August 3, 2018

Via E-Mail
Cain Brothers
601 California Street, Suite 1505
San Francisco, California 94108
Attn: Carsten Beith, Managing Director
Jim Moloney, Managing Director
Ben Herbert, Director
Elizabeth Kim, Vice-President
Chris McMillan, Vice-President

Re: Verity Health Systems

Dear Mr. Beith, Mr. Moloney, Mr. Herbert, Ms. Kim, and Mr. McMillan:

Alecto Healthcare Services LLC ("Alecto") is pleased to submit the following preliminary proposal to acquire substantially all of the assets of St. Francis Medical Center ("SFMC"), St. Vincent Medical Center ("SVMC"), O'Connor Hospital ("OCH"), St. Louise Regional Hospital ("SLH"), Seton Medical Center ("SMC"), Seton Medical Center Coastside ("SMC-C") (SFMC, SVMC, OCH, SLH, SMC, and SMC-C shall hereinafter be referred to collectively as the "Acquired Hospitals"), and the real estate owned by Verity Holdings, LLC that is related to the operations of the Acquired Hospitals.[1] We believe that a transaction with Alecto presents several unique benefits to Verity and each of the communities served by the Acquired Hospitals including the following:

(1) Alecto is in a unique position to ensure the future success of the hospitals it seeks to acquire because 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 from the Attorney General to manage and purchase St. Rose Hospital in Hayward, California; and

(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

[1] If there are other parties that seek to acquire some, but not all of the Acquired Hospitals, Alecto is willing to consider a transaction that does not include all of the Acquired Hospitals.

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this transaction so that the transaction can be consummated expeditiously and without unforeseen obstacles; and

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. Overview 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. 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 more than twenty-five (25) 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. Mike has served as lead counsel in connection with the acquisition of more than twenty-five (25) hospitals across the United States. Mike has been a member of the California Bar since 1996 and has more than 17 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 twenty-five (25) 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

Hospital	Location	Licensed Beds	Date Acquired
St. Rose Hospital	Hayward, California	217	October 2012[2]
Olympia Medical Center	Los Angeles, California	204	December 2013
Fairmont Regional Medical Center	Fairmont, West Virginia	207	September 2014
Wilson N. Jones Regional Medical Center	Sherman, Texas	222	October 2014
Ohio Valley Medical Center	Wheeling, West Virginia	218	June 2017
East Ohio Regional Hospital	Martins Ferry, Ohio	140	June 2017

2. Transaction Structure

Alecto anticipates that the transaction would be structured as an asset purchase with Alecto's subsidiaries acquiring substantially all of the assets of the Acquired Hospitals and the hospital related real estate owned by Verity Holdings[3] and assuming the Acquired Hospital's liabilities for accrued payroll, accrued payroll taxes, and accrued paid time off (the "Accrued Payroll Liabilities"). The assets to be acquired would include the Acquired Hospitals' working capital assets other than cash. Except for the Accrued Payroll Liabilities, Alecto would not assume any liabilities as part of the transaction.

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[2] Alecto provides management services to St. Rose Hospital, a non-profit hospital, pursuant to a management agreement approved by then Attorney General Kamala Harris. Alecto also has an option to purchase St. Rose.

[3] Subject to completion of due diligence, the hospital related real estate owned by Verity Holdings that would be acquired by Alecto would include all of the real estate identified on pages 113-115 of the CIM except for the vacant land located in Clearlake Oaks, California, the Twenty-Nine Palms Property, and the vacant land located in San Bernardino, California, all of which that are listed on page 115 of the CIM.

Given the limited time to review the diligence materials in the data room and the number of uncertainties regarding this transaction (i.e., the impact of the Attorney General conditions and the ability to secure reasonable modifications to the same, the dynamics of acquiring the Acquired Hospitals but not the system, and successor liability issues surrounding the post-retirement obligations), Alecto is not in a position to set forth a definitive purchase price at this time. However, with further diligence, Alecto will be able to set forth a definitive purchase price which would consist of cash consideration at closing minus the amount of the Accrued Payroll Liabilities assumed by Alecto at closing and any other purchase price adjustments agreed to by the parties. If a definitive purchase price is required to allow Alecto to continue with the process, please contact us immediately.

3. Financing

Alecto expects to finance this transaction with a combination of new and existing credit facilities and/or contributions from other capital partners. Alecto anticipates that this financing would be in place within forty-five (45) days after execution of the definitive agreement and well before the Attorney General has approved the transaction.

4. System Executive Leadership and Hospital Executive Leadership

Alecto has historically retained the executive leadership team at the hospitals it has acquired and sought to integrate system leadership into the Alecto team. Alecto anticipates that it would follow a similar approach with this transaction but would like the opportunity to meet with the leadership team to better understand their vision for the Acquired Hospitals.

5. Strategic Plan for Acquired Hospitals

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 Hospitals include:

Remaining committed to Verity's 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 its other hospitals, 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.

6. Treatment of Collective Bargaining Agreements

Alecto would hire substantially all of the employees of the Acquired Hospitals and, 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. 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 prior to execution of the definitive documents.

7. Treatment of Post-Retirement Obligations

Alecto would not assume any of Verity's (or the Acquired Hospitals') post-retirement obligations. Rather, Alecto will offer a 401(k) plan for the hired/retained employees with an employer match.

8. Required Approvals

The execution of the definitive agreement and the closing of the transaction are subject to the approval of Alecto's Board of Managers, which consists of Lex Reddy, Roger Krissman, and Michael Sarrao, and Alecto's members, all of whom will be involved in the transaction. There will be no delays in obtaining such approvals.

9. Due Diligence

Attached hereto is a due diligence request list setting forth the information Alecto will need to review prior to completing due diligence and executing a definitive agreement.

10. Contingencies

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. 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 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;

(e) Execution of a transition services agreement which provides Alecto and the Acquired Hospitals with access to certain services currently provided at the System Office and VBS for a reasonable period of time. Alecto anticipates that such services would primarily include IT services and patient financial services; and

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

11. Key Contact Information.

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

Lex Reddy
Chief Executive Officer
lexreddy@alectohealthcare.com
(760) 963-5255

Michael Sarrao
Executive Vice-President & General Counsel
msarrao@sarraolaw.com
(949) 398-8358 (Office)
(949) 689-2243 (Cell)

We are excited about this opportunity to acquire Verity's hospitals and believe such a transaction will be beneficial to all parties. Please let us know when we can meet with you and Verity to discuss our proposal and this transaction. 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 & General Counsel

Enclosure
cc: Lex Reddy, President & Chief Executive Officer, Alecto Healthcare Services
Roger Krissman, Chief Financial Officer, Alecto Healthcare Services
Steven Kay, Esq., Kay & Merkle

Due Diligence List

Item No.	Subject Matter	Comments	Status
1	**Real Property**		
1.1	Phase 1 Environmental Survey		
1.2	Title Report for all Owned Real Property		
1.3	List of Leases where a Seller Party is Lessor and Opportunity to Review Leases		
1.4	List of Leases where a Seller Party is Lessee and Opportunity to Review Leases		
1.5	List of any agreements that encumber or restrict use of any owned property		
1.6	List of Approved Capital Expenditures		
1.7	List of Capital Expenditures in Last 3 Years		
1.8	Copies of any prior environmental and engineering surveys/reports		
1.9	Copies any reports/records related to presence of asbestos		
1.10	Copies of any site plans, soil tests, etc.		
1.11	Copies of any zoning approvals		
1.12	Property Tax Statements for current and prior two years		
1.13	Any zoning approvals		
2	**Organizational**		
2.1	Articles of Incorporation and bylaws or similar governing documents and any amendments thereto for each Seller Party:		
2.2	List of all subsidiaries and related entities		
2.3	Copy of all community need assessments prepared by hospitals in the past 3 years		
2.4	Organizational Chart for all entities identified		

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Item No.	Subject Matter	Comments	Status
3	**Contracts**		
3.1	Physician Contracts (Non-Employed) -Copies of any medical director agreements with payment history for past 12 months -Copies of any call/coverage agreements with payment history for past 12 months -Copies of any other agreements with physicians with payment history for past 12 months -Copies of any recruitment/relocation agreements		
3.2	Non-Physician Contracts -Copies of any employment agreements with employees other than employed physicians -Copies of any stay or retention agreements with any employees -List of contracts with payment history by vendor for past 12 months [Request to review certain material agreements will be made after review of list] -Any pending contracts -List of contracts terminated within last 12 months -Copies of any operating leases -Copies of any capital leases -Copy of any affiliation agreements including agreement with Ohio State		
3.3	Payor Contracts -List of payor contracts		
3.4	Description of any breach or default notices received by Seller Parties		
3.5	Description of any breach or default notices sent by Seller Parties		
3.6	All contracts with any governmental agency or authority including Medicare, Medicaid, and Tricare participation agreements		

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Item No.	Subject Matter	Comments	Status
4	**Tax Matters**		
4.1	Copies of tax returns filed by any Seller Party during the last three years including any Form 990s		
4.2	Description of accrued federal, state and local withholding taxes and FICA for each entity		
4.3	List of any taxes due and payable in future		
4.4	Any notices of deficiencies, adjustments, assessments or changes in assessments or increases in taxes or tax rates in last 3 years		
5	**Financial**		
5.1	Audited financial statements for past 3 years for Seller Parties		
5.2	YTD financial statements for each entity including combined schedules		
5.3	Consolidating financial statements for past 3 years		
5.4	Detailed trial balances in electronic/excel format		
5.5	Operating and capital budgets for the past 3 fiscal years and any projected operating and capital budgets		
5.6	Discharges and patient days by service (i.e. acute, psychiatric, rehabilitation, adult health, etc.) for: the past 3 completed fiscal years; year-to-date; budgeted for the current fiscal year; and projected for the next 3 future fiscal years. Please include data on emergency room visits and outpatient procedures by service		
5.7	Discharges and patient days by payor for: the completed fiscal years; year-to date; budgeted for the current fiscal year; and projected for the next 3 future fiscal years. Please include data on emergency room visits and outpatient procedures by payor		
5.8	Total case mix index ("*CMI*") and Medicare CMI for: the completed fiscal years; year-to date; budgeted for		

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	the current fiscal year; and projected for the next 3 future fiscal years.		
5.9	Gross and net patient service revenue by payor for: the completed fiscal years (monthly); year-to-date; budgeted for the current fiscal year; and projected for the next 3 future fiscal years. Revenue breakdown/reconciliation should include the greatest level of detail available regarding the mix of revenue, the types of revenue adjustments recorded by category (contractual allowances, billing adjustments, denials, discounts, charity care, etc.) and the timing of the adjustment relative to the census date.		
5.10	Gross and net patient service revenue and supplies expense broken down by the following categories: general medical, surgical, prosthesis, pharmaceutical and other supplies expense for the completed fiscal years; and projected for the next 3 future fiscal years.		
5.11	Total accounts receivable, net of contractual allowances and the allowance for bad debts for the completed fiscal years; year-to date; budgeted for the current fiscal year; and projected for the next 3 future fiscal years.		
5.12	List of all off-balance sheet commitments, such as synthetic leases and operating leases.		
5.13	List and description of all booked and unbooked liabilities, including contingent liabilities. Include expected timing of the settlement thereof, including any payment that may be accelerated or otherwise affected by a proposed transaction.		

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Item No.	Subject Matter	Comments	Status
5.14	Provide charge description master, including reviews or significant revisions.		
5.15	Inventory summary (including supplies) and detailed aged trial balance with a reconciliation to the general ledger. Include roll-forward of the allowance for obsolete or slow moving inventory, indicating reserve releases, if any.		
5.16	FTEs by the following categories (including as breakdown by department), contract labor, and purchased services		
5.17	Communication of internal controls related associated with their last financial statement audit.		
5.18	Journal entries recorded through their most recent audit		
5.19	Journal entries proposed and not recorded associated with most recent audit.		
5.20	Contractual and Bad Debt allowance calculation for the most recent audit and the most recently closed month including supporting schedules (Detailed AR Trial Balance, zero balance report or equivalent)		
5.21	Detailed AR Trial Balance for 12/31/17		
5.22	Detailed Cash Receipts report, by patient, from 1/1/17 to present		
5.23	Detailed A/P Reports in excel format		
6	**Insurance & Risk**		
6.1	Copy of current insurance policies		
6.2	Current actuarial studies		
6.3	Currently valued loss runs going back 10 years		
6.4	Current annual payroll		
6.6	Loss runs for last 3 years		

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Item No.	Subject Matter	Comments	Status
7	**Medical Staff**		
7.1	Bylaws, credentialing policy, and rules and regulations of medical staffs of each hospital		
7.2	List of all licensed physicians and other health care professionals who have clinical privileges at either facility and a description of the scope of such privileges, such individual's age, board certification (if any), credentials, and activity levels for credentialing purposes (*e.g.*, admissions, patient days, procedures) year-to-date and for the past three years		
7.3	List of officers and members of the committees of each medical staff		
8	**Compliance**		
8.1	Copy of Compliance Program and Policies and Procedures		
8.2	Copy of any reports submitted to OIG under Corporate Integrity Agreement		
8.3	Copy of any notices received from OIG		
9	**Third Party Reimbursement**		
9.1	Copies of any audits, reviews, or inspection reports by, or correspondence with, the government agencies that administer or operate the Medicare or Medicaid programs, including any Quality Improvement Organization (or peer review organization), intermediary, Medicare administrative contractor, carrier or other agent or contractor of such governmental agencies and requests from recovery audit contractors.		
9.2	Cost reports currently in compilation and cost reports for the completed fiscal years.		

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Item No.	Subject Matter	Comments	Status
9.3	List, description, and all correspondence, including without limitation, subpoenas, relating to any alleged fraud and abuse claims (including Anti-Kickback Law, Stark Law, False Claims Act and any state law equivalents), condition of participation violations, EMTALA violations, sentinel events, or other actions, such as investigations, arising from Medicare and/or Medicaid reimbursement or participation in the Medicare and/or Medicaid programs during the last 3 years, and copies of correspondence with any federal or state governmental agency regarding same.		
9.4	List and description of all overpayments arising from Medicare and/or Medicaid reimbursement identified by any entity, and a description of the corrective action taken, including any repayment.		
9.5	Provide a description of any pending PRRB appeals.		
10	**IT**		
10.1	Provide the information systems strategic or other plan for each entity.		
10.2	Architecture diagram of all information systems, including everything in the vertical stack; *i.e.*, application software, hardware, OS, storage, server, vendor information.		
10.3	Description of major vendor relationships, obligations, and contracts. Provide a list of the vendors that provide IT or IT-related items and/or services. Include information about any primary platform or application vendors. Provide copies of contracts with vendors and include contractually agreed to		

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Item No.	Subject Matter	Comments	Status
	Service-Level Agreements. Provide information regarding any specialized software agreements.		
10.4	Provide schedules for technology upgrades especially any assets held on lease.		
11	**Employment Matters**		
11.1	Provide a list of all employees of each entity, including each employee's name, location, date of hire, position, base salary, bonus eligibility, status (*e.g.*, part-time or full-time, active or inactive), bargaining unit and classification under applicable payment of wage laws (*e.g.*, exempt or non-exempt).		
11.2	List of all proceedings regarding employment practices, including unfair labor practice charges (including those filed with the EEOC and National Labor Relations Board), discrimination charges, and sexual harassment claims filed in the past 3 years. Provide copies of any correspondence with government entities or government attorneys regarding same.		
11.3	All personnel policies, manuals, handbooks or practices		
11.4	List of all employees on LOA.		
11.5	Copies of all collective bargaining agreements		
12	**Employee Benefit Plans**		
12.1	Group Health, Welfare, Severance, and Paid Time Off Benefits: - Provide a list of all plans, names of insurance company or third party administrators, and eligibility criteria - Summary plan descriptions and Summary Material Modifications, ERISA Plan Document, and Trust Agreements		

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Item No.	Subject Matter	Comments	Status
	- Form 5500 for all plans, with all attachments for most recent 2-years. - Description of funding arrangement (*e.g.*, insured, minimum premium, self-funded), monthly rates, employee contribution schedules, and enrollment by plan and by tier of coverage (*e.g.*, single, family). Monthly premium statements may provide this information for fully insured plans. -Summary of all liabilities and reserves on the books for any plan (*e.g.*, self funded medical plan IBNR, post employment medical plan liability, PTO/Sick accrued liability) and any actuarial valuations related to these liabilities - List of all employees entitled to COBRA benefits - A list of any filed, pending, threatened or expected complaints, investigations, audits, lawsuit or claims (other than routine claims for benefits) under any employee benefit plan. -A copy of any IRS or DOL audit of any welfare plan (not to include any audit that took place as part of a Medicare Audit).		
12.2	Report of accrued paid time off by employee		
12.3	Report of accrued sick time by employee		
13	**Quality**		
13.1	Copies of quality data presented to the board and/or a quality committee of the board for the past 3 years.		
13.2	Most recent 3 years of measures for all quality measures tracked by any entity (*e.g.*, HEDIS, Leapfrog), which should, at a minimum include information regarding the following:		
13.3	Copies of all accreditation surveys for the last 3 years		

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13.4	Copies of all patient satisfaction data and reports for the last 3 years.		
14	**Litigation**		
14.1	List and description of all claims, litigation, arbitration, administrative or other proceedings or investigations currently pending or threatened, related to or expected to have an adverse effect on any Seller entity and/or its assets, stating the nature of the claim, the damages claimed, whether the claim is covered by insurance, and the opinion of counsel as to the probable outcome of such litigation.		
14.2	All correspondence during the last 4 years relating to any federal or state governmental investigations of any Seller entity.		
15	**Regulatory**		
15.1	Copies of licenses and permits used in operation of hospitals		
15.2	Copies of all statements of deficiencies (Form 2567) received by hospitals in last 12 months and accepted corrective action plans		
15.3	Copies of all reports submitted to Attorney General		
16	**Other**		
16.1	Opportunity to meet with union leaders		
16.2	Opportunity to meet with physician leadership at each facility		

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16.3	Opportunity to meet with key members of the management team at each facility		