Physician leadership to identify and prioritize improvements.
- 6) Net Working Capital: As used herein, "**Net Working Capital**" shall mean the current assets of Sellers included within the Assets minus the current liabilities of Sellers included within the Assumed Liabilities.
- 7) Tail Insurance: The purchase agreement would obligate Sellers to purchase, at their sole expense, extended reporting endorsement policies from all current liability insurance carriers at their expense, including endorsement policies for any employed

physicians, in amounts satisfactory to Buyer. The parties would cooperate in connection with Sellers' obtaining such coverage.

- 8) Employees: At Closing, PinnacleHD or its applicable affiliate ("Employer") would offer at will employment to all persons (other than physicians, of whom Buyer or its affiliate shall assume any existing employment agreement between Sellers and their affiliates and any such physician, subject to compliance with applicable laws and due diligence confirmation that such agreements contain reasonable terms) who are active employees of the Sellers in connection with the business or operation of the Hospital, who satisfy Employer's customary pre-employment screening procedures (each person, other than physicians, who accepts such offer of employment being referred to herein as a ("Hired Employee")). Such offers would be for positions and at wages comparable to that enjoyed by such Hired Employee immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer or its affiliates to employees at similar hospitals owned or operated by affiliates of Employer. Each Hired Employee would be eligible to participate in Employer's benefit plans with no waiting periods or pre-existing condition limitations. Seniority would be honored for all aspects of the owned or operated by affiliates of Employer. Each Hired immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer's benefit plans.

To the extent included in the calculation of Net Working Capital, the Assumed Liabilities would include the paid time off obligations of the Sellers to Hired Employees.

To the extent that there are collective bargaining agreements in place with the Seller which subject to successor clauses, the Buyer will make every attempt to either comply with the CBA in force or negotiate in good faith with permission from the Seller to arrive at a new CBA between the Buyer and parties to be executed before or simultaneously with the Definitive Purchase Agreement.

- 9) Board of Trustees: The definitive purchase agreement would obligate Buyer to appoint and maintain an advisory board for the Hospital maintain an advisory board for the Hospital (the "Board of Trustees") consisting of physicians who are members of the medical staff, the Hospital's Chief Executive Officer, an individual appointed by DCHS and community representatives. Members of the Board of Trustees may attend meetings in person or participate via teleconference. In addition to those specific responsibilities of the Board of Trustees required by The Joint Commission, the Board of Trustees would approve the selection of the Hospital's Chief Executive Officer, adopt a vision, mission and values statement for the Hospital, participate in the development and review of strategic plans for the Hospital (which would include, among other matters, a physician recruitment plan), oversee medical staff issues and quality of patient care plans and performance, and identify new service and educational opportunities.

- 10) Medical Staff Alignment: Buyer would adopt the Hospital’s medical staff Bylaws, rules and regulation, subject to confirmation that such Bylaws, rules and regulations conform with national and regional norms (provided that the foregoing shall not prevent the buyer from proposing new Bylaws, rules and regulations for medical staff approval following the Closing). The purchase agreement will obligate the Buyer to agree that the Hospital’s medical staff members in good standing as of the Closing shall maintain such medical staff privileges at the Hospital immediately following the Closing; provided, however, that this shall not limit the ability of the Buyer to great, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital’s medical staff Bylaws following the Closing. PinnacleHD will develop an integration/alignment model with the Board of Trustees and Medical Staff designed to reinvigorate physician loyalty and strengthen current relationships. These models will be a result of the collective effort to evaluate and implement what is most valuable for Seton Medical Center and the community it serves.
- 11) Physician Advisory Council: The purchase agreement would obligate the Buyer to establish a Physician Advisory council. This council would serve as one of the several methods by which the views and concerns of the Hospital’s medical staff could be shared with the Hospital’s management team.
- 12) Risk Management and Quality Improvement Committee: Risk Management, Patient Safety and Quality Improvement Committees will be established by the Buyer to include select clinical and other physician members to monitor quality of care and create action plans for compliance and improvement in accordance with recognized metrics.
- 13) Continuity of Community Service and Indigent Care: The PinnacleHD commitment to assure a viable acute care hospital for the foreseeable future is unquestionable and additional service offerings will become a collaborative effort by all constituencies. Service area expansion and capture rate will receive immediate attention. Core services and programs provided by the Seller’s hospital shall remain provided for five (5) years following closing. Any core service or program as named in the final purchase agreement selected for discontinuation prior to five (5) years after closing shall require the approval of the Board of Trustees.
- 14) Service expansion: PinnacleHD is committed to the concerted effort to grow the Primary Care base of the hospital through its recruitment efforts and alignment with existing primary care base. A comprehensive recruitment plan and structure will be developed and implemented with significant physician engagement. Surgical Specialists and Services will be expanded to accommodate additional cases and surgical specialty strength through recruitment and augmentation of current staff.



- 15) Quality of Care and Patient Satisfaction: Commensurate with the historical performance of PinnacleHD principals and physician leadership, the highest standards of quality and patient satisfaction will be pursued relentlessly, in consort with promoting a culture of administrative, professional, and all other staff motivation, enthusiasm, dedication and alignment.
- 16) Source of Funds: Buyer will make suitable indication or confirmation of available capital source upon acceptance of this letter of intent, and “second round” invitation extended to Buyer.
- 17) Exclusivity Period: Seller will grant to Buyer an exclusivity period of 60 days to conduct due diligence, negotiate and complete definitive agreements between the parties. Extensions may be granted as mutually agreed upon if needed and necessary.
- 18) Conditions to Closing:
- a) Completion of remaining due diligence
 - b) Mutually satisfactory Definitive Purchase Agreement and related documents constructed
 - c) Confirmation of all governmental and regulatory approvals for transaction, and no legal transaction preclusions of any kind.
 - d) Sellers and any successors thereto would execute noncompetition and non-solicitation agreements in favor of Buyer on terms and conditions agreeable to the parties.
- 19) Physician Relations: Seller will provide and facilitate an opportunity for PinnacleHD to be introduced to the medical staff members, and employees of Seller in forums, locations, and timing to be discussed for the purpose of establishing and confirming synergy opportunities necessary for a bilaterally successful relationship.
- 20) Conduct of Business to Closing: Business of the Company shall be conducted in a manner totally consistent with historical practice with respect to accounts payable, inventory, collections, salaries, wages, benefits, assets and capital of any kind.
- 21) Representation and Warranties: Definitive agreements between the parties will include provisions for the joint and several indemnification of Buyer by Sellers and any successors) thereto with respect to: (i) breaches of the Sellers' representations, warranties and covenants; (ii) excluded assets and liabilities not assumed by Buyer; (iii) Sellers' ownership or operation of the assets prior to the effective time of the Closing the "Effective Time"); or (iv) Sellers' acts or omissions prior to the Effective Time. The purchase agreement also would contain provisions for the indemnification of Sellers by Buyer with respect to: (i) reaches of the Buyer's representations, warranties and covenants; and (ii) any liabilities assumed by Buyer.
- 22) Obligations: This proposal is not to be construed as complete, as there are matters to be decided and resolved within a Definitive Purchase Agreement requiring execution

for the transaction to be consummated. Nothing herein is to be construed as a legally binding offer by Buyer or final acceptance by Seller.

- 23) Expiration: This proposal will expire on June 15th, 2014 if PinnacleHD has not received communication from seller regarding direction and progression of this transaction.

Signature Page Follows:



Agreed and accepted on preceding date indicated:

Pinnacle Healthcare Development LLC

Daughters of Charity Health System



Name: William O. Reed, Jr., M.D.

Title: President, Board Chairman

Name:

Title:



PINNACLE HEALTHCARE DEVELOPMENT

Monday, March 24, 2014

Non-Binding Letter of Intent

Superseding previous LOI's

From

Pinnacle Healthcare Development LLC (“PinnacleHD”, or “the Buyer”)

for the purchase of the

St. Louise Regional Hospital, and O’Connor Hospital,

assets of Daughters of Charity Health System (“DCHS” or “the Seller”)

Purchase Price: PinnacleHD is prepared to enter into a transaction for St. Louise Regional Hospital and O’Connor Hospital, acquiring all assets and licenses, with a transaction value of Two-Hundred Sixty Million Dollars (**\$260,000,000.00**). This will be allocated into cash at closing, net working capital and capital commitments.

- 1) Transaction: Pursuant to an asset purchase agreement acceptable to Buyer And Sellers, Buyer as a holding company for its subsidiaries would agree to acquire, to the extent legally transferable, all of Sellers' right, title and interest in substantially all of the assets, tangible **or** intangible, real or personal, which are associated with or employed in connection with the business or operations of that 358 bed acute care facility located 2107 Forest Avenue, San Jose, CA, 95128 and a 72 bed acute care facility located at 9400 No Name Uno Gilroy, CA 95020, together with the businesses and facilities ancillary thereto (collectively, the "Hospitals"), including without limitation accounts receivable, prepaid expenses, equipment, inventory and other current assets agreed to by the parties to be included in Net Working Capital, other personal property, land, buildings and other improvements (other than Excluded Assets (defined below)) on the closing Date (collectively, the “**Assets**”).
- 2) Excluded Assets: The purchase agreement would specify certain assets of the Sellers that would not be acquired, including without limitation cash, cash equivalents, including investments, restricted use assets, records which Sellers are required by law to retain and contracts that are not assumed by the Buyer (“**Excluded Assets**”).

- 3) Liabilities: The purchase agreement would specify certain liabilities of Sellers that would be assumed by Buyer or its designated subsidiary. Such liabilities would include the obligations of Sellers to satisfy (a) current trade accounts payable due to third parties to the extent included in the determination of Net Working Capital, (b) certain post-Closing contractual obligations acceptable to Buyer following closing, (c) post-Closing contractual obligations of Sellers in connection with existing physician employment agreements and professional services agreements with physicians (subject to compliance with applicable law and validation of fair market value compensation arrangements, each in the sole discretion of the Buyer) and (d) the paid time off obligations of Sellers to Hired Employees to the extent included in the determination of Net Working Capital (the "Assumed Liabilities").

Buyer will not assume any unusual liabilities, including without limitation legacy pension liabilities (current identified pension fund liability excluded) or guarantees of indebtedness, extraordinary past due payables or payables for goods and services incurred outside of the normal course of business, interest, penalties, and/or premium accrued on indebtedness as of the closing, neither intra or inter-company debt. The consideration also assumes that upon closing, the Company will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels.

Other than the Assumed Liabilities, the Buyer would not assume, and Sellers will remain responsible for and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever which relate to the business or operation of the Hospital prior to the Closing, including without limitation any governmental or third party payor claims, claims associated with alleged violations of laws, employee benefit plan liabilities, and medical malpractice or general liability claims.

- 4) Consideration: The Purchase Price will be paid as One-Hundred Ninety Million Dollars (**\$190,000,000.00**) in cash at closing, and assumes no debt, no capital leases or cash at closing. The consideration also assumes that upon closing, the Company(-ies) will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels. These figures are based upon 2014CM submitted, and the right to adjust based upon updated 2014 financial during due process is reserved.
- 5) Capital Improvement Commitment: PinnacleHD senses the urgency of deferred maintenance and required capital improvements, thus will commit between \$11.0 and \$14.0 MM per year for a 5-year period, totaling a Seventy Million Dollars (**\$70,000,000.00**) commitment. This commitment will result from the concerted efforts of PinnacleHD, the Hospital Board, Management and Physician leadership to identify and prioritize improvements.



- 6) Net Working Capital: As used herein, "**Net Working Capital**" shall mean the current assets of Sellers included within the Assets minus the current liabilities of Sellers included within the Assumed Liabilities.

- 7) Tail Insurance: The purchase agreement would obligate Sellers to purchase, at their sole expense, extended reporting endorsement policies from all current liability insurance carriers at their expense, including endorsement policies for any employed physicians, in amounts satisfactory to Buyer. The parties would cooperate in connection with Sellers' obtaining such coverage.

- 8) Employees: At Closing, PinnacleHD or its applicable affiliate ("Employer") would offer at will employment to all persons (other than physicians, of whom Buyer or its affiliate shall assume any existing employment agreement between Sellers and their affiliates and any such physician, subject to compliance with applicable laws and due diligence confirmation that such agreements contain reasonable terms) who are active employees of the Sellers in connection with the business or operation of the Hospital, who satisfy Employer's customary pre-employment screening procedures (each person, other than physicians, who accepts such offer of employment being referred to herein as a ("Hired Employee")). Such offers would be for positions and at wages comparable to that enjoyed by such Hired Employee immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer or its affiliates to employees at similar hospitals owned or operated by affiliates of Employer. Each Hired Employee would be eligible to participate in Employer's benefit plans with no waiting periods or pre-existing condition limitations. Seniority would be honored for all aspects of the owned or operated by affiliates of Employer. Each Hired immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer's benefit plans.

To the extent included in the calculation of Net Working Capital, the Assumed Liabilities would include the paid time off obligations of the Sellers to Hired Employees.

To the extent that there are collective bargaining agreements in place with the Seller which subject to successor clauses, the Buyer will make every attempt to either comply with the CBA in force or negotiate in good faith with permission from the Seller to arrive at a new CBA between the Buyer and parties to be executed before or simultaneously with the Definitive Purchase Agreement.

- 9) Board of Trustees: The definitive purchase agreement would obligate Buyer to appoint and maintain an advisory board for the Hospital maintain an advisory board for the Hospital (the "Board of Trustees") consisting of physicians who are members of the medical staff, the Hospital's Chief Executive Officer, an individual appointed by DCHS and community representatives. Members of the Board of Trustees may attend meetings in person or participate via teleconference. In addition to those

specific responsibilities of the Board of Trustees required by The Joint Commission, the Board of Trustees would approve the selection of the Hospital's Chief Executive Officer, adopt a vision, mission and values statement for the Hospital, participate in the development and review of strategic plans for the Hospital (which would include, among other matters, a physician recruitment plan), oversee medical staff issues and quality of patient care plans and performance, and identify new service and educational opportunities.

- 10) Medical Staff Alignment: Buyer would adopt the Hospital's medical staff Bylaws, rules and regulation, subject to confirmation that such Bylaws, rules and regulations conform with national and regional norms (provided that the foregoing shall not prevent the buyer from proposing new Bylaws, rules and regulations for medical staff approval following the Closing). The purchase agreement will obligate the Buyer to agree that the Hospital's medical staff members in good standing as of the Closing shall maintain such medical staff privileges at the Hospital immediately following the Closing; provided, however, that this shall not limit the ability of the Buyer to great, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital's medical staff Bylaws following the Closing. PinnacleHD will develop an integration/alignment model with the Board of Trustees and Medical Staff designed to reinvigorate physician loyalty and strengthen current relationships. These models will be a result of the collective effort to evaluate and implement what is most valuable for Seton Medical Center and the community it serves.

- 11) Physician Advisory Council: The purchase agreement would obligate the Buyer to establish a Physician Advisory council. This council would serve as one of the several methods by which the views and concerns of the Hospital's medical staff could be shared with the Hospital's management team.

- 12) Risk Management and Quality Improvement Committee: Risk Management, Patient Safety and Quality Improvement Committees will be established by the Buyer to include select clinical and other physician members to monitor quality of care and create action plans for compliance and improvement in accordance with recognized metrics.

- 13) Continuity of Community Service and Indigent Care: The PinnacleHD commitment to assure a viable acute care hospital for the foreseeable future is unquestionable and additional service offerings will become a collaborative effort by all constituencies. Service area expansion and capture rate will receive immediate attention. Core services and programs provided by the Seller's hospital shall remain provided for five (5) years following closing. Any core service or program as named in the final purchase agreement selected for discontinuation prior to five (5) years after closing shall require the approval of the Board of Trustees.



- 14) Service expansion: PinnacleHD is committed to the concerted effort to grow the Primary Care base of the hospital through its recruitment efforts and alignment with existing primary care base. A comprehensive recruitment plan and structure will be developed and implemented with significant physician engagement. Surgical Specialists and Services will be expanded to accommodate additional cases and surgical specialty strength through recruitment and augmentation of current staff.
- 15) Quality of Care and Patient Satisfaction: Commensurate with the historical performance of PinnacleHD principals and physician leadership, the highest standards of quality and patient satisfaction will be pursued relentlessly, in consort with promoting a culture of administrative, professional, and all other staff motivation, enthusiasm, dedication and alignment.
- 16) Source of Funds: Buyer will make suitable indication or confirmation of available capital source upon acceptance of this letter of intent, and facilitate direct contact as requested with sources for the buyer as requested by the seller during the due diligence process.
- 17) Exclusivity Period: The Buyer understands and accepts that presently exclusivity is neither offered or implied during the due diligence process prior to execution of a definitive purchase agreement.
- 18) Conditions to Closing:
- a) Completion of remaining due diligence
 - b) Mutually satisfactory Definitive Purchase Agreement and related documents constructed
 - c) Confirmation of all governmental and regulatory approvals for transaction, and no legal transaction preclusions of any kind.
 - d) Sellers and any successors thereto would execute noncompetition and non-solicitation agreements in favor of Buyer on terms and conditions agreeable to the parties.
- 19) Physician Relations: Seller will provide and facilitate an opportunity for PinnacleHD to be introduced to the medical staff members, and employees of Seller in forums, locations, and timing to be discussed for the purpose of establishing and confirming synergy opportunities necessary for a bilaterally successful relationship.
- 20) Conduct of Business to Closing: Business of the Company shall be conducted in a manner totally consistent with historical practice with respect to accounts payable, inventory, collections, salaries, wages, benefits, assets and capital of any kind.
- 21) Representation and Warranties: Definitive agreements between the parties will include provisions for the joint and several indemnification of Buyer by Sellers and any successors) thereto with respect to: (i) breaches of the Sellers' representations, warranties and covenants; (ii) excluded assets and liabilities not

assumed by Buyer; (iii) Sellers' ownership or operation of the assets prior to the effective time of the Closing the "Effective Time"); or (iv) Sellers' acts or omissions prior to the Effective Time. The purchase agreement also would contain provisions for the indemnification of Sellers by Buyer with respect to: (i) reaches of the Buyer's representations, warranties and covenants; and (ii) any liabilities assumed by Buyer.

- 22) Obligations: This proposal is not to be construed as complete, as there are matters to be decided and resolved within a Definitive Purchase Agreement requiring execution for the transaction to be consummated. Nothing herein is to be construed as a legally binding offer by Buyer or final acceptance by Seller.
- 23) Expiration: This proposal will expire on June 15th, 2014 if PinnacleHD has not received communication from seller regarding direction and progression of this transaction.

Signature Page Follows:



Agreed and accepted on preceding date indicated:

Pinnacle Healthcare Development LLC

Daughters of Charity Health System



Name: William O. Reed, Jr., M.D.

Title: President, Board Chairman

Name:

Title:



PINNACLE HEALTHCARE DEVELOPMENT

Monday, March 24, 2014

Non-Binding Letter of Intent

From

Pinnacle Healthcare Development LLC (“PinnacleHD”, or “the Buyer”) for the purchase of the Seton Medical Center and Seton Medical Center Coastside, assets of Daughters of Charity Health System (“DCHS” or “the Seller”)

Purchase Price: PinnacleHD is prepared to enter into a transaction for Seton Medical Center and Seton Coastside acquiring all assets, with a transaction value of One-hundred Thirty-Two Million Dollars (**\$132,000,000.00**). This will be allocated into cash at closing, net working capital and capital commitments.

- 1) Transaction: Pursuant to an asset purchase agreement acceptable to Buyer And Sellers, Buyer as a holding company for its subsidiaries would agree to acquire, to the extent legally transferable, all of Sellers' right, title and interest in substantially all of the assets, tangible **or** intangible, real or personal, which are associated with or employed in connection with the business or operations of that 357 bed acute care facility located 1900 Sullivan Ave, Daly City, CA, 94015 and 600 Marine Blvd, Moss Beach, CA, 94038, together with the businesses and facilities ancillary thereto (collectively, the "Hospital"), including without limitation accounts receivable, prepaid expenses, equipment, inventory and other current assets agreed to by the parties to be included in Net Working Capital, other personal property, land, buildings and other improvements (other than Excluded Assets (defined below)) on the closing Date (collectively, the “**Assets**”).
- 2) Excluded Assets: The purchase agreement would specify certain assets of the Sellers that would not be acquired, including without limitation cash, cash equivalents, including investments, restricted use assets, records which Sellers are required by law to retain and contracts that are not assumed by the Buyer (“**Excluded Assets**”).
- 3) Liabilities: The purchase agreement would specify certain liabilities of Sellers that would be assumed by Buyer or its designated subsidiary. Such liabilities would include the obligations of Sellers to satisfy (a) current trade accounts payable due to third parties to the extent included in the determination of Net Working Capital, (b) certain post-Closing contractual obligations acceptable to Buyer following closing,(c)

post-Closing contractual obligations of Sellers in connection with existing physician employment agreements and professional services agreements with physicians (subject to compliance with applicable law and validation of fair market value compensation arrangements, each in the sole discretion of the Buyer) and (d) the paid time off obligations of Sellers to Hired Employees to the extent included in the determination of Net Working Capital (the "Assumed Liabilities").

Buyer will not assume any unusual liabilities, including without limitation legacy pension liabilities (current identified pension fund liability excluded) or guarantees of indebtedness, extraordinary past due payables or payables for goods and services incurred outside of the normal course of business, interest, penalties, and/or premium accrued on indebtedness as of the closing, neither intra or inter-company debt. The consideration also assumes that upon closing, the Company will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels.

Other than the Assumed Liabilities, the Buyer would not assume, and Sellers will remain responsible for and indemnify Buyer against, any and all liabilities, indebtedness, commitments or obligations of any kind whatsoever which relate to the business or operation of the Hospital prior to the Closing, including without limitation any governmental or third party payor claims, claims associated with alleged violations of laws, employee benefit plan liabilities, and medical malpractice or general liability claims.

- 4) Consideration: The Purchase Price will be paid as Eighty-Two Million Dollars (\$82,000,000.00) in cash at closing, and assumes no debt, no capital leases or cash at closing. The consideration also assumes that upon closing, the Company(-ies) will have a normalized level of net working capital necessary to operate the business per revenue projections and historical levels. These figures are based upon 2014 CM submitted, and the right to adjust based upon updated 2014 financial during due process is reserved.
- 5) Capital Improvement Commitment: PinnacleHD senses the urgency of deferred maintenance and required capital improvements, thus will commit between \$6.0 and \$10.0 MM per year for a 5-year period, totaling a Fifty Million Dollars (\$50,000,000.00) commitment. This commitment will result from the concerted efforts of PinnacleHD, the Hospital Board, Management and Physician leadership to identify and prioritize improvements.
- 6) Net Working Capital: As used herein, "**Net Working Capital**" shall mean the current assets of Sellers included within the Assets minus the current liabilities of Sellers included within the Assumed Liabilities.
- 7) Tail Insurance: The purchase agreement would obligate Sellers to purchase, at their sole expense, extended reporting endorsement policies from all current liability

insurance carriers at their expense, including endorsement policies for any employed physicians, in amounts satisfactory to Buyer. The parties would cooperate in connection with Sellers' obtaining such coverage.

- 8) Employees: At Closing, PinnacleHD or its applicable affiliate ("Employer") would offer at will employment to all persons (other than physicians, of whom Buyer or its affiliate shall assume any existing employment agreement between Sellers and their affiliates and any such physician, subject to compliance with applicable laws and due diligence confirmation that such agreements contain reasonable terms) who are active employees of the Sellers in connection with the business or operation of the Hospital, who satisfy Employer's customary pre-employment screening procedures (each person, other than physicians, who accepts such offer of employment being referred to herein as a ("Hired Employee")). Such offers would be for positions and at wages comparable to that enjoyed by such Hired Employee immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer or its affiliates to employees at similar hospitals owned or operated by affiliates of Employer. Each Hired Employee would be eligible to participate in Employer's benefit plans with no waiting periods or pre-existing condition limitations. Seniority would be honored for all aspects of the owned or operated by affiliates of Employer. Each Hired immediately prior to Closing. Such offers would include the opportunity to participate in employee benefit plans provided by Employer's benefit plans.

To the extent included in the calculation of Net Working Capital, the Assumed Liabilities would include the paid time off obligations of the Sellers to Hired Employees.

To the extent that there are collective bargaining agreements in place with the Seller which subject to successor clauses, the Buyer will make every attempt to either comply with the CBA in force or negotiate in good faith with permission from the Seller to arrive at a new CBA between the Buyer and parties to be executed before or simultaneously with the Definitive Purchase Agreement.

- 9) Board of Trustees: The definitive purchase agreement would obligate Buyer to appoint and maintain an advisory board for the Hospital maintain an advisory board for the Hospital (the "Board of Trustees") consisting of physicians who are members of the medical staff, the Hospital's Chief Executive Officer, an individual appointed by DCHS and community representatives. Members of the Board of Trustees may attend meetings in person or participate via teleconference. In addition to those specific responsibilities of the Board of Trustees required by The Joint Commission, the Board of Trustees would approve the selection of the Hospital's Chief Executive Officer, adopt a vision, mission and values statement for the Hospital, participate in the development and review of strategic plans for the Hospital (which would include, among other matters, a physician recruitment plan), oversee medical staff issues and

- quality of patient care plans and performance, and identify new service and educational opportunities.
- 10) Medical Staff Alignment: Buyer would adopt the Hospital’s medical staff Bylaws, rules and regulation, subject to confirmation that such Bylaws, rules and regulations conform with national and regional norms (provided that the foregoing shall not prevent the buyer from proposing new Bylaws, rules and regulations for medical staff approval following the Closing). The purchase agreement will obligate the Buyer to agree that the Hospital’s medical staff members in good standing as of the Closing shall maintain such medical staff privileges at the Hospital immediately following the Closing; provided, however, that this shall not limit the ability of the Buyer to grant, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital’s medical staff Bylaws following the Closing. PinnacleHD will develop an integration/alignment model with the Board of Trustees and Medical Staff designed to reinvigorate physician loyalty and strengthen current relationships. These models will be a result of the collective effort to evaluate and implement what is most valuable for Seton Medical Center and the community it serves.
 - 11) Physician Advisory Council: The purchase agreement would obligate the Buyer to establish a Physician Advisory council. This council would serve as one of the several methods by which the views and concerns of the Hospital’s medical staff could be shared with the Hospital’s management team.
 - 12) Risk Management and Quality Improvement Committee: Risk Management, Patient Safety and Quality Improvement Committees will be established by the Buyer to include select clinical and other physician members to monitor quality of care and create action plans for compliance and improvement in accordance with recognized metrics.
 - 13) Continuity of Community Service and Indigent Care: The PinnacleHD commitment to assure a viable acute care hospital for the foreseeable future is unquestionable and additional service offerings will become a collaborative effort by all constituencies. Service area expansion and capture rate will receive immediate attention. Core services and programs provided by the Seller’s hospital shall remain provided for five (5) years following closing. Any core service or program as named in the final purchase agreement selected for discontinuation prior to five (5) years after closing shall require the approval of the Board of Trustees.
 - 14) Service expansion: PinnacleHD is committed to the concerted effort to grow the Primary Care base of the hospital through its recruitment efforts and alignment with existing primary care base. A comprehensive recruitment plan and structure will be developed and implemented with significant physician engagement. Surgical Specialists and Services will be expanded to accommodate additional cases and surgical specialty strength through recruitment and augmentation of current staff.



- 15) Quality of Care and Patient Satisfaction: Commensurate with the historical performance of PinnacleHD principals and physician leadership, the highest standards of quality and patient satisfaction will be pursued relentlessly, in consort with promoting a culture of administrative, professional, and all other staff motivation, enthusiasm, dedication and alignment.
- 16) Source of Funds: Buyer will make suitable indication or confirmation of available capital source upon acceptance of this letter of intent, and “second round” invitation extended to Buyer.
- 17) Exclusivity Period: Seller will grant to Buyer an exclusivity period of 60 days to conduct due diligence, negotiate and complete definitive agreements between the parties. Extensions may be granted as mutually agreed upon if needed and necessary.
- 18) Conditions to Closing:
- a) Completion of remaining due diligence
 - b) Mutually satisfactory Definitive Purchase Agreement and related documents constructed
 - c) Confirmation of all governmental and regulatory approvals for transaction, and no legal transaction preclusions of any kind.
 - d) Sellers and any successors thereto would execute noncompetition and non-solicitation agreements in favor of Buyer on terms and conditions agreeable to the parties.
- 19) Physician Relations: Seller will provide and facilitate an opportunity for PinnacleHD to be introduced to the medical staff members, and employees of Seller in forums, locations, and timing to be discussed for the purpose of establishing and confirming synergy opportunities necessary for a bilaterally successful relationship.
- 20) Conduct of Business to Closing: Business of the Company shall be conducted in a manner totally consistent with historical practice with respect to accounts payable, inventory, collections, salaries, wages, benefits, assets and capital of any kind.
- 21) Representation and Warranties: Definitive agreements between the parties will include provisions for the joint and several indemnification of Buyer by Sellers and any successors) thereto with respect to: (i) breaches of the Sellers' representations, warranties and covenants; (ii) excluded assets and liabilities not assumed by Buyer; (iii) Sellers' ownership or operation of the assets prior to the effective time of the Closing the "Effective Time"); or (iv) Sellers' acts or omissions prior to the Effective Time. The purchase agreement also would contain provisions for the indemnification of Sellers by Buyer with respect to: (i) reaches of the Buyer's representations, warranties and covenants; and (ii) any liabilities assumed by Buyer.

- 22) Obligations: This proposal is not to be construed as complete, as there are matters to be decided and resolved within a Definitive Purchase Agreement requiring execution for the transaction to be consummated. Nothing herein is to be construed as a legally binding offer by Buyer or final acceptance by Seller.
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Signature Page Follows:



Agreed and accepted on preceding date indicated:

Pinnacle Healthcare Development LLC

Daughters of Charity Health System



Name: William O. Reed, Jr., M.D.

Title: President, Board Chairman

Name:

Title: