Prime Healthcare
Saving hospitals. Saving jobs. Saving lives.

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Re: Indication of Interest- Verity Health System

Dear Gentlepersons:

Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc., a 501(c)(3) public charity (collectively "Prime Healthcare") are pleased to submit the following responses to the questions raised in the request for letter of intent for St. Francis Medical Center and St. Vincent Medical Center. The responses will adhere to the format outlined under Attachment A.

1. ***Organizational Overview.*** *A detailed description of your organization, including a summary of your financial wherewithal and experience with similar operations and transactions, if your proposal provides for continuing the current use of the assets your propose to acquire.*

Prime Healthcare Services, Inc.[1] is an award-winning health system based in Ontario, California. Prime Healthcare has been in operation since 2001 and, by and through its subsidiaries, operates thirty (30) acute care hospitals with approximately 5,000 beds throughout Alabama, California,

[1] Further information regarding Prime Healthcare can be obtained at www.primehealthcare.com

15 TOP HEALTH SYSTEMS 2013

Florida, Indiana, Kansas, Michigan, Missouri, Nevada, New Jersey, Pennsylvania, Rhode Island, and Texas:

1. Alvarado Hospital in San Diego, California (306 beds)
2. Centinela Hospital Medical Center in Inglewood, California (369 beds)
3. Chino Valley Medical Center in Chino, California (126 beds)
4. Dallas Medical Center in Dallas, Texas (155 beds)
5. Dallas Regional Medical Center in Mesquite, Texas (202 beds)
6. Desert Valley Hospital in Victorville, California (148 beds)
7. Garden City Hospital in Garden City, Michigan (323 beds)
8. Garden Grove Hospital Medical Center in Garden Grove, California (167 beds)
9. Harlingen Medical Center in Harlingen, Texas (112 beds)
10. Lake Huron Regional Medical Center in Port Huron, Michigan (164 beds)
11. Lehigh Regional Medical Center in Lehigh Acres, Florida (88 beds)
12. Lower Bucks Hospital in Bristol, Pennsylvania (156 beds)
13. Monroe Hospital in Bloomington, Indiana (32 beds)
14. North Vista Hospital in Las Vegas, Nevada (177 beds)
15. Paradise Valley Hospital in National City, California (301 beds)
16. Providence Medical Center in Kansas City, Kansas (400 beds)
17. Riverview Regional Medical Center in Gadsden, Alabama (281 beds)
18. Roxborough Memorial Hospital in Philadelphia, Pennsylvania (140 beds)
19. Saint Joseph's Hospital in Kansas City, Missouri (310 beds)
20. Saint Clare's Hospital in Denville, New Jersey (314 beds)
21. Saint Clare's Hospital in Boonton, New Jersey (104 beds)
22. Saint Clare's Hospital in Dover, New Jersey (60 beds)
23. Saint Mary's Hospital in Blue Springs, Missouri (146 beds)
24. Saint Mary's Hospital in Passaic, New Jersey (269 beds)
25. Saint Mary's Regional Medical Center in Reno, Nevada (380 beds)
26. Saint Michael's Hospital in Newark, New Jersey (357 beds)
27. Saint John Hospital in Leavenworth, Kansas (80 beds)
28. San Dimas Community Hospital in San Dimas, California (101 beds)
29. Shasta Regional Medical Center in Redding, California (246 beds)
30. West Anaheim Medical Center in Anaheim, California (219 beds)

Prime Healthcare Services, Inc. is also affiliated with the Prime Healthcare Foundation, a 501(c)(3) public charity with assets of approximately $1 billion, which owns and operates thirteen (15) acute care hospitals in six states:

1. Conshocton Regional Medical Center in Conshocton, Ohio (56 beds)
2. East Liverpool City Hospital in East Liverpool, Ohio (152 beds)
3. Encino Hospital Medical Center in Encino, California (150 beds)
4. Glendora Community Hospital in Glendora, California (128 beds)
5. Huntington Beach Hospital in Huntington Beach, California (131 beds)

6. Knapp Medical Center in Weslaco, Texas (227 beds)
7. La Palma Intercommunity Hospital in La Palma, California (141 beds)
8. Landmark Medical Center in Woonsocket, Rhode Island (214 beds)
9. Mission Regional Medical Center in Mission, Texas (297 beds)
10. Montclair Hospital Medical Center in Montclair, California (102 beds)
11. Pampa Regional Medical Center in Pampa, Texas (115 beds)
12. Rehabilitation Hospital of Rhode Island in North Smithfield, Rhode Island (70 beds)
13. Sherman Oaks Hospital in Sherman Oaks, California (153 beds)
14. Southern Regional Medical Center in Atlanta, Georgia (331 beds)
15. Suburban Community Hospital in East Norriton, Pennsylvania (153 beds)

Prime Healthcare's growth in the past several year(s) has focused on the saving of community hospitals throughout the United States. The majority of these hospitals were either in bankruptcy or in dire financial straits on the brink of shutdown/bankruptcy. Every one of these hospitals were turned around with smart, thoughtful and decisive management.

In accomplishing the same, many strategies were undertaken depending on the hospital and its current state. As concerns Verity, it is well known that Prime Healthcare was the successful bidder in 2014 for all five hospitals in the health system. A specific turnaround plan was proffered and provided to the prior owners (Daughters of Charity Health System) that would have allowed the hospitals to remain as vital community assets to the communities they serve. However, due to untenable and unacceptable Attorney General Conditions that required the hospitals to be operated in a same manner that led to their difficulties, Prime Healthcare was forced to withdraw from the transaction. Unfortunately, Prime Healthcare's concerns regarding the Attorney General's conditions came to fruition in that the hospitals continue to struggle and are seeking their third owner in as many years.

Finally, with respect to the query regarding a similar transaction, the best example as it relates to this transaction would be Centinela Hospital Medical Center in Inglewood, California. The hospital has similar demographics, similar payor mix and was facing similar challenges when Prime Healthcare acquired the facility in 2007. Twelve hospitals had already closed in the area, and maintaining the hospital for the community was of paramount importance. Following is a snapshot of the Centinela Hospital turnaround under Prime Healthcare's leadership.

- *Centinela Hospital Medical Center (Inglewood, California)*

($ in millions	*Pre-Acquisition*	*Pre-Acquisition*	*Post-Acquisition*	*Post-Acquisition*	*Post-Acquisition*
Acquired 2007	*2 Years Prior*	*1 Year Prior*	*Year 1*	*Year 2*	*Year 3*
Licensed Acute Care Beds	362	362	369	369	369
Total Net Revenue (1)	$223.1	$217.2	$213.4	$230.0	$293.2

Operating EBITDA (2)	($4.5)	($8.9)	$9.3	$20.1	$22.3
Operating EBITDA Margin %	-2.0%	-4.1%	4.4%	8.7%	7.6%
Medicare/ managed Medicare	50.2%	48.8%	55.7%	45.7%	47.9%
Medicaid/ Managed Medicaid	23.8%	25.9%	31.6%	33.5%	34.8%
Commercial/ Managed Care	24.1%	23.6%	9.0%	11.1%	11.2%
Self Pay	1.9%	1.7%	3.7%	9.7%	6.1%
Total	100%	100%	100%	100%	100%

(1) Total net operating revenue excluding investment income and after deductions for bad debt, contractual allowances and charity care
(2) Earnings before interest, income taxes, depreciation and amortization

Also important to note, since acquisition Centinela Hospital has been recognized nationally as an award winning hospital, having earned more than 100 awards for quality and patient safety, including "100 Top Hospital" accolades from IBM Watson Health (formerly Truven Health Analytics) five years in a row. In addition, since acquiring Centinela Hospital in 2007, Prime Healthcare has invested more than $100 million in capital equipment and renovation, including a newly expanded Emergency Department this year to meet community need.

2. **Form of Transaction:** *A detailed description of the proposed transaction structure including (i) acquiring entity, (ii) a detailed description of which assets are included in the proposed transaction. (iii) the purchase price for the acquired assets on a cash free, debt free basis, including the allocation of the purchase prime among each hospital (assuming the offer is for more than one hospitals) and assets owned by non-hospital corporations such as medical office buildings or other assets, and (iv) form of consideration and your expectations surrounding the acquisition of the Company's working capital assets (excluding cash) and assumption of any liabilities.*

Prime Healthcare Services, Inc. and Prime Healthcare Foundation, Inc., a 501c3 public charity, propose to acquire both St. Vincent Medical Center in Los Angeles, California and St. Francis Medical Center in Lynwood, California. This will include the acute care facilities as well as any assets directly and/or indirectly related to the delivery of healthcare for these communities, including the Medical Office Buildings.

Prime Healthcare is willing to acquire these facilities for a total purchase price of $200 million in cash. Finally, as concerns the proposed transaction schedule, Prime Healthcare is willing to discuss the same with the sellers. However, despite best efforts, given the significant issues that have permeated these facilities for the past several years with incredible debt, it appears that the most prudent approach to successfully maintain these hospitals is through reorganization. This would allow Verity to satisfy its obligations, maintain it operations and restructure debt and/or contracts to guarantee solvency and sustainability in the future.

As discussed several years ago, while never optimal, Prime Healthcare advised that this approach would most likely be the eventual avenue for these facilities given their herculean challenges. Prime Healthcare has acquired several facilities through bankruptcy and, without exception, these facilities have ultimately prospered and were maintained as vital community partners. In particular, Prime Healthcare has acquired the following facilities through bankruptcy since 2001:

Facility	Location	Year Acquired Through Bankruptcy
Chino Valley Medical Center	Chino, CA	2005
Shasta Regional Medical Center	Redding, CA	2008
Lower Bucks Hospital	Bristol, PA	2012
Landmark Medical Center	Woonsocket, RI	2014
Rehabilitation Hospital of Rhode Island	North Smithfield, RI	2014
Saint Michael's Medical Center	Newark, NJ	2016
Coshocton Regional Medical Center	Coshocton, OH	2016
Southern Regional Medical Center	Riverdale, GA	2016

With respect to each of the foregoing hospitals, Prime Healthcare acquired a hospital on the verge of shutdown and has been able to turnaround these vital community assets allowing the continuation of patient care to these communities. This is the hallmark of the Prime Healthcare story in 'Saving Hospitals, Saving Jobs and Saving Lives'.

3. **Source of Financing:** *A description of the expected sources and uses for the proposed transaction; to the extent that some or all of the consideration to be paid to VHS will come from third-party sources, please list those sources (bond issue, bank loan) and the earliest expected date for completing such financing.*

Prime Healthcare has secured private financing to finance this acquisition. Upon execution of the definitive documents, Prime Healthcare will provide evidence of the source of funding in this regard.

4. **System Executive Leadership and Hospital Executive Leadership:** *Based on the information provided, please state your preliminary intentions and/or requirements with*

respect to VHS Management's and hospital management's role post-Transaction, including the terms of any agreements you propose to be executed and the individuals you expect to be a party to such agreements, if any.

Prime Healthcare believes that all healthcare is local and unique to the communities that each of the hospitals serve. With respect to the hospitals attempted to be acquired, Prime Healthcare envisions retaining many of the current management team members. However, further diligence is required to ascertain specifics in this regard.

5. **Operations:** *A summary description of the strategic plan for the facilities, including a discussion of the impact of the transaction to staffing levels and members of the medical staff.*

Prime Healthcare completed extensive due diligence in 2014-2015 both in person and review of the documents available within the data room. During that time, Prime Healthcare provided an extensive and aggressive turnaround strategy to the prior management as to turning around these troubled facilities. While some of the information was used, it appears that the vast majority was not and/or was not executed with the precision and expertise of Prime Healthcare. Turning around distressed hospitals is a quite arduous and complicated. Prime Healthcare has built its business on turning around such facilities throughout the United States. In addition to the aforementioned facilities it acquired through Bankruptcy, Prime Healthcare has also acquired nearly a dozen facilities nationwide that were on the verge of collapse. It takes decisive leadership and close attention to detail to accomplish the same. Prime Healthcare's turnaround stories around the country are of remarkable significance in that each hospital that has been acquired has remained a full service acute care facility with long term sustainable goals.

Based upon the limited review of the information provided, St. Vicent Medical Center and St. Francis Medical Center are in financial trouble and showing signs of prolonged deterioration. Following is an example of the EBIDA numbers for the past two (2) years for each facility (with the removal of the Provider Fees):

In thousands	2017	2018
St. Vincent Medical Center	($31.9)	($48.3)
St. Francis Medical Center	$16.2	($33.2)

It is clear that the present trend is not sustainable and decisive operational action needs to be accomplished forthwith. Prime Healthcare has vast experience in rectifying challenging situations to guarantee profitability and long-term success. These hospitals should be the hospitals of choice and not just the hospitals of convenience. Local community hospitals must be recognized by the community as top quality hospitals conveniently located with the availability of outstanding and dedicated physicians, the latest technology and enhanced service lines. This is exactly what Prime Healthcare brings to the table. Upon acquisition, the community will feel confident knowing that Prime Healthcare is one of the top health systems in the country and is now providing its foundation in clinical excellence to all members of the community. Prime Healthcare has never closed or sold a hospital. This is of vital importance in that it provides a shift of consciousness to the community.

Prime Healthcare utilizes specific tactics to turn around hospitals to improve quality and profitability resulting in long term success including, but not limited to:

- Negotiating better managed care rates;
- Decreasing supply costs through National Group Purchasing;
- Enhancing profitable service lines;
- Educating physicians regarding appropriate clinical coding and diagnosis;
- Revenue Cycle management;
- Reducing unnecessary administrative and mid-level management positions;
- Recruitment of physician specialists;
- Increasing employee, physician and patient satisfaction.

Prime Healthcare understands that the genesis of all transformation in the delivery of healthcare starts with the physician. The aforementioned strategies will prove difficult to implement absent an active medical staff with different areas of expertise. When acquiring a facility, Prime Healthcare does not bring in scores of outsiders to run the newly acquired hospital. Rather, it provides training and education to the local leadership and local physicians to allow them to run the hospital sans *red tape* to provide the care that is needed for the patients.

Prime Healthcare has a high level of retention and satisfaction amongst its hospital staff and physicians. The reason is simple. Prime Healthcare is a physician driven model focused on quality and efficiency. Prime Healthcare utilizes several strategies to improve alignment between the hospital and local physicians that correlates to increasing retention and satisfaction. These strategies include:

- Increasing hospital efficiency;
- Creating a culture of quality and service excellence;
- Utilizing physicians in clinical leadership roles;
- Involving physicians in strategic planning and all major planning activities.

The goal is to allow physicians to be physicians, nurses to be nurses and patients to be the priority. This is a consistent mantra with most caregivers as to why they went into medicine. The difficulties that physicians and non-physician staff have in other facilities is the inherent hospital bureaucracy that takes away time from treating patients. By eliminating the foregoing, Prime Healthcare has seen a steady level of increased recruitment, retention and satisfaction.

Healthcare is a consumer-based business and healthcare organizations must adapt to the needs of its patients. By addressing key quality measures and working for immediate increased efficiencies within the Emergency Department, Prime Healthcare consistently sees a drastic change in the utilization of the hospital, for the better. With increased volume, this allows Prime Healthcare to increase market share and attract more physicians to the hospital who have specialties that typically would not be traditionally utilized at the facility. Accordingly, Prime Healthcare works closely with these physicians to provide the latest technology and services to the acquired hospitals. To that end, Prime Healthcare has spent nearly $1 billion in capital improvements system wide to meet the needs of its patients, employees and physicians.

Moreover, it is the norm for any acquisition of Prime Healthcare to expand services almost immediately including, but not limited to, cardiac, geriatric and surgical services. This will increase volume, improve the hospital's reputation, often increase employment, and allow the acquired hospital to grow with the community for decades to come.

6. **Collective Bargaining Agreements ("CBA"):** *A summary of your intentions vis-à-vis VHS's Collective Bargaining Agreements.*

Given the current financial state of VHS and the fact that Salaries/Wages/Benefits for all employees, including unionized employees, are well beyond industry standards which has resulted in the current financial condition, the agreements will need to be negotiated in good faith by all the parties. Prime Healthcare respects organized labor and possesses a litany of contracts throughout the United States. This requires a mutually beneficial relationship. As concerns St. Vincent Medical Center and St. Francis Medical Center, the wages are disproportionate as to both revenues and industry norms. The singular focus for Prime Healthcare is to keep these hospitals open. As such, it appears that the most prudent approach would be to negotiation through an reorganization process which would allow protection for all parties in this regard.

7. **Post-Retirement Obligations:** *A summary of the anticipated treatment of VHS's post retirement obligations including the multi-employer and single employer pension plans.*

As concerns both St. Vincent Medical Center and St. Francis Medical Center, Prime intends to honor the retirement obligations through reorganization and negotiations with PBGC similar to what Prime Healthcare has accomplished in previous transactions It will be the intent of Prime Healthcare to work with PBGC to provide the appropriate protections of the current pension obligations of both former and current employees.

8. **Required Approvals:** A summary of the internal approval process by your board or governing body including the timing and your ability to operate in an expedited manner to process necessary approvals required prior to execution of a definitive agreement and the closing of the Transaction.

All approvals have been obtained.

9. **Due Diligence:** *A due diligence request list setting forth the information your organization will need to review prior to completely due diligence and executing a definitive agreement if selected by VHS.*

Due to its prior knowledge, Prime Healthcare has completed the majority of its due diligence. The one area would be of the current state by discussions with management (which is precluded by the NDA). Once selected as a finalist, Prime Healthcare will complete all diligence within sixty (60) days during the negotiation of the definitive agreement. A diligence list will be provided under separate cover.

10. **Contingencies:** *A discussion of any contingencies, caveats and approvals of which VHS should be aware in evaluating your proposal.*

There are no financial contingencies associated with this transaction.

11. **Key Contacts.** *A list of the names, phone numbers, and emails of your internal team and any outside advisors and legal counsel with whom we should discuss your preliminary proposal.*

All discussions can be had with Troy Schell. Mr. Schell can be reached at (909) 235-4311 or at tschell@primehealthcare.com.

Thank you very much for your time and consideration. We look forward to hearing from you.

[redacted]

Troy A. Schell
General Counsel