



March 21, 2014

Geoffrey Ligibel
Director
Houlihan Lokey

Via E-Mail

Scott Jackson
Director
Houlihan Lokey

Via E-Mail

Dear Mr. Ligibel and Mr. Jackson:

Alecto Healthcare Services LLC ("Alecto") is pleased to submit the following preliminary proposal to acquire substantially all of the assets of the Daughters of Charity Health System ("DCHS"). We believe that a transaction with Alecto presents several unique benefits to DCHS including the following:

- (1) Alecto is in a unique position to ensure the future success of the hospitals it seeks to acquire because, as a new organization with a great deal of flexibility, it can bring about change at the hospitals and forge new relationships with labor unions and other third parties;
- (2) Alecto can navigate the Attorney General review process expeditiously having received approval approximately one (1) year ago from the Attorney General to manage and purchase St. Rose Hospital in Hayward, California;
- (3) Alecto's senior management team has unmatched experience in acquiring hospitals in California in an expedited and smooth manner and will bring this experience to this transaction so that the transaction can be consummated expeditiously and without unforeseen obstacles; and
- (4) Medical Properties Trust ("MPT"), a publicly traded real estate investment trust has expressed a willingness to fund the purchase price and working capital needs of Alecto with respect to its purchase of the hospitals such that financing will not be an issue.

We believe that the benefits described above make Alecto the ideal candidate with which to pursue a transaction and have set forth the terms and conditions of Alecto's proposal in more detail below.

1. Description of Alecto Healthcare Services

A. Overview and Management Team

Alecto was formed August 2012 in order to improve upon the nation's healthcare infrastructure one hospital at a time. During the past year, Alecto has assembled an experienced and well-respected leadership team that has unmatched experience acquiring and managing acute care hospitals. Alecto's senior executives have more than 100 years of experience in healthcare, have played critical roles in the acquisition of twenty (20) acute care hospitals, and have successfully managed acute care hospitals in four different states. Alecto's senior leadership team includes:

- **Lex Reddy, MHA, MBA** – Chief Executive Officer – Lex has served as Alecto's Chief Executive Office since its inception. Prior to forming Alecto, Lex served as the President and Chief Executive Officer of one of the largest health systems in the country and was responsible for its growth from a one hospital system to a 16 hospital system that was recognized as a Top 10 Health System in the Nation by Thomson Reuters. Lex has more than 25 years of experience in healthcare and has particular experience in saving distressed hospitals.

- **Roger Krissman, MBA** – Chief Financial Officer – Roger has served as Alecto's Chief Financial Officer since its inception. Prior to joining Alecto, Roger served in senior leadership roles at a variety of health systems, hospitals, and providers including more than 9 years as the Chief Financial Officer of one of the largest health systems in the country with more than \$1.5 Billion in Net Revenue. Roger has more than 30 years of hospital finance experience.

- **Panch Jeyakumar, M.D., FACP, FCCP** - Chief Medical Officer – Dr. Jeyakumar is a board certified pulmonologist and critical care specialist who has practiced critical care medicine for more than 30 years. Prior to joining Alecto, Dr. Jeyakumar maintained an active practice and served as the medical director for several large medical groups, IPAs, and hospitals. Dr. Jeyakumar also serves on the faculty at the University of California, Irvine's Medical School.

- **Michael Sarrao, Esq.** – Chief Legal Officer – Mike has served as Alecto's Chief Legal Officer since January 2013. Prior to joining Alecto, Mike served as Senior Vice-President and General Counsel of one of the largest health systems in the nation where he was responsible for all legal matters including the acquisition of 18 hospitals across the United States. Mike has been a member of the California Bar since 1996 and has more than 15 years of healthcare experience.

B. Mission

Through its commitment to integrity and innovation, Alecto's mission is to improve upon the nation's healthcare infrastructure one hospital at a time. Alecto also recognizes that while each hospital presents a unique set of challenges, the solutions always involve a strong commitment to the hospital's employees, the physicians in the community, and the patients who seek care at the hospital. Alecto takes great pride in its commitment not only to hospitals, but also the communities in which they exist.

C. Acute Care Experience

Members of Alecto's management team has served in senior leadership roles with the respect to the ownership and operation of more than eighteen (18) acute care hospitals in four different states and are widely regarded as excellent hospital operators. In addition, Alecto has assembled an operations team that has more than 100 years of combined experience in all aspects of hospital operations including nursing, finance, medical staff, quality and performance improvement, laboratory and respiratory services, health information management, and information technology.

D. Alecto's Hospitals

Olympia Medical Center

Alecto owns and operates Olympia Medical Center, a 204 bed acute care hospital located in Los Angeles, California. Olympia maintains an active emergency department and provides a full array of both inpatient and outpatient services to meet the healthcare needs of the community with more than 400 medical staff members.

St. Rose Hospital

Alecto manages St. Rose Hospital, a 217 bed nonprofit acute care hospital located in Hayward, California, and has an option to purchase the hospital. Alecto's management agreement and option to purchase the hospital have been approved by California Attorney General Kamala Harris.

Since assuming the management of St. Rose in October 2012, Alecto has made substantial progress towards securing the long-term future of St. Rose by, among other things:

- Rebuilding the relationship between St. Rose, Alameda County's Board of Supervisors, Alameda County's Health Care Services Agency, and Alameda Alliance Health Plan so that St. Rose is now viewed as an integral part of the healthcare delivery system in Alameda County;
- Developing a strong relationship with the medical staff which has, among other things, eased the transition to computerized physician order entry and resulted in more than 40 new physicians seeking to join the medical staff in recent months including several in much needed specialties;

- Improving efficiencies at St. Rose so that emergency department wait times now average 30 minutes or less compared to more than 6 hours just nine months ago, more patients can be seen in the emergency department each day, and care is provided in a more cost-effective manner; and
- Improving St. Rose's financial condition by closely scrutinizing all aspects of the hospital's operations and eliminating waste, reducing operating costs, and taking advantage of untapped sources of revenue.

2. Assets to be Acquired

Alecto seeks to acquire substantially all of the assets of DCHS including (a) all of the assets related to O'Connor Hospital ("O'Connor"), Saint Louise Regional Medical Center ("Saint Louise"), Seton Medical Center ("Seton"), Seton Medical Center Coastside ("Seton Coastside"), St. Francis Medical Center ("St. Francis"), and St. Vincent Medical Center ("St. Vincent" and together with O'Connor, Saint Louise, Seton, Seton Coastside, and St. Francis, the "Acquired Hospitals"); (b) Caritas Business Services ("Caritas"); (c) the assets of the DCHS Medical Foundation (the "Medical Foundation"); (d) the medical office buildings associated with the Acquired Hospitals (the "Acquired MOB's"); and (e) the vacant hospital property in Morgan Hill (collectively, the "Acquired Assets"). Alecto would expect to assume the provider numbers associated with each of the Acquired Hospitals.

3. Treatment of the Medical Foundation

Alecto seeks to acquire the assets of the Medical Foundation. Alecto believes that there are several different structures available which would allow Alecto or an affiliate to acquire the assets in a legally compliant manner.

4. Amount and Form of Consideration

Subject to completion of due diligence, the purchase price to be paid by Alecto to DCHS in cash at closing would be (a) \$300 Million minus (b) the accrued payroll, accrued payroll taxes, and accrued paid time off assumed by Alecto as of the Closing Date minus (c) any other adjustments to the purchase price agreed to by the parties. At this time, Alecto is not in a position to allocate a part of the purchase price to the Acquired MOB's but has arrived at preliminary valuations of the assets as follows: (1) O'Connor and Saint Louise along with related medical office buildings = \$80 Million; (2) Seton, Seton Coastside, and related medical office buildings = \$50 Million; (3) St. Vincent and related medical office buildings = \$50 Million; (4) St. Francis and related medical office buildings = \$80 Million; (5) Medical Foundation = \$15 Million; and (6) Caritas = \$5 Million. Alecto would be willing to discuss certain of the medical office buildings and/or other assets being included among the excluded assets.

5. Working Capital Assumption

Alecto would expect to acquire all of the working capital assets associated with the Acquired Assets. Alecto would only assume the accrued payroll, accrued payroll taxes, and accrued paid time off for the employees hired/retained by Alecto in an amount equal to the credit against the purchase price received by Alecto.

6. CBA Agreements and Non-Union Employee Retention

Alecto would hire/retain substantially all of the employees of the Acquired Hospitals, Caritas, and the Medical Foundation. Subject to agreements being reached with the labor unions as to certain modifications to the agreements, Alecto would assume the existing collective bargaining agreements applicable to the employees hired/retained by Alecto. Although Alecto has not yet had the opportunity to complete its due diligence with respect to the CBAs, Alecto anticipates that the modifications would need to address the Acquired Hospitals no longer being part of DCHS, the non-assumption of the post-retirement obligations, the conversion from a defined benefit plan to a defined contribution plan, and other similar issues that may be identified during due diligence. Alecto would look to negotiate and reach agreements with the labor unions on these modifications during the due diligence period so that this condition can be satisfied well in advance of closing.

7. Post-Retirement Obligations

Alecto would not assume any of DCHS' post-retirement obligations. Alecto will offer a 401(k) plan for the hired/retained employees with an employer match.

8. Treatment of Other Agreements

Subject to completion of due diligence, Alecto anticipates that it would seek to assume certain material contracts and leases, including health plan contracts, related to the Acquired Assets.

9. Sources of Capital

Alecto will finance the transaction with a combination of cash on hand and debt and/or sale/leaseback financing with Medical Properties Trust being the expected lender.

10. Anticipated Operating Plan and Capital Commitment

As noted above, Alecto recognizes that while each hospital presents a unique set of challenges, the solutions always involve a strong commitment to the hospital's employees, the physicians in the community, and the patients who seek care at the hospital. The essential elements of Alecto's operating plan with respect to the Acquired Assets include:

- Working with San Mateo County, Daly City, and other interested stakeholders to develop a collaborative plan that ensures the survival of Seton as an acute care hospital;

- Remaining committed to DCHS' mission of providing quality health care to all members of the community and improving upon the already high quality of care provided at the Acquired Hospitals;
- Prudent investment of capital to replace and/or update existing equipment, information systems, and infrastructure;
- Maintaining the Acquired Hospitals as a place for independent community physicians to practice while at the same time developing relationships with larger physician groups and IPAs;
- Like it has done at St. Rose Hospital and Olympia Medical Center, implementing proven protocols designed to reduce unnecessary costs and eliminate inefficiencies so that the Acquired Hospitals are low cost efficient providers of quality healthcare to all members of the community;
- Expanding existing relationships (and developing new relationships) with local physicians and other healthcare providers in order to meet the healthcare needs of the communities served by the Acquired Hospitals; and
- Maintaining strong community involvement and support for the Acquired Hospitals by including community leaders on governing boards and working with the community to identify the needs of the community that can be met by the Acquired Hospitals.

As part of its operating plan, Alecto expects to invest no less than \$50 Million during the first five (5) years after closing in the Acquired Hospitals.

11. Community Service and Charity Care

Subject to adjustments for the impact of the Affordable Care Act, Alecto will provide community services and charity care at the Acquired Hospitals at levels consistent which are consistent with the historical levels of community services and charity care provided by the Acquired Hospitals.

12. Process and Timing

Alecto anticipates the following timing with respect to the proposed transaction:

Task	Timing
Completion of Due Diligence	April 30, 2014 or 30 days after being provided full access to diligence materials
Negotiation and Drafting of Asset Purchase Agreement	Concurrent with due diligence
Execution of Asset Purchase Agreement	May 15, 2014 or 15 days after completion of due diligence
Submission to Attorney General	May 31, 2014 or 15 days after execution of Asset Purchase Agreement
Regulatory Approvals including Attorney General Approval	August 15, 2014 or 75 days after submission to Attorney General
Closing	August 31, 2014 or 15 days after receipt of regulatory approvals

While this timeline is aggressive, Alecto believes it can be executed because: (a) Alecto's senior leadership team has unmatched experience in the acquisition of hospitals as they have played lead roles in the acquisition of more than twenty (20) hospitals including fourteen (14) in California alone which means that due diligence, negotiation of definitive documents, and execution of the transaction will not be unduly delayed; (b) Alecto recently went through the Attorney General review process with respect to St. Rose Hospital and the Attorney General's familiarity with Alecto will undoubtedly expedite the evaluation of this transaction; (c) Alecto's leadership has vast experience with the regulatory/licensing process as well as long standing relationships with various regulatory agencies that will prove invaluable to obtaining the necessary regulatory approvals; (d) Alecto is prepared to draft and negotiate the terms of the Asset Purchase Agreement while it is performing due diligence; and (e) Alecto does not have a complicated internal review process and can and will obtain any and all internal approvals prior to execution of definitive documents.

13. Due Diligence

In order to submit a binding offer and execute a final definitive document related to the transaction, Alecto will require the following due diligence:

- (a) Access to all material contracts, leases, and commitments related to the Acquired Assets;
- (b) Access to all financial information including without limitation audited and unaudited financial statements for DCHS and the Acquired Assets;
- (c) Access to operating statistics and reports for DCHS and the Acquired Assets;
- (d) Access to senior management at DCHS and the Acquired Hospitals to review and discuss the financial and operational performance of the Acquired Assets;

- (e) Access to medical staff leaders at the Acquired Hospitals;
- (f) Meetings with representatives of San Mateo County, Daly City, and other interested stakeholders to discuss and develop a plan that ensures that long-term survival of Seton as an acute care hospital;
- (g) Access to the Medicare and Medicaid Cost Reports for the Acquired Hospitals and a summary of the RAC findings to date;
- (h) Access to the Acquired Hospitals and Acquired MOBs for the purposes of performing walk-throughs and assessments as to the condition of the real property and improvements;
- (i) Access to title reports and surveys for the Acquired Assets;
- (j) Access to employee rosters which include position and wage information for all employees expected to be retained by Alecto provided that the names of the employees may be redacted;
- (k) Access to the HR policies and procedures for the Acquired Hospitals, Caritas, and the Medical Foundation, including pay practices;
- (l) Access to all CBAs;
- (m) Meetings with representatives of the relevant labor unions to discuss modifications to the CBAs; and
- (n) Access to information regarding all ongoing projects at the Acquired Hospitals including without limitation the emergency department project at St. Vincent.

14. Specific Contingencies to Closure

Consummation of the transactions contemplated by this proposal will be subject to the following conditions:

- (a) Approval by all necessary federal, state, and other regulatory agencies, without imposition of materially burdensome conditions on the parties;
- (b) Approval by the Attorney General for the State of California, without imposition of materially burdensome conditions on the parties;
- (c) Purchaser reaching an agreement with existing labor unions on certain modifications to the existing collective bargaining agreements (“CBAs”). As noted above, Alecto would look to negotiate and reach agreements with the labor unions during the due diligence period so that this condition could be satisfied prior to execution of the definitive asset purchase agreement;

(d) Obtaining third party consents to the assignment of certain specified material contracts and leases without imposition of materially burdensome conditions on the parties; and

(e) Other customary warranties, representations, conditions, covenants and agreements for a transaction of this type.

15. Other Parties

Alecto does not anticipate the participation of any other parties in the consummation of the transaction other than Medical Properties Trust providing financing for Alecto.

16. Contact Information.

All inquiries related to this proposal should be made to the following individuals:

Roger Krissman
Chief Financial Officer

REDACTED

REDACTED

REDACTED

Michael Sarrao
Executive Vice-President & General Counsel

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REDACTED

We are excited about this opportunity to acquire certain of DCHS' assets and believe such a transaction will be beneficial to all parties. Please let us know when we can meet with you and DCHS to discuss our proposal in more detail. In the meantime, please call me at (949) 398-8358 (Office) or (949) 689-2243 (Cell) with any questions.

Sincerely,



Michael J. Sarrao
Executive Vice-President & Chief Legal Officer

Enclosures

cc: Lex Reddy, President & Chief Executive Officer, Alecto Healthcare Services
Roger Krissman, Chief Financial Officer, Alecto Healthcare Services
Panch Jeyakumar, M.D., Chief Medical Officer, Alecto Healthcare Services