Effects of the Proposed Change in Governance and Control of Ownership & Operation of the Daughters of Charity Health System to Prime Healthcare Services, Inc., & Prime Healthcare Foundation, Inc., on the Availability and Accessibility of Healthcare Services to the Communities Served by O'Connor Hospital

Prepared for the Office of the
California Attorney General

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INTRODUCTION & PURPOSE

Medical Development Specialists, LLC (MDS), a healthcare planning and policy consulting firm, was retained to prepare reports for the Office of the California Attorney General on the Daughters of Charity Health System, including each of the system's five hospital corporations and their related health facilities. This report evaluates the potential impact of the proposed Definitive Agreement between Daughters of Charity Ministry Services Corporation, Daughters of Charity Health System, Prime Healthcare Services, Inc., and Prime Healthcare Foundation, Inc., on the availability and accessibility of healthcare services to the communities served by O'Connor Hospital. O'Connor Hospital, a nonprofit religious corporation (O'Connor), operates O'Connor Hospital, a general acute care hospital located in San Jose, California (the Hospital).

Daughters of Charity Ministry Services Corporation, a California nonprofit religious corporation (Ministry), is the sole corporate member of Daughters of Charity Health System, a California nonprofit religious corporation (Daughters). Daughters is the sole corporate member of five California nonprofit religious corporations, including O'Connor, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center (collectively, the Hospital Corporations).

The Hospital Corporations are licensed to operate five general acute care hospitals including the Hospital, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Seton Medical Center, which shares a consolidated license with Seton Medical Center Coastside, a skilled nursing facility (collectively, the Health Facilities).

Each of the Hospital Corporations is the sole corporate member of a California nonprofit public benefit corporation that handles its fundraising and grant-making programs: St. Francis Medical Center Foundation, St. Vincent Foundation, Seton Medical Center Foundation, Saint Louise Regional Hospital Foundation, and O'Connor Hospital Foundation (collectively, the Philanthropic Foundations). O'Connor is the sole corporate member of O'Connor Hospital Foundation (O'Connor Foundation).[1]

Ministry and Daughters have requested the California Attorney General's consent to enter into a Definitive Agreement with Prime Healthcare Services, Inc., a Delaware corporation (Prime Inc.), and Prime Healthcare Foundation, Inc., a Delaware nonprofit non-stock corporation (Prime Foundation), (collectively, Prime), whereby control and governance of Daughters and its affiliated entities will be transferred to Prime Inc. or Prime Foundation, and in some cases, converted to California for-profit business corporations or California nonprofit public benefit corporations. (Refer to the summary table on the following page.)

[1] In reference to St. Vincent Foundation, the Definitive Agreement names St. Vincent Medical Center Foundation in its inclusive definition of the "Philanthropic Foundations"; however, St. Vincent Foundation is the name under which it was incorporated. In addition, there are proposed plans to merge St. Francis Medical Center Foundation, O'Connor Foundation, Saint Louise Regional Hospital Foundation, and Seton Medical Center Foundation into St. Vincent Foundation.

Daughters is a multi-institutional Catholic health system that is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West. Upon closing of the proposed transaction and the conversion of Daughters into a for-profit corporation, Daughters of Charity of St. Vincent de Paul, Province of the West, will cease its Catholic Sponsorship of Daughters.

DAUGHTERS' GOVERNANCE STRUCTURE					
Included Corporations in the Definitive Agreement	**Current Corporate Structure**	**Description**		**Proposed Corporate Ownership**	**Post-Transaction Corporate Structure**
Daughters	California nonprofit religious corporation	Sole corporate member of five California nonprofit religious corporations	→	Prime Inc.	For-profit business corporation
O'Connor Hospital	Nonprofit religious corporation	Operates a general acute care hospital, O'Connor Hospital	→	Prime Inc.	For-profit business corporation
Saint Louise Regional Hospital	Nonprofit religious corporation	Operates a general acute care hospital, Saint Louise Regional Hospital, and De Paul Urgent Care Center	→	Prime Inc.	For-profit business corporation
Seton Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, Seton Medical Center	→	Prime Inc.	For-profit business corporation
St. Francis Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Francis Medical Center	→	Prime Inc.	For-profit business corporation
St. Vincent Medical Center	Nonprofit religious corporation	Operates a general acute care hospital, St. Vincent Medical Center	→	Prime Inc.	For-profit business corporation
DCHS Medical Foundation	Nonprofit religious corporation	Group of physicians that provide primary and specialty care	→	Prime Foundation	Nonprofit public benefit corporation
Caritas Business Services	Nonprofit religious corporation	Provides support services for Daughters and hospital corporations	→	Prime Inc.	For-profit business corporation
St. Vincent Dialysis Center, Inc.	Nonprofit public benefit corporation	Speciality clinic licensed for provision of dialysis services	→	Prime Inc.*	For-profit business corporation
Philanthropic Foundations	Nonprofit public benefit corporations	Charitable foundations that support community benefit programs and capital expenditures	→	Prime Foundation	Will remain nonprofit public benefit corporations
St. Vincent De Paul Ethics Corporation	Nonprofit public benefit corporation	Does not hold any assets	→	Prime Foundation	Will remain nonprofit public benefit corporation
Marillac Insurance Company, Ltd.	Caymans entity	Captive insurance company to self-insure for professional and general liability exposures	→	Daughters will remain sole shareholder	Does not require any conversion
De Paul Ventures, LLC	Limited liability company	Created for the purpose of investing in a freestanding surgery center and other healthcare entities	→	Daughters will remain sole member	Does not require any conversion

* Will remain a wholly-owned subsidiary of St. Vincent Medical Center

In its preparation, MDS performed the following:

- A review of the application submitted by Ministry and Daughters to the California Attorney General on October 24, 2014, and supplemental information and documents subsequently provided by Daughters and the Health Facilities, including the Hospital;

- A review of press releases and news articles related to this and other hospital transactions;

- Interviews with community representatives, representatives of the Hospital's medical staff, management, and employees, O'Connor's Board of Directors (O'Connor's Board), Daughters' Board of Directors (Daughters' Board), Daughters' representatives, health plan representatives, and others listed in the Appendices;

- An analysis of financial, utilization, and service information provided by Daughters, the Hospital's management, and the California Office of Statewide Health Planning and Development (OSHPD); and

- An analysis of publicly available data and reports regarding the Hospital's service area including:

    - Demographic characteristics and trends;
    - Payer mix;
    - Hospital utilization rates and trends;
    - Health status indicators; and
    - Hospital market share.

Reasons for the Transaction

In December 2012, Daughters entered into an affiliation agreement with Ascension Health Alliance that provided Daughters with an opportunity to share in certain consulting and strategic services provided by Ascension Health Alliance. Further, the agreement also served as a platform for both parties to continue their strategic dialogue surrounding the formation of some type of official partnership or merger.

After comprehensive discussions and due diligence with respect to a potential merger, the parties could not reach a mutual agreement that ensured the long-term viability of Daughters and the Health Facilities.

As stated in Daughters' statement of reasons why Daughters' Board believes the proposed transaction is either necessary or desirable, Daughters' Board provided the following:

- The current structure and sponsorship of Daughters and the Health Facilities are not feasible as a result of the dire financial conditions and cash projections;

- Based upon cash flow projections, Daughters would fall below minimum liquidity thresholds in the first quarter of Fiscal Year (FY) 2015 and would ultimately run out of cash in the third quarter of FY 2015;

- In July and August of 2014, Daughters accessed a short-term financing bridge loan in the amount of $125 million to mitigate the immediate cash needs for an estimated period of time long enough to allow for the transaction to close. The bridge loan of $125 million must be repaid in full, on or before, July 10, 2015, at which time if the full amount is not repaid, Daughters will be at risk of defaulting on both the 2014 and 2005 Revenue Bonds[2]; and

- The lender holds liens on substantially all of Daughters' assets. If there is a default, Daughters' operations, without the protection of a bankruptcy proceeding, could not continue.

[2] The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G, and H (2005 Bonds) and Series 2014A, B, and C (2014 Bonds).

Transaction Process and Objectives

The primary objective stated by Daughters for the proposed transaction is to ensure a sustainable future for the Health Facilities and the other related entities. In order to accomplish this goal, in 2013 with the advisor Kaufman Hall, Daughters initiated a process to find potential buyers or partners to purchase the Hospital, Saint Louise Regional Hospital, Seton Medical Center, and Seton Medical Center Coastside. Daughters received several offers.

In February 2014, Daughters widened the process to include soliciting offers for St. Francis Medical Center and St. Vincent Medical Center, as well as for the entire health system. This 2014 process was supported by Houlihan Lokey, an advisory investment bank with experience in healthcare mergers and acquisitions. Daughters' Board specified the following guiding principles for the change of control:

- Protect the pensions of current employees, retired employees, and their beneficiaries;
- Repay major business partners, such as bondholders and vendors;
- Honor and assume the Collective Bargaining Agreements (CBAs)[3] held by the Hospital Corporations; and
- Obtain commitments to capital investments in the Health Facilities, and commitments to the continued provision of acute care services and indigent care, as well as to the continued participation in the Medi-Cal and Medicare programs, for the communities served by the Health Facilities.

Houlihan Lokey identified and contacted a total of 133 parties. The group of potential bidders included Catholic healthcare organizations, nonprofit strategic buyers, government-related healthcare institutions, for-profit hospital operators, private equity funds, management teams with relevant experience, and investors specializing in healthcare-related real estate. After introductory conversations, 72 parties expressed interest.

Bids were solicited for individual hospitals, groups of hospitals, medical office buildings/facilities, as well as for Daughters' full system. The first round, in March 2014, included 29 bids; 11 bids for the full system, 14 bids for individual (or groups of) hospitals, and four bids for the medical office buildings. The second round, in May 2014, included 15 bids; eight bids for the full system and seven bids for the individual (or groups of) hospitals. As stated in the minutes from Daughters' Board meeting in May 2014, Daughters decided to focus efforts on buyers interested in a full system transaction as they felt there was not a combination of bids for individual (or groups of) hospitals to form a comprehensive solution. In Daughters' application to the Attorney General, the following reasons were cited for focusing efforts on full-system offers:

[3] A Collective Bargaining Agreement is an agreement between employers and employees aimed at regulating working conditions.

- None of the bidders interested in individual hospitals and/or groups of hospitals were prepared to assume Daughters' pension obligations;

- Attempting to execute multiple transactions could expose Daughters to the risk of transaction failure if all agreements were not executed simultaneously;

- If there was any transaction failure, there would be a withdrawal liability on the Multiemployer Pension Plan[4] of approximately $200 million; and

- A number of bidders for the full system indicated willingness to satisfy all of Daughters' obligations, whereas the aggregate value provided by the individual hospital bids would not satisfy all of Daughters' obligations.

In September 2014, the final round of negotiations commenced and involved four offers for the full health system. [5]

The following table summarizes the submitted bids received by Daughters throughout the three rounds of the bidding process:

SUMMARY OF BIDDING PROCESS				
		Bids for Daughters' Entities:		
		Full System	Individual (or groups of) Hospitals	Medical Office Buildings/ Facilities
First Round March 2014 29 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	1	4	-
	For-Profit Hospital Operator	5	5	-
	Private Equity Fund / Management Team	5	1	-
	Healthcare Related Real Estate Investor*	-	2	4
Total:		**11**	**14**	**4**
Second Round May 2014 15 Bids	Catholic Healthcare Organizations	-	2	-
	Nonprofit / Government Related Institutions	-	2	-
	For-Profit Hospital Operator	4	2	-
	Private Equity Fund / Management Team	4	1	-
	Healthcare Related Real Estate Investor*	-	-	-
Total:		**8**	**7**	**-**
Final Round September 2014 6 Bids	Catholic Healthcare Organizations	-	-	-
	Nonprofit / Government Related Institutions	-	-	-
	For-Profit Hospital Operator	4	-	-
	Private Equity Fund / Management Team	2	-	-
	Healthcare Related Real Estate Investor*	-	-	-
Total:		**6**	**-**	**-**

Source: Daughters

* Includes skilled nursing facilities, real estate investment trusts, and others

[4] Daughters' Multiemployer Pension Plan is a defined benefit pension plan that is subject to the Employee Retirement Income Security Act of 1974 (ERISA), and these benefits are insured by the Pension Benefit Guaranty Corporation in accordance with ERISA. The Multiemployer Pension Plan includes the Stationary Engineers Local 39 Pension Plan and the Retirement Plan for Hospital Employees. The Retirement Plan for Hospital Employees is the pension plan in which the employees of the Hospital, Seton Medical Center, Seton Medical Center Coastside, Saint Louise Regional Hospital, and Caritas Business Services participate. Its benefit accruals have been frozen with respect to many Daughters' employees.

[5] Two late-stage full-system bidders did not submit final bids. One was unable to raise the necessary capital in order to submit a timely bid, and the other revised its valuation of the transaction and was unable to provide a financially competitive proposal.

Daughters' Board applied eleven criteria to evaluate the final four proposals:

- Post-closing healthcare services: Bidder's commitment and ability to sustain healthcare services in the communities served by the Health Facilities following the close of the transaction;

- Treatment of pension obligations: Bidder's treatment of Daughters' employee pension obligations, the level of future funding assurance provided to the pension beneficiaries, and the financial means of the bidder to fully fund future pension obligations;

- Treatment of CBAs: Bidder's willingness to assume the current CBAs;

- Operational and transactional experience: Bidder's prior experience and success in turning around distressed hospitals and breadth of experience in owning and operating acute care facilities, particularly within California;

- Historical service quality: Evaluation of the bidder's relative performance on quality measures for its California-based operations (if applicable), including relative patient safety, practice of evidence-based care, readmission rates, mortality rates, and patient satisfaction scores in comparison to Daughters, the national average, and the other final bidders;

- Financial wherewithal: Bidder's financial strength, measured in terms of cash and other assets, and its potential access to additional capital for Daughters' cash requirements at closing and post-closing;

- Capital commitment: Bidder's willingness to invest in the Health Facilities following the closing of the transaction;

- Need for bankruptcy: The likelihood of the bidder to require bankruptcy proceedings in order to reduce liabilities as a condition of closing;

- Valuation: Distributable value of the offer, calculated as the sum of the estimated cash consideration paid at closing, plus the face value of the short- and long-term liabilities;

- Closing risk: Potential risk of not being willing or able to close due to financing contingencies, regulatory issues, or other barriers, including a strong consideration of the bidder's potential to fund a meaningful good-faith deposit; and

- Timeline: Bidder's ability to meet the necessary strict timeframe for closing in light of Daughters' deteriorating working capital.

After consideration of these eleven criteria, on October 3, 2014, Daughters' Board selected the offer proposed by Prime. Daughters' Board believed Prime's proposal satisfied the selection criteria and that no other proposal demonstrated similar strength. Daughters' Board stated Prime was the only candidate that was able to fully fund the employee pensions and who made the

commitment for all of the capital required to close the transaction. Additionally, Daughters' Board believed that Prime's offer materially exceeded the other offers, and provided a higher level of assurance, relative to the other bidders, in terms of Prime's balance sheet, experience in operations, depth of existing operations to support the Health Facilities, and access to capital in order to ensure that the assumed liabilities were honored in the long-term.

Timeline of the Transaction

The events leading up to this transaction are chronologically ordered as follows:

- February 2005 – 2005 Bonds are issued in the amount of $364 million to refinance existing debt and fund future capital expenditures[6];
- November 2008 – 2008 Bonds[7] are issued in the amount of $143.7 million to refinance existing debt;
- February 24, 2012 – Daughters executes a memorandum of understanding with Ascension Health Alliance as a precursor to system integration discussions;
- June 20, 2012 – Daughters and Ascension Health Alliance effect an amendment to the memorandum of understanding;
- December 2012 –Daughters and Ascension Health Alliance execute an affiliation agreement;
- March 15, 2013 – Daughters solicits offers for the Hospital and Saint Louise Regional Hospital, and sends out a request for proposal and confidential descriptive memorandum to 15 potential partners, of which five submit indications of interest;
- August 5, 2013 – Daughters solicits offers for Seton Medical Center and Seton Medical Center Coastside, and sends out a request for proposal and confidential descriptive memorandum to eight organizations, of which three submit indications of interest;
- October 2013 – 2008 Bonds retire[8];
- January 2014 – Daughters indicates that it will remain independent from Ascension Health Alliance and is no longer pursuing a merger;

[6] This amount is gross of an estimated $26 million in the debt service reserved funds that will be used to defease the 2005 Bonds.
[7] The 2008 Bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2008A Bonds that include a debt service reserve fund of $13.7 million.
[8] In October 2013, Daughters of Charity Foundation, an organization separate and independent from Daughters, made a restricted donation of $130 million for the benefit of Daughters by depositing sufficient funds with the bond trustee to redeem the $143.7 million principal amount of the 2008 Bonds.

- January 2014 – Daughters announces the initiation of its process to evaluate strategic alternatives for the entire system;

- February 2014 – Request for Proposal process is initiated by contacting over 133 health systems and other potential buyers who potentially could have an interest in acquiring the system in its entirety, individual (or groups of) hospitals, or other assets;

- February 2014 – Prime, along with 71 other potential buyers, sign confidentiality agreements and receive a confidential information memorandum summarizing key facts about Daughters and its related entities;

- March 21, 2014 – Daughters receives 29 bids by the first round deadline, including one from Prime;

- May 30, 2014 – Daughters' Board decides to focus efforts on full system bidders, as it had been determined that no combination of proposals to purchase individual facilities would provide an adequate solution to Daughters' pressing financial situation. Daughters' Board decides to proceed to the final round focusing on only full system offers;

- July 30, 2014 – Daughters secures $110 million in short-term "bridge financing" in order to access working capital to continue operations through the sale process (2014 Bonds, Series A & B);

- August 27, 2014 – Daughters secures an additional $15 million under the 2014 Bonds (Series C);

- September 12, 2014 – Daughters receives four final proposals;

- October 3, 2014 – Daughters' Board passes a resolution to authorize the execution of the Definitive Agreement between Daughters, Ministry, and Prime, and recommends the approval of the transaction to Ministry's Board of Directors (Ministry's Board);

- October 9, 2014 – O'Connor's Board passes a resolution to authorize any necessary or advisable amendments to the articles of incorporation and bylaws of O'Connor and O'Connor Foundation, and recommends approval of the transaction to Ministry's Board;

- October 9, 2014 – Ministry's Board passes a resolution to authorize the amendment of Daughters' articles of incorporation and bylaws as necessary to effect the transaction and authorizes the execution of the Definitive Agreement between Daughters, Ministry, and Prime;

- October 10, 2014 – Ministry and Daughters enter into the Definitive Agreement with Prime;

- October 23, 2014 – Ministry and Daughters enter into Amendment No. 1 to Definitive Agreement with Prime; and

- October 24, 2014 – "Notice of Submission and Request for Consent" is submitted by Daughters to the California Attorney General.

Summary of the Definitive Agreement

The proposed Definitive Agreement, originally dated October 10, 2014, and amended on October 23, 2014, contains the following major provisions:

- At closing, to authorize Prime Inc. as the sole corporate member of Daughters, the Ministry and Daughters shall approve amended and restated articles of incorporation and bylaws of Daughters, and of each of the Hospital Corporations and Caritas Business Services;

- Daughters and Ministry will transfer the ownership and operation of Daughters, the Hospital Corporations, Caritas Business Services, and St. Vincent Dialysis Center, Inc., to Prime Inc., whereby Prime Inc. will become the sole corporate member of Daughters;

    - Daughters will be converted from a nonprofit religious corporation into a for-profit corporation, and concurrently, the Hospital Corporations and Caritas Business Services will also be converted into for-profit corporations; and

    - St. Vincent Dialysis Center, Inc., will be converted from a nonprofit public benefit corporation into a for-profit corporation and will remain a wholly-owned subsidiary of St. Vincent Medical Center.

- The ownership and operation of the Philanthropic Foundations, DCHS Medical Foundation, and St. Vincent De Paul Ethics Corporation will be transferred to Prime Foundation, and Prime Foundation will become their sole corporate member upon approval of the entities' amended articles of incorporation and bylaws by Ministry and Daughters:

    - DCHS Medical Foundation will be converted from a nonprofit religious corporation into a nonprofit public benefit corporation;
    - Modification to the name of DCHS Medical Foundation in order to eliminate any reference to Daughters as listed in the defined retained assets; and
    - St. Vincent De Paul Ethics Corporation and the Philanthropic Foundations will remain nonprofit public benefit corporations.

- Prime will acquire substantially all of the assets, with the exception of the following retained assets:

    - Intellectual property;
    - Religious artifacts and donor-restricted assets;

- Historical records and memorabilia;
- Property located at 25 San Fernando in Daly City, California 94015;
- Property located at 253 South Lake Street in Los Angeles, California 90057;
- Lease agreement between Daughters of Charity of St. Vincent de Paul, Province of the West and Daughters, dated October 1, 2001, for the building located at 26000 Altamont Road in Los Altos Hills, California;
- All furniture, fixtures, and equipment at Daughters' corporate office in Los Altos Hills, other than computer and IT equipment; and
- Accounts receivable that are payable to Daughters by Ministry and any non-affiliated entities, including:
  - GRACE, Inc.[9];
  - Daughters of Charity of St. Vincent de Paul, Province of the West; and
  - Owner of the Meals on Wheels program.

- Prime will assume the liabilities relating to:

  - Pensions;
  - CBAs;
  - Accrued, but unpaid, paid-time off, vacation, sick, and other leaves of absence;
  - Taxes, including transfer taxes, and any unpaid real estate taxes;
  - Government payment program, including any overpayments;
  - Accounts payable;
  - Short-term and long-term debt;
  - Amounts due to government agencies;
  - Accrued liabilities;
  - Incurred, but not yet recorded, liabilities;
  - All of Daughters' paid time-off, retirement benefit plans, and any off-balance sheet pension liabilities, including those arising under:
    - Multiemployer Plans;
    - Defined Benefit Church Plan[10];
    - Defined Contribution Church Plans[11], including the DCHS Medical Foundation Management Bargaining Unit 401(k) Plan, DCHS Medical Foundation 401(k) Plan, Seton CNA Money Purchase Plan, Kennedy Savings Plan, and Seton Coastside Annuity Plan; and
    - Any single-employer defined benefit plan to which the liabilities of Daughters under one or more of the Multiemployer Plans may be transferred as a result of the partition of one or more of the Multiemployer Plans.
  - Contracts, operating and capital leases, real estate leases, agreements, and commitments, including:

[9]GRACE, Inc., is a ministry of Ministry Services of the Daughters of Charity of St. Vincent de Paul that provides outreach and social services for low-income families and their children.
[10] A Defined Benefit Church Plan is a single employer non-electing church pension plan exempt from ERISA. The DCHS Retirement Plan, also referred to as the "Church Plan," covers the employees of O'Connor, St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, and Daughters' system office.
[11] Defined Contribution Church Plans are fully funded available pension plans, in which plan assets are held in trust and invested as directed by individual participants among the investment options under the plans.

        - Physician services agreements;
        - CBAs; and
        - Any continuing legal obligation to bargain with unions, including any liabilities resulting from these negotiations.
    - Any professional liability claim or similar third-party litigation related to operation of Daughters and its related entities prior to the closing;
    - Any legal violation related to acts or omissions, prior to closing, related to the operation of Daughters and its related entities;
    - Marillac Insurance Company, Ltd.; and
    - Liabilities related to D&O Insurance and the Fiduciary Liability Insurance, including, but not limited to, deductibles, copays, and any other non-covered expense or financial obligation.

- Excluded liabilities include:

    - Those liabilities related to the retained assets.

- At closing, Ministry will retain and control funds from Daughters' available cash in a separate deposit account (or Prime Inc. will deposit the necessary amount if the funds are insufficient), in the amount of $11.5 million, less the amount of severance paid to Daughters' employees who cease employment under Prime Inc., and less the amount of severance pay that would have been owed to Daughters' corporate office employees who sign new employment agreements with Prime Inc.;

- At closing, Prime Inc. shall deliver the cash purchase price amount to Daughters equaling the sum of the liabilities, including the following:

    - Total outstanding principal amount for the 2005 Bonds and 2014 Bonds[12];
    - Accrued paid-time off of any employee who is terminated as of closing;
    - Outstanding amount of any distributions from the nonqualified retirement benefit plans are to be paid to those who are entitled to these benefits[13];
    - Transfer taxes; and
    - Transaction costs upon closing[14].

- The total consideration amount estimated at $843 million to be paid by Prime Inc. for the proposed transaction consists of:

    - Estimated cash consideration in the amount of $394 million; and
    - Assumption of liabilities estimated at $449 million.

[12] The outstanding principal amount of the 2005 Bonds and 2014 Bonds totals $409,475,000, including an estimated total of $284,475,000 for the 2005 Bonds and an estimated total of $125,000,000 for the 2014 Bonds.
[13] The nonqualified retirement benefit plans include: Daughters of Charity Health System 401(a)(17) Retirement Plan, estimated at $2,600,611, and Daughters of Charity Health System 401(a)(17) Supplemental Retirement Plan Account, estimated at $528,726.30.
[14] Assumes no bankruptcy, no labor disruptions, and receipt of Quality Assurance Fees as projected.

- Prime Inc. made the following commitments:

    - For at least five years following the closing, Prime Inc. will maintain charity care policies for the treatment of indigent patients at the Health Facilities similar to the policies currently in effect, or replace these with policies of either similar or greater benefit to the community;
    - Prime Inc. will maintain the Health Facilities as general acute care hospitals, with open emergency departments, subject to physician availability, needs of the community, and financial viability, for at least five years following the closing;
    - Prime Inc. will maintain the existing chapels and provide appropriately staffed and funded pastoral care services at the Health Facilities for a minimum of five years following the closing of the transaction;
    - Prime Inc. will provide $150 million in capital expenditures at the Health Facilities over three years following the closing of the transaction;
    - Prior to closing, Prime Inc. shall make offers of employment, with comparable salaries, wages, job titles, and duties that were in effect prior to closing, to substantially all of the corporate office employees who remain in good standing and employed by Daughters as of the closing date, including the following:
        - All of Daughters' corporate office employees;
        - Executives of Daughters or employees holding executive positions;
        - Chief Executive Officers of the Health Facilities;
        - President and Chief Medical Officer of DCHS Medical Foundation; and
        - Senior Director of Caritas Business Services.
    - Prime Inc. shall continue employment, with comparable salaries, wages, job titles, and duties that were in place prior to closing, for substantially all employees who remain in good standing and employed by Daughters as of the closing date, including the following:
        - Unrepresented employees of the Health Facilities, DCHS Medical Foundation, and Caritas Business Services; and
        - Unionized employees working under CBAs.
    - Prime Inc. agrees to adhere to the severance obligations written in the employment agreements, or in the absence of any such agreement, Prime Inc. shall adhere to Daughters' severance pay obligations for a period of twelve months following the closing date;

- Prime Inc. has made the following commitments regarding the pension liabilities:

    - Will amend the Defined Benefit Church Plan and the Defined Contribution Church Plans as necessary to satisfy the requirements of ERISA and the Internal Revenue Code;
    - Will assume responsibility for all of Daughters' liabilities under the Defined Benefit Church Plan and Defined Contribution Church Plans;
    - Will reasonably cooperate with Daughters to take necessary action to assume Daughters' obligations to the Multiemployer Plans, as required by the CBAs, for substantially the same number of contribution base units for which Daughters had an obligation to contribute immediately prior to closing;

- Will provide funding for the Multiemployer Plans under the requirements of ERISA and the Internal Revenue Code;
- Will assume responsibility for Daughters' portion of the liabilities under the Multiemployer Plans; and
- Will indemnify, defend, and hold harmless Ministry and Daughters from any liability resulting from failure, or alleged failure, by Daughters to satisfy an obligation to fund the Defined Benefit Church Plan or to contribute to any of the Multiemployer Plans.

In addition to the Definitive Agreement, Prime Inc. has entered into three Memoranda of Agreements with the California Nurses Association that provide additional protections to the nurses currently employed under existing CBAs with Daughters.

Use of Net Sale Proceeds

There will be no net proceeds from the proposed transaction.

PROFILE OF DAUGHTERS OF CHARITY HEALTH SYSTEM

Daughters of Charity Health System

Daughters is a Catholic, nonprofit regional healthcare system headquartered in Los Altos Hills, California. Daughters is sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, to support the mission of the Catholic Church through their commitment to serving the sick and poor.

Daughters of Charity, a group of women dedicated to caring for the needs of the poor, was established in France by St. Vincent de Paul and St. Louise de Marillac in 1633. Daughters of Charity continued its mission and opened its first hospital in Los Angeles in 1859. Daughters of Charity expanded its hospitals into San Jose in 1889 and San Francisco in 1893. These establishments were the forerunners of St. Vincent Medical Center, the Hospital, and Seton Medical Center.

During the 1980s, Daughters of Charity expanded to include Seton Medical Center Coastside (1980), St. Francis Medical Center (1981), and Saint Louise Regional Hospital (1987). In 1986, the Hospital Corporations joined Daughters of Charity National Health System, based in St. Louis, Missouri. In 1995, the Hospital Corporations left Daughters of Charity National Health System and merged with Catholic Healthcare West. When it withdrew from Catholic Healthcare West, Daughters, as presently constituted, was formed in 2001.

Today, Daughters' Health Facilities and their locations include: the Hospital in San Jose, St. Francis Medical Center in Lynwood, St. Vincent Medical Center in Los Angeles, Medical Center in Daly City, Seton Medical Center Coastside in Moss Beach, and Saint Louise Regional Hospital in Gilroy. Daughters' corporate offices are located in Los Altos Hills, Redwood Shores, and Pasadena.

DCHS Medical Foundation

In 2011, the DCHS Medical Foundation was incorporated with Daughters as the sole corporate member. Under California Health and Safety Code section 1206(l), a clinic operated by a nonprofit corporation that conducts medical research and health education and provides healthcare to its patients through a group of 40 or more physicians and surgeons, who are independent contractors representing not less than 10 board-certified specialties, and not less than two-thirds of whom practice on a full-time basis at the clinic, is not required to be licensed.

The DCHS Medical Foundation began operations in April 2012 through the establishment of a professional services agreement with a group of approximately 200 physicians and associates of the San Jose Medical Group. DCHS Medical Foundation includes 144 full-time physicians as follows:

DCHS MEDICAL FOUNDATION: FULL-TIME PHYSICIANS 2014				
	Physician Count by Market			
Specialty	St. Francis Medical Center / St. Vincent Medical Center	O'Connor Hospital / Saint Louise Regional Hospital	Seton Medical Center / Seton Medical Center Coastside	Total
Family Practice	5	32	1	38
Internal Medicine	3	15	1	19
Hospitalist	-	6	10	16
Acute Care	-	12	-	12
Obstetrics & Gynecology	2	7	-	9
Pediatrics	2	4	-	6
General Surgery	2	2	-	4
Ophthalmology	2	2	-	4
Orthopedic Surgery	3	1	-	4
Podiatry	1	3	-	4
Total Top 10 Specialties	**20**	**84**	**12**	**116**
Other	10	18	-	28
Total Physicians	**30**	**102**	**12**	**144**

Source: Daughters

* Excludes Independent Physician Associations

In 2013, DCHS Medical Foundation acquired Northern Cal Advantage Medical Group, a regional Independent Physicians Association in Santa Clara County, comprised of approximately 200 physicians and nine additional independent physician practices.

Presently, DCHS Medical Foundation consists of urgent care centers, physician groups, and approximately 400 primary care and specialty physicians (including San Jose Medical Group and Northern Cal Advantage Medical Group). With more than 100 physicians, Santa Clara County has the largest medical foundation presence within the system. DCHS Medical Foundation's clinics and facilities are located throughout California in the communities served by the Health Facilities.

Caritas Business Services

Daughters operates Caritas Business Services, a nonprofit religious corporation. Caritas Business Services has nearly 140 employees and provides support services to Daughters and the Hospital Corporations including accounting, finance, patient financial services, supply chain management, and purchasing services for the entire health system.

De Paul Ventures, LLC

De Paul Ventures, LLC, is a wholly-owned and operated holding company of Daughters that was formed in August 2010 for the purpose of investing in a freestanding surgery center and other healthcare entities.

In February 2011, De Paul Ventures, LLC formed De Paul Ventures – San Jose ASC, LLC, a limited liability company. De Paul Ventures – San Jose ASC, LLC, owns a 25% interest as a limited partner in a partnership with Physician Surgery Services, dba Advanced Surgery Center, a freestanding surgery center in San Jose.

In April 2013, De Paul Ventures, LLC formed De Paul Ventures – San Jose Dialysis, LLC. In May 2013, De Paul Ventures – San Jose Dialysis, LLC, entered into an ownership agreement with Priday Dialysis, LLC, a Delaware ambulatory healthcare center specializing in end-stage renal disease treatment.

Marillac Insurance Company, Ltd.

Daughters is the sole shareholder of Marillac Insurance Company, Ltd., a Caymans entity. Marillac Insurance Company, Ltd., was incorporated in 2003 as a captive insurance company to self-insure the system for professional and general liability exposures.

St. Vincent De Paul Ethics Corporation

St. Francis Medical Center is the sole corporate member of St. Vincent De Paul Ethics Corporation, which does not hold any assets.

Daughters' Inpatient Volume

Over the past five years, the number of inpatient discharges has declined by nearly 20% to approximately 48,000 discharges in FY 2014. While inpatient discharges decreased by 4.4% between FY 2013 and FY 2014, emergency services increased by 4.6% over the same period.

The following table provides inpatient volume trends for FY 2013 and FY 2014:

DAUGHTERS' TOTAL SERVICE VOLUMES: FY 2013 AND 2014

	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Seton Medical Center Coastside		Daughters' Total	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Licensed Beds	384	384	366	366	358	358	93	93	357	357	121	121	1,679	1,679
Available Beds	382	382	366	366	281	282	93	93	307	294	121	121	1,550	1,538
Discharges	18,957	18,850	9,213	8,244	11,751	10,971	3,021	3,044	7,125	6,755	101	86	50,168	47,950
Patient Days	87,944	87,676	52,946	47,942	52,175	49,663	11,026	10,550	47,479	46,805	38,782	37,382	290,352	280,018
Average Daily Census	241	240	145	131	143	136	30	29	130	128	106	102	795	767
Acute Licensed Beds	314	314	320	320	334	334	72	72	274	274	5	5	1,319	1,319
Acute Available Beds	312	312	253	252	257	258	72	72	224	250	5	5	1,123	1,150
Acute Discharges	16,738	16,329	8,156	7,223	11,725	10,947	3,021	3,044	7,080	6,717	-	-	46,720	44,260
Acute Patient Days	70,073	69,665	38,869	34,634	44,952	41,747	11,026	10,550	33,687	33,039	-	-	198,607	189,635
Acute Average Length of Stay	4.2	4.3	4.8	4.8	3.8	3.8	3.7	3.5	4.8	4.9	-	-	4.3	4.3

Source: Daughters, 2013 Audited & 2014 Unaudited Internal Financials
(1) These figures provided by Daughters differ slightly from OSHPD data reported in subsequent tables, which is cited in the source

Financial Profile

Statement of Operations

DAUGHTERS' STATEMENT OF OPERATIONS: FY 2014 (thousands)

	St. Francis Medical Center		St. Vincent Medical Center		O'Connor Hospital		Saint Louise Regional Hospital		Seton Medical Center		Daughters' Total (including all other entities)	
	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Net Patient Service Revenue	$440,397	$310,816	$191,904	$178,544	$308,334	$260,822	$93,517	$83,636	$257,931	$233,921	$1,352,711	$1,136,719
Provision and Write-Off of Doubtful Accounts	($68,275)	($12,128)	($1,177)	($5,530)	($23,897)	$11,612	($15,144)	($3,399)	($12,732)	($10,218)	($121,836)	($43,282)
Premium Revenue	$33,019	$40,211	$8,593	$10,176	-	-	-	-	-	-	$65,489	$83,298
Other Revenue	$7,523	$3,726	$5,746	$15,499	$9,131	$1,551	$779	$2,518	$6,241	$18,477	$29,433	$60,619
Contributions	$4,146	$5,618	$1,774	$1,889	$1,582	$1,459	$883	$977	$593	$569	$16,723	$157,695
Total Unrestricted Revenues & Other Support	$416,810	$348,243	$206,840	$200,578	$295,150	$272,220	$80,035	$83,732	$252,033	$242,752	$1,342,520	$1,395,049
Salaries and Benefits	$190,873	$196,608	$100,488	$102,314	$188,899	$189,846	$52,270	$57,514	$159,549	$153,681	$783,586	$805,077
Supplies	$30,277	$32,650	$46,151	$42,855	$40,593	$43,301	$7,351	$7,763	$36,258	$35,819	$170,261	$172,346
Provision for Doubtful Accounts	-	-	-	-	-	-	-	-	-	-	-	-
Purchased Services & Other	$134,659	$116,359	$81,531	$71,596	$71,213	$65,807	$22,875	$21,050	$69,289	$58,137	$393,616	$348,086
Depreciation	$17,796	$19,739	$9,882	$12,443	$14,383	$12,762	$4,338	$5,903	$10,428	$10,392	$60,439	$65,786
Net Interest	$7,026	$5,158	$4,894	$3,379	$5,060	$3,504	$2,771	$1,985	$5,840	$3,725	$25,336	$19,355
Total Expenses	$380,631	$370,514	$242,946	$232,587	$320,148	$315,220	$94,605	$94,215	$381,364	$261,754	$1,433,238	$1,410,650
Operating Income	$36,179	($22,271)	($36,106)	($32,009)	($24,998)	($43,000)	($14,570)	($10,483)	($29,331)	($19,002)	($90,718)	($15,601)
Investment Income	$8,394	$6,676	$994	$674	$2,210	$271	$49	$35	$1,028	$52	$16,252	$16,315
Excess (Deficit) of Revenues Over Expenses	$44,573	($15,595)	($35,112)	($31,335)	($22,788)	($42,729)	($14,521)	($10,448)	($28,303)	($18,950)	($74,466)	$714

Source: Daughters, 2013 Audited & 2014 Internal Unaudited Financials

Daughters' internal unaudited statement of operations for FY 2014 displays the individual performance of the Health Facilities in conjunction with Daughters' system-wide performance. The individual Health Facilities show operating losses, as well as deficits of revenue over expenses. On a system-wide basis, Daughters also reports an operating loss, though this is offset by income from investment activities (unadjusted for a substantial non-recurring item related to the favorable treatment in redeeming the 2008 Bonds).

Net Patient Service Revenue

Net patient service revenue (less provision for bad debts) of $1.1 billion represents a net decrease of $137.4 million (11.2%) as compared to FY 2013. Net patient service revenue during FY 2014 included $45.1 million in revenue from DCHS Medical Foundation, as compared to $33.4 million for FY 2013. Additionally, net patient service revenue for FY 2014 was also impacted by a decrease of $119.9 million in Hospital Qualified Assurance Fee Program[15] revenue.

Operating Expenses

Total operating expenses of $1.410 billion for FY 2014 represent a decrease of 1.6% from FY 2013. A portion of the net decrease may be attributed to the inclusion of $111.1 million in operating expenses from DCHS Medical Foundation, as compared to $75.7 million during FY 2013, as well as a decrease of $64.2 million in Hospital Qualified Assurance Fee Program expenses. Daughters' salaries and benefits amounted to nearly 70% of total expenses. This is significantly higher than the average percentage for all nonprofit general acute care hospitals in California (49% in FY 2013).

Non-Recurring Items

Daughters' statement of operations includes a large non-recurring item related to the favorable accounting treatment of the 2008 Bond Redemption in the amount of $130 million. Inclusion of this item has the effect of overstating operating income. Adjusting for this non-recurring item, FY 2014 shows an operating loss of $146.3 million and a net income loss of $130 million.

Historic Comparison

The table below displays adjusted operating/net income figures for FY 2014, as well as similar figures for FY 2011- FY 2013. Over the past several years, Daughters' operating losses have significantly increased due to changes in declining reimbursement, declining volume, and increasing salary costs. Between FY 2010 to FY 2014, Daughters reported an operating loss of between $49.4 million in 2010 to over $146.3 million in 2014.

In addition, Daughters' days cash on hand has significantly declined due to pressure from the operating losses. Days cash on hand measures the period of time in which the organization is able to meet cash requirements in the absence of outside funding. This ratio may be influenced by a variety of cash flow inflows or outflows, though higher figures generally indicate better liquidity and a safer margin to meet outflow obligations. Based on internal financial projections, Daughters expects to run out of cash by the third quarter of FY 2015 (January-March) without any financial intervention. The following table reports additional trends in operating income, net income, labor costs, and liquidity from 2010 through 2014:

[15] Hospital Qualified Assurance Fee Program: This program uses fees assessed by the state on hospitals to draw down federal matching funds. These provider fees are then issued as supplemental payments to hospitals. These provider fees are an integral element to improving access to healthcare for some of California's most vulnerable residents.

DAUGHTERS' FINANCIAL TRENDS: FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Operating Income[1] (millions)	(49.4)	(44.6)	(61.0)	(90.7)	(146.3)
Net Income (millions)	(18.8)	(4.1)	(59.5)	(74.5)	(130.0)
Labor Costs as a % of Net Patient Service Revenues	65.3%	59.2%	61.9%	63.7%	73.6%
Days Cash on Hand	93	87	70	50	31

Source: Daughters, 2014 Unaudited
(1) 2014 operating income excludes the favorable accounting treatment of the 2008 bond redemption

- Due to a $54 million net provider fees benefit, the operating income improved slightly in FY 2011, before declining in 2012, 2013, and 2014;

- Labor costs as a percentage of net patient service revenues have continued to increase to nearly 74% in 2014 (compared to Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 57.7%); and

- Liquidity levels are significantly lower than Standard & Poor's Rating Service Not-For-Profit Healthcare System Median of 204.6 days cash on hand.

Cash Position and Debt Obligations

Between FY 2013 and FY 2014, total cash and marketable securities decreased by $82.8 million (31% decrease), and total unrestricted cash and marketable securities decreased by $74.6 million (40% decrease). Over the same time period, unrestricted days cash on hand decreased by 38%, from 50 days in FY 2013 to over 31 days in FY 2014. Daughters' mounting declines in days cash on hand is one indicator of liquidity challenges.

The following table reports the summary of Daughters' outstanding obligations as of FY 2014:

DAUGHTERS' SUMMARY OF OUTSTANDING OBLIGATIONS: FY 2014	
Obligation	Amount (millions)
Total Trade, Employee, and Other Obligations	$185
2005 Bonds	$290
Other Long-Term Debt	$6
Total Short- and Long-Term Debt	**$481**
Total Unfunded Retirement Plan Liabilities	$278
Total Short-Term and Long-Term Obligations	**$759**

Source: Daughters, Unaudited Financials, 2014
(1) Excludes the $125 million 2014 Bonds

In order to address the liquidity shortage and outstanding obligations, Daughters of Charity Foundation[16] made a restricted donation of $130 million for the benefit of Daughters in October 2013. On October 25, 2013, Daughters redeemed the 2008 Bonds, consisting of the $130 million donation and a $13.7 million reserve fund, totaling $143.7 million in redemptions. The effect of the non-recurring donation on the Statement of Operations for FY 2014 is covered in the previous section.

Additionally, Daughters accessed a $125 million short-term financing bridge loan in August 2014 to provide enough days cash on hand to support hospital operations through the end of FY 2015. The bridge loan consists of the $100 million 2014 Bonds (Series A), the $10 million 2014 Bonds (Series B), and the $15 million 2014 Bonds (Series C). The bridge loan matures on July 10, 2015 and is dependent upon ensuring that the sale of all Daughters' assets is completed in a timely manner.

Credit Rating and Outlook

In April 2014, Standard & Poor's Rating Service downgraded certain bond issuances of Daughters from "BBB-" to "B-." A rating of "B-" represents less-than-investment grade status. An issuers' credit quality is generally reflective of its financial condition and ability to meet ongoing debt service obligations. A downgrade can pose future challenges for an issuer to raise capital in the debt markets as the cost of debt rises because buyers of lower rated bonds require higher rates of return to justify the greater relative risk incurred. Some of the following reasons were cited for Standard & Poor's Rating Service downgrade:

- Escalating operating losses during the past several years;
- Substantial loss from operations through the first half of FY 2014;
- Continued weakening of the balance sheet despite substantial debt refunding as a result of the restricted donation made by Daughters of Charity Foundation in the amount of $130 million in October 2013;
- Eroding unrestricted reserves;
- Lack of a merging and/or acquiring entity (at the time of Standard &Poor's decision);
- Heavy reliance on hospital provider fee benefits and disproportionate share receipts[17] to help offset operating losses; and

[16] Daughters of Charity Foundation engages in the solicitation, receipt, and administration of contributions and their disbursements to and for the benefit of the ministries of Daughters of Charity of St. Vincent de Paul, Province of the West.

[17] Disproportionate Share Hospitals serve a significantly disproportionate number of low-income patients and receive payments from the Centers for Medicaid & Medicare Services to cover the costs of providing care to uninsured patients.

- Substantially underfunded pension plans, with a 50% funded status based on projected benefit obligations at June 30, 2013.

At the time of the downgrade, Standard & Poor's Rating Service anticipated further operating losses through the second half of FY 2014. Additional downgrade potential was cited within the one-year outlook period if Daughters' divestiture plans were not finalized. This underscores the belief that the system would continue its operational difficulties on a stand-alone basis without outside intervention. Also there is the concern of continued operating pressures and the view that the balance sheet offers a "very limited cushion" to absorb continued losses.

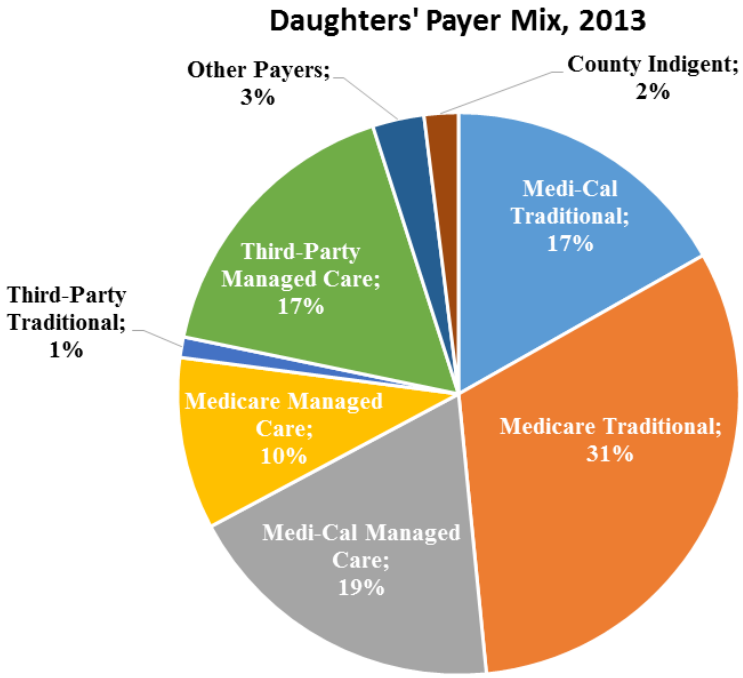
Financial Distress and Divestiture Plans

The declining financial condition of Daughters is documented in both audited and unaudited financial statements, credit rating action, and internal communications. Prior to the credit rating downgrade, internal communications and Daughters' Board meeting minutes in late 2013 reflected a growing concern of system-wide insolvency and the need to secure options.

At a subsequent Daughters' Board meeting on December 24th, 2013, a motion was approved selecting Houlihan Lokey as a financial advisor. Its directive was to guide Daughters' Board in entertaining solutions and to include staffing in the contract. An offering process was undertaken for the sale of Daughters' assets and liabilities.

Daughters' Payer Mix

In 2013, approximately 31% of Daughters' inpatient payer mix consisted of Medicare Traditional, 19% consisted of Medi-Cal Managed Care, 17% consisted of Medi-Cal Traditional, and 17% consisted of Third-Party Managed Care. The remaining 16% of Daughters' inpatient discharges consisted of Medicare Managed Care (10%), Other Payers* (3%), County Indigent (2%), and Third-Party Traditional (1%) payers.



Total Discharges: 47,950

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

Unionized Employees

Daughters has relationships with various unions across the State of California, including a system-wide CBA with Service Employees International Union, United Healthcare Workers West, that covers over 2,800 employees at the Health Facilities for the period of May 1, 2012 through April 30, 2015. In addition, each of the Health Facilities has CBAs with other unions, including California Nurses Association, California Licensed Vocational Nurses Association, United Nurses Associations of California/Union of Health Care Professionals, International Union of Operating Engineers, Local 39, and Engineering Scientists of California, Local 20. In 2013, Daughters reported approximately 7,650 employees, with nearly 74% covered under CBAs.

UNION PARTICIPATION AMONG DAUGHTERS' EMPLOYEES						
Union	St. Francis Medical Center	St. Vincent Medical Center	O'Connor Hospital	Saint Louise Regional Hospital	Seton Medical Center & Seton Medical Center Coastside	Total
Service Employees International Union, Local 250	543	419	496	274	703	2,435
Service Employees International Union, Local 250 Technical	286	-	137	-	-	423
California Nurses Association	-	364	750	269	475	1858
California Licensed Vocational Nurses Association	-	-	27	8	-	35
International Union of Operating Engineers, Local 39	-	-	17	11	22	50
United Nurses Association of California	762	-	-	-	-	762
Engineering Scientists of California, Local 20	-	-	41	17	33	91
Total	**1,591**	**783**	**1,468**	**579**	**1,233**	**5,654**

Source: Daughters

PROFILE OF O'CONNOR HOSPITAL

O'Connor

Daughters of Charity of St. Vincent de Paul founded O'Connor Hospital as the first hospital in Santa Clara County in 1889. In 1953, the Hospital moved to its current location at 2105 Forest Avenue, San Jose, CA 95128. The 358 licensed-bed, general acute care hospital provides comprehensive inpatient, outpatient, and emergency medical services for the residents of Santa Clara County.

O'Connor Foundation

O'Connor Foundation was incorporated in 1983 and is governed by a Board of Trustees. Charitable donations and endowments help fund the acquisition of new equipment, the expansion of the Hospital's facilities, healthcare services, and community outreach programs. O'Connor is the sole corporate member of O'Connor Foundation.

O'Connor Foundation has also supported the following programs:

- The Pediatric Center for Life[18]: The clinic provides primary care, including yearly wellness exams, immunizations, and urgent care treatment to children and adolescents from low-income families;

- The Health Benefits Resource Center: The program promotes access to medical care and social services for low-income families by linking community residents with public benefit and related programs; and

- Family Medicine Residency Program: The Program is a three-year residency training program in collaboration with Stanford University Medical School. O'Connor Foundation supports a portion of the costs associated with training the physicians.

[18] O'Connor Foundation no longer supports the Pediatric Center for Life as the clinic moved under the support of DCHS Medical Foundation.

Overview of the Hospital

O'Connor operates a 358 licensed-bed, general acute care hospital that serves residents from the greater San Jose area.

BED DISTRIBUTION 2014	
Bed Type	**Number of Beds**
General Acute Care	210
Intensive Care	14
Neonatal Intensive Care	10
Coronary Care	8
Pediatric	27
Perinatal	65
Total General Acute Care Beds	**334**
Skilled Nursing (D/P)	24
Total Beds	**358**

Source: Hospital License 2014

The Hospital has a "basic" emergency department[19] with 23 emergency treatment stations. It also has 11 surgical operating rooms and two cardiac catheterization labs.

Key Statistics

KEY STATISTICS			
	FY 2011	**FY 2012**	**FY 2013**
Inpatient Discharges	12,672	11,828	11,751
Licensed Beds	358	358	358
Patient Days	52,611	48,711	52,175
Average Daily Census	144	133	143
Occupancy	40.3%	37.2%	39.9%
Average Length of Stay	4.2	4.1	4.4
Emergency Services Visits	53,682	50,658	56,995
Cardiac Catheterization Procedures	2,058	1,793	1,532
Coronary Artery Bypass Graft (CABG) Surgeries[1]	66	66	70
Total Live Births	3,341	3,341	3,245

Physicians on Medical Staff	582
Hospital Employees (FTEs)	1,133

Sources: OSHPD Disclosure Reports, 2011-2013 and Daughters

[1]OSHPD Alirts Annual Utilization Reports

[19] A "basic" emergency department provides emergency medical care in a specifically designated part of a hospital that is staffed and equipped at all times to provide prompt care for any patient presenting urgent medical problems.

- In FY 2013, the Hospital had a total of 11,751 discharges, 52,175 patient days, and an average daily census of 143 (39.9% occupancy);

- Inpatient discharges have remained relatively stable since FY 2011, decreasing by only 1.0% between 2011 and 2013;

- In FY 2013, the Hospital had 56,995 emergency department visits and 3,245 obstetrical deliveries; and

- The Hospital performed approximately 1,532 diagnostic cardiac catheterization procedures in FY 2013.

Programs and Services

The Hospital offers a comprehensive range of healthcare services, including emergency, cardiac, orthopedic, cancer, obstetrics, and sub-acute care services.

- Cancer services include: Clinical labs, chemotherapy, biotherapy, radiology, radiation therapy, nuclear medicine, and endoscopic ultrasound. The Ambulatory Infusion Center offers short-term and long-term blood and intravenous transfusions;

- Critical care services include: 22 licensed beds with diagnostic and monitoring equipment to provide observation and intervention services;

- Progressive Care Unit services include: 24 beds for bedside and telemetry monitoring;

- Emergency services include: 23 emergency treatment stations, including 21 beds and two triage stations, and a designated Primary Stroke Center, with specialized services for stroke, cardiac, orthopedic, and pediatric patients;

- Cardiovascular services include: Coronary artery bypass, cardiac catheterization, valve replacement and repair, and endovascular surgeries to treat artery diseases and aneurysms. The Hospital is a designated STEMI Receiving Center;

- Imaging services include: Diagnostic radiography and fluoroscopy, digital mammography, interventional radiology, CT, MRI, ultrasound, and nuclear medicine;

- Laboratory services include: Thyroid, glucose, enzyme, lipid panel, A1C, and BHcG tests;

- Orthopedics and joint replacement services include: Total knee, shoulder, and hip replacements, back, spine, and disc surgery, shoulder surgery, and treatment of fractures and broken bones, and spine pain and arthritis management;

- Pediatric services include: Inpatient pediatric care. Approximately one-third of the Hospital's Emergency Department visits are pediatric patients;

- Rehabilitation and sports therapy services include: Inpatient acute therapy services and outpatient physical therapy, occupational therapy, and speech-language therapy;

- Stroke services include: A team of physicians, pharmacists, and therapists that coordinate the diagnosis and treatment of stroke patients. The Hospital is certified as an Advanced Primary Stroke Center; and

- Sub-acute services include: Long-term care for patients with complex medical cases, such as multiple sclerosis, Parkinson's disease, and ALS. The sub-acute care program, managed by VitalCare America, treats patients who require the use of a tracheotomy, gastronomy tube, or ventilator.

The Hospital also operates the following clinics and specialty services:

- Family Center: Offers newborn hearing assessments, breastfeeding support groups, childbirth education, and comprehensive services for high-risk pregnancies and childbirths at the neonatal intensive care unit. The Family Center delivers over 3,000 babies each year;

- Family Medicine Residency Program: Trains residents to become community physicians with expertise in fields such as cardiology, epidemiology, geriatric medicine, obstetrics, and public health. The program is affiliated with Stanford University and partners with the Indian Health Center of Santa Clara Valley, a Federally Qualified Health Center;

    - Sports Medicine Fellowship Program: Offers a Certificate of Added Qualification to two candidates in the Family Medicine Residency Program. The fellows supervise, teach, and lecture to residents in the Sports Medicine Clinics.

- Cancer Diagnosis Center: Delivers diagnostic and ongoing testing through angiography, CT, MRI, digital radiography, ultrasound, and mammography;

- Vascular Center: Provides early detection, minimally invasive procedures, and prevention treatment for endovascular conditions. The Endovascular Suite includes a flat panel detector for endovascular procedures; and

- Wound Care Clinic: Includes complete wound management using surgical techniques and hyperbaric oxygen therapy.

Accreditations, Certifications, and Awards

The Hospital is accredited by the Joint Commission, effective October 2014 through October 2017. Additionally, the Joint Commission has accredited the Hospital's clinical laboratory, effective September 2013 through September 2016.

Other accreditations, certifications, and awards the Hospital has received include:

- Accredited by the American College of Surgeons' Commission on Care for Cancer Care Program;
- Certified by the Joint Commission as a Primary Stroke Center, effective December 2013 through December 2015;
- Designated by Santa Clara County as a STEMI Receiving Center;
- Recognized by the Joint Commission for its "Centers of Excellence" for hip replacement and knee replacement, effective January 2014 through January 2016;
- Awarded a Target Stroke Award and a Get With The Guidelines 2013 Stroke Gold Plus from the American Heart Association/American Stroke Association;
- Given an "A" Rating for Hospital Safety from The Leapfrog Group Hospital Safety Score Program in 2013;
- Designated by the Blue Cross and Blue Shield Association as a Blue Distinction Center for cardiac care and knee and hip replacement.

Quality Measures

The Hospital Value-Based Purchasing Program, established by the Patient Protection and Affordable Care Act (ACA) in 2012, encourages hospitals to improve the quality and safety of care. Centers for Medicare & Medicaid Services rewards and penalizes hospitals through payments and payment reductions by determining hospital performance on the following three sets of measures: timely and effective care, surveys of patient experience, and 30-day mortality rates for heart attack, heart failure, and pneumonia patients. For FY 2013, Centers for Medicare & Medicaid Services reduced Medicare payments to the Hospital by 0.04%. During FY 2014, the Hospital was rewarded with a 0.04% Medicare payment bonus.

The following table reports the Hospital's measures of evidence-based care[20], patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average for FY 2014:

[20] Applying the current best data-driven clinical expertise and research evidence when making decisions about the care of an individual patient.

QUALITY SCORES COMPARISON: FY 2014				
Domain	**Measure**	**Hospital**	**California Average**	**National Average**
Clinical Process of Care Domain	Evidence-Based Care	**98.8%**	98.1%	98.3%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	**67.0%**	68.0%	71.0%
	% of Patients Willing to Recommend the Hospital to Others	**72.0%**	70.0%	71.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	**14.1%**	12.0%	12.3%

Source: Daughters

- For measures of evidence-based care, the Hospital scored higher than the national average (98.8% and 98.3%, respectively);
- The Hospital scored 4% lower than the national average for the percentage of patients who were highly satisfied with the Hospital;
- The percentage of patients willing to recommend the Hospital to others (72%) was slightly higher than the national average of 71%; and
- The Hospital had the highest 30-day mortality rate (14.1%) for heart failure, heart attack, pneumonia, and surgical care patients among the Health Facilities. The national average was 12.3%.

The Hospital Readmissions Reductions Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days due to the following three medical conditions: heart attack, heart failure, and pneumonia. In FY 2015, 223 California hospitals will be penalized at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

In FY 2013 and FY 2014, the Hospital was penalized at 0.46% and 0.15%, respectively. The following graph shows the combined Hospital's 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Hospital	**National Average**	**California Average**
19.7%	19.9%	19.9%

Source: Daughters

- The Hospital had slightly fewer 30-day readmissions (19.7%) than the national average (19.9%) and California average (19.9%); and
- For FY 2015, the Hospital will be penalized at 0.22% (not shown on the table).

Seismic Issues

Under the HAZUS seismic criteria[21], the Hospital's structures subject to seismic compliance have been classified according to the California Senate Bill 1953 Seismic Safety Act for the Structural Performance Category (SPC) and the Non-Structural Performance Category (NPC). These classifications require that the Hospital's structures undergo construction to comply with the California Office of Statewide Health Planning and Development's seismic safety standards.

O'CONNOR HOSPITAL SEISMIC OVERVIEW		
Building	**SPC Compliance Status**	**NPC Compliance Status**
1) Replacement Boiler House	**SPC-4s***	**NPC-1**
2) Replacement Facility (Main Hospital)	**SPC-4s***	**NPC-1**
3) 1969 Addition	**SPC-2**	**NPC-1**
4) 1953 Boiler Plant	**SPC-1**	**NPC-1**
5) 1953 Building	**SPC-1**	**NPC-1**
6) 2005 Emergency Expansion	**SPC-5**	**NPC-4**
7) Linear Accelerator	**SPC-4**	**NPC-1**
8) Canopy 1	**SPC-3**	**NPC-1**
9) Canopy 2	**SPC-3**	**NPC-1**
10) 2005 Emergency Expansion Canopy	**SPC-5**	**NPC-4**

Source: Daughters & OSHPD

* 2s, 3s, 4s and 5s indicate SPC rating self-reported by the hospital and not verified by OSHPD

- Two of the Hospital's buildings, the 1953 Boiler Plant and the 1953 Building, require upgrades to be seismically compliant. Upgrades to the 1953 Boiler Plant must be completed by January 1, 2019, and upgrades to the 1953 Building must be completed by July 1, 2019. Per Daughters, the seismic upgrades to the two building will reportedly cost approximately $18 million in order to comply with current seismic standards through 2030.

[21] OSHPD uses HAZARDS U.S. (HAZUS), a state-of-the-art methodology, to assess the seismic risk of hospital buildings.

Patient Utilization Trends

The following table shows patient volume trends at the Hospital for FY 2009 through FY 2013.

SERVICE VOLUMES: FY 2009-2013					
PATIENT DAYS	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013***
Medical/Surgical	37,020	34,977	30,060	27,432	28,847
Intensive Care	5,040	5,381	4,669	4,789	4,848
Neonatal Intensive Care	2,001	1,678	2,026	1,779	1,660
Obstetrics	9,347	8,629	8,492	8,558	8,195
Pediatric	1,765	1,710	1,468	1,532	1,402
Sub-Acute	-	-	-	3,195	7,223
Skilled Nursing	6,672	6,723	5,896	1,426	-
Total	**61,845**	**59,098**	**52,611**	**48,711**	**52,175**
DISCHARGES					
Medical/Surgical	8,248	7,614	7,194	6,686	6,854
Intensive Care	1,173	1,229	1,153	1,196	1,178
Neonatal Intensive Care	199	186	156	164	157
Obstetrics	3,704	3,377	3,329	3,265	3,195
Pediatric	411	390	363	383	341
Sub-Acute	-	-	-	93	26
Skilled Nursing	530	519	477	41	-
Total	**14,265**	**13,315**	**12,672**	**11,828**	**11,751**
AVERAGE LENGTH OF STAY					
Medical/Surgical	4.5	4.6	4.2	4.1	4.2
Intensive Care	4.3	4.4	4.0	4.0	4.1
Neonatal Intensive Care	10.1	9.0	13.0	10.8	10.6
Obstetrics	2.5	2.6	2.6	2.6	2.6
Pediatric	4.3	4.4	4.0	4.0	4.1
Sub-Acute	-	-	-	-	-
Skilled Nursing	12.6	13.0	12.4	-	-
Total	**4.3**	**4.4**	**4.2**	**4.1**	**4.4**
AVERAGE DAILY CENSUS					
Medical/Surgical	101.4	95.8	82.4	75.0	79.0
Intensive Care	13.8	14.7	12.8	13.1	13.3
Neonatal Intensive Care	5.5	4.6	5.6	4.9	4.5
Obstetrics	25.6	23.6	23.3	23.4	22.5
Pediatric	4.8	4.7	4.0	4.2	3.8
Sub-Acute	-	-	-	8.7	19.8
Skilled Nursing	18.3	18.4	16.2	3.9	-
Total	**169.4**	**161.9**	**144.1**	**133.1**	**142.9**
OTHER SERVICES					
Inpatient Surgeries	6,004	4,960	5,310	4,124	4,186
Outpatient Surgeries	9,320	10,272	10,823	11,095	10,616
Emergency Visits	50,921	54,423	53,682	50,658	56,995
Cardiac Cath Procedures	1,829	2,525	2,058	1,793	1,532
Obstetric Deliveries	3,723	3,414	3,341	3,341	3,245

Sources: OSHPD Disclosure Reports, 2009-2013

* Unaudited

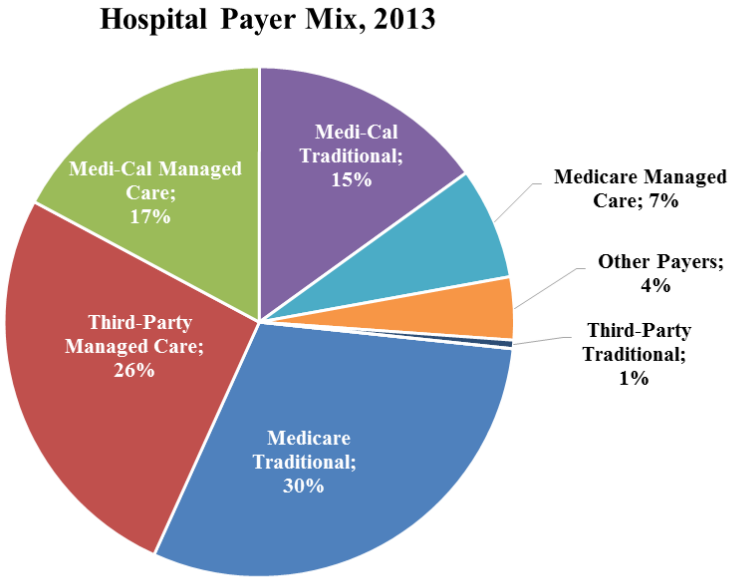
In 2012, the Hospital's skilled nursing unit began functioning as a sub-acute care unit

A review of historical utilization trends at the Hospital between FY 2009 and FY 2013 supports the following conclusions:

- Total patient days have decreased by approximately 16% from 61,845 in FY 2009 to 52,175 in FY 2013;
- Inpatient discharges have decreased 18% from 14,265 in FY 2009 to 11,751 in FY 2013;
- The average daily census has decreased from 169 patients per day in FY 2009 to 143 patients in FY 2013;
- Inpatient surgeries decreased by 30% from 6,004 in FY 2009 to 4,186 in FY 2013; and
- Obstetric deliveries have decreased by 13% from 3,723 in FY 2009 to 3,245 in FY 2013.

Payer Mix

In FY 2013, 32% of the Hospital's inpatient payer mix consisted of Medi-Cal Managed Care (17%) and Medi-Cal Traditional (15%) patients. Approximately 37% of the Hospital's inpatient payer mix consisted of Medicare Traditional (30%) and Medicare Managed Care (7%). The remaining 31% of the Hospital's inpatient discharges consisted of Third-Party Managed Care (26%) and, Third-Party Traditional (1%), and Other Payers* (4%).



Total Discharges: 11,751

* "Other Payers" includes self-pay, workers' compensation, other government, and other payers
Source: OSHPD Financial Disclosure Report, FY 2013 (based on inpatient discharges)

The following table illustrates the Hospital's inpatient discharge payer mix compared to Santa Clara County and statewide for 2013. The comparison shows that the Hospital has higher percentages of Medi-Cal Managed Care and Medicare Traditional patients and lower percentages of Third-Party Traditional and indigent patients relative to other hospitals in Santa Clara County and the State of California.

PAYER MIX COMPARISON						
	Hospital (2013)		Santa Clara County (2013)		California (2013)	
	Discharges	% of Total	Discharges	% of Total	Discharges	% of Total
Medi-Cal Traditional	1,768	15.0%	16,276	13.3%	444,932	15.0%
Medi-Cal Managed Care	2,022	17.2%	12,522	10.3%	354,720	12.0%
Medi-Cal Total	**3,790**	**32.3%**	**28,798**	**23.6%**	**799,652**	**27.0%**
Medicare Traditional	3,537	30.1%	35,685	29.2%	863,909	29.1%
Medicare Managed Care	833	7.1%	5,539	4.5%	265,857	9.0%
Medicare Total	**4,370**	**37.2%**	**41,224**	**33.8%**	**1,129,766**	**38.1%**
Third-Party Managed Care	3,060	26.0%	41,261	33.8%	657,290	22.2%
Third-Party Managed Care Total	**3,060**	**26.0%**	**41,261**	**33.8%**	**657,290**	**22.2%**
Third-Party Traditional	63	0.5%	2,229	1.8%	127,396	4.3%
Other Payers	468	4.0%	2,931	2.4%	87,399	2.9%
Other Indigent	0	0.0%	3,468	2.8%	50,699	1.7%
County Indigent	0	0.0%	2,221	1.8%	113,812	3.8%
Other Total	**531**	**4.5%**	**10,849**	**8.9%**	**379,306**	**12.8%**
Total	**11,751**	**100%**	**122,132**	**100%**	**2,966,014**	**100%**

Source: OSHPD Disclosure Reports, 2013

Medi-Cal Managed Care

The Medi-Cal Managed Care Program contracts for healthcare services through established networks of organized systems of care. Approximately 6.6 million Medi-Cal beneficiaries in all 58 counties of California receive their healthcare through six models of managed care: County Organized Health Systems, Geographic Managed Care, Two-Plan Model, Regional Model, Imperial Model, and the San Benito Model.

Santa Clara County has a Two-Plan Model for managed care that offers Medi-Cal beneficiaries a "Commercial Plan," available through Anthem Blue Cross of California, and a "Local Initiative," the Santa Clara Family Health Plan, which has a sub-capitation agreement with Santa Clara Valley Health Plan. In 2013, Santa Clara County had approximately 275,000 inpatient discharges from patients with either Medi-Cal Traditional (13.3%) or Medi-Cal Managed Care coverage (10.3%). The percentage of Santa Clara County residents with Medi-Cal Managed Care coverage will increase as a result of the ACA and state initiatives to expand managed care.

Medical Staff

The Hospital has 582 physicians on the medical staff representing various specialties. Of the 582 physicians, 488 are considered "active" users of the Hospital (representing approximately 84% of the medical staff). Internal medicine, pediatrics, and family practice are the largest three specialties, comprising 30% of the active physicians. The 94 "non-active" users of the Hospital include administrative, provisional, courtesy, temporary, and other medical staff.

MEDICAL STAFF PROFILE 2014		
Specialty	**Count**	**% of Total**
Active Physicians		
Internal Medicine	57	12%
Pediatrics	48	10%
Family Practice	41	8%
Cardiology	38	8%
Obstetrics/Gynecology	36	7%
Orthopedic Surgery	21	4%
Anesthesiology	19	4%
Teleradiology	18	4%
General Surgery	18	4%
Emergency Medicine	14	3%
Other	178	36%
Total Active	**488**	**100%**
Non-Active	94	
Total Physicians	**582**	

Source: Daughters

Unionized Employees

The Hospital has 496 employees represented by Service Employees International Union, Local 250 and 137 employees represented by Service Employees International Union, Local 250 Technical. The Daughters' system-wide CBA with Service Employees International Union, United Healthcare Workers West, for the period of May 1, 2012 through April 30, 2015, covers employees that are members of technical, service, and maintenance bargaining units at the Health Facilities.

The Hospital also has CBAs with the following unions:

- California Nurses Association for the period of July 1, 2009 through September 30, 2015. The agreement covers 750 Registered Nurses at the Hospital that are involved in direct patient care;

- California Licensed Vocational Nurses Association for the period of November 1, 2011 through October 31, 2015. This agreement covers 27 Licensed Vocational Nurses providing direct patient care;

- International Union of Operating Engineers, Local 39 for the period of October 1, 2005 through September 30, 2010 (extended during contract negotiations) that covers 17 bargaining unit members at the Hospital; and

- Engineering Scientists of California, Local 20 covering 41 employees for the term of April 8, 2014 through April 30, 2015.

In total, approximately 73% of the Hospital's employees are covered by CBAs.

EMPLOYEE UNION PARTICIPATION		
Employee Category	**Total Count***	**Full-Time Equivalents**
Union		
California Nurses Association	750	390
Service Employees International Union, Local 250	496	289
Service Employees International Union, Local 250 Technical	137	64
International Union of Operating Engineers, Local 39	17	17
Engineering Scientists of California, Local 20	41	28
California Licensed Vocational Nurses Association	27	17
Total Union	**1,468**	**805**
Non-Union		
Director	31	31
Manager	29	28
Supervisor	23	16
X-Ray Agreement	18	4
Administration	5	5
Foundation	2	2
Other	430	242
Total Non-Union	**538**	**328**
Total	**2,006**	**1,133**

Source: Daughters

* Includes full-time and part-time employees

Financial Profile

From FY 2009 to FY 2013, the Hospital reported a combined net loss of over $82 million. In FY 2013 alone, the loss was nearly $23 million. Much of the reported losses can be attributed to net patient revenue stagnating while operating expenses increased significantly (over the five-year period net patient revenue increased 4% and operating expenses increased by 15%). These losses would have been larger without net non-operating revenue[22] totaling nearly $40 million since 2010.

The Hospital's current assets-to-liabilities ratio has increased over the last five years from 1.22 in 2009 to 1.88 in FY 2013 (the California average in 2013 was 1.76). The Hospital's average percentage of bad debt is approximately 0.7%, which is lower than the statewide average of 1.7%.

FINANCIAL AND RATIO ANALYSIS: FY 2009-2013						
		FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Patient Days		61,845	59,098	52,611	48,711	52,175
Discharges		14,265	13,315	12,672	11,828	11,751
ALOS		4.3	4.4	4.2	4.1	4.4
Net Patient Revenue		$272,389,397	$278,752,977	$281,243,574	$271,023,580	$284,436,533
Other Operating Revenue		$2,340,363	$2,178,364	$1,706,185	$1,609,942	$2,384,212
Total Operating Revenues		$274,729,760	$280,931,341	$282,949,759	$272,633,522	$286,820,745
Operating Expenses		$276,688,746	$297,815,368	$315,029,575	$303,121,738	$317,012,714
Net from Operations		($1,958,986)	($16,884,027)	($32,079,816)	($30,488,216)	($30,191,969)
Net Non-Operating Revenue		($7,905,633)	$13,120,357	$13,875,082	$3,124,130	$7,337,228
Net Income		($9,864,619)	($3,763,670)	($18,204,734)	($27,364,086)	($22,854,741)
	California Average 2013					
Current Ratio	1.76	1.22	2.25	1.94	1.58	1.88
Days in A/R	59.9	53.9	53.8	48.5	51.6	47.5
Bad Debt Rate	1.7%	0.9%	0.6%	0.8%	0.5%	0.7%
Operating Margin	2.64%	-0.71%	-6.01%	-11.34%	-11.18%	-10.53%

Source: OSHPD Disclosure Reports, 2009-2013

Capital Expenditures

Between FY 2011 and FY 2013, the Hospital spent approximately $29.8 million in capital expenditures, including software and infrastructure upgrades, new medical equipment, and renovations of radiology and dialysis facility. Capital expenditure needs during FY 2015 and FY 2016 include seismic renovations, roof replacements, and electrical and fire safety upgrades. These capital expenditures are expected to cost approximately $11.8 million.

[22] Revenue received or recognized for services that are not directly related to the provision of healthcare services. Examples of non-operating revenue include unrestricted contributions, income and gains from investments, and various government assessments, taxes, and appropriations.

SUMMARY OF RECENT CAPITAL EXPENDITURES: FY 2011-2013 (in millions)			
	FY 2011	FY 2012	FY 2013
Building, Fixtures, and Leasehold			
Building Fixtures	$0.5	$0.2	$0.1
Building Improvements	$3.0	$0.4	$1.1
Furniture and Fixtures	$1.4	-	-
Sub-Total	**$3.9**	**$0.7**	**$1.2**
Software and IT			
Software	$10.3	$3.8	$1.1
Computer Equipment	$0.5	$0.2	-
Network Equipment	$1.2	$0.6	$0.6
Telephone Equipment	$0.2	$0.1	-
Sub-Total	**$12.2**	**$4.6**	**$1.7**
Medical Equipment	$1.4	$1.9	$2.3
Total	**$17.4**	**$7.2**	**$5.2**

Source: Daughters

Cost of Hospital Services

The Hospital's operating cost of services includes both inpatient and outpatient care. In FY 2013, approximately 76% of the Hospital's total costs were associated with Medi-Cal, 15% with Medicare, and 8% with Third Party payers. The remaining 1% is attributed to Other Payers.

COST OF SERVICES BY PAYER CATEGORY 2009-2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Operating Expenses	$276,688,746	$297,815,368	$315,029,575	$303,121,738	$317,012,714
Cost of Services By Payer:					
Medicare	$132,459,546	$147,560,131	$152,552,406	$142,387,451	$46,468,424
Medi-Cal	$51,671,513	$50,546,517	$66,547,935	$68,238,908	$24,129,501
County Indigent	$0	$0	$0	$0	$0
Third Party	$87,409,389	$92,225,757	$87,816,611	$79,923,370	$25,662,903
Other Indigent	$0	$0	$0	$0	$0
Other Payers	$5,148,298	$7,482,963	$8,112,623	$12,572,009	$3,586,433

Source: OSHPD Disclosure Reports, 2009-2013

Charity Care

According to the Hospital's reports submitted to OSHPD, the Hospital's charity care charges have increased from a low of $9.4 million in FY 2009 to a high of approximately $23.9 million in FY 2013. The five-year average for charity care charges was nearly $15.3 million.

The following table shows a comparison of charity care and bad debt for the Hospital and all general acute care hospitals in the state. The five-year (FY 2009 - FY 2013) average of charity care and bad debt for the Hospital, as a percentage of gross patient revenue, was 1.7%. This is lower than the four-year statewide average of 3.5%. According to OSHPD, "the determination of

what is classified as…charity care can be made by establishing whether or not the patient has the ability to pay. The patient's accounts receivable must be written off as bad debt if the patient has the ability but is unwilling to pay off the account."

CHARITY CARE COMPARISON CHARITY CARE - FY 2009 to FY 2013 (Millions)										
	2009		2010		2011		2012		2013	
	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA	Hospital	CA
Gross Patient Revenue	$1,409.3	$252,629.7	$1,543.7	$270,511.0	$1,524.7	$288,636.7	$1,435.9	$303,278.6	$1,464.4	$317,543.8
Charity	$9.4	$4,792.3	$14.0	$5,587.1	$16.8	$6,171.5	$12.2	$6,251.0	$23.9	$6,209.9
Bad Debt	$12.6	$4,333.2	$8.9	$4,510.8	$11.8	$4,815.5	$7.4	$5,046.5	$10.7	$5,549.5
Total	**$22.0**	**$9,125.6**	**$22.9**	**$10,097.9**	**$28.6**	**$10,987.0**	**$19.6**	**$11,297.5**	**$34.6**	**$11,759.4**
Charity as a % of Gross Rev.	0.7%	1.9%	0.9%	2.1%	1.1%	2.1%	0.9%	2.1%	1.6%	2.0%
Bad Debt as a % of Gross Rev	0.9%	1.7%	0.6%	1.7%	0.8%	1.7%	0.5%	1.7%	0.7%	1.7%
Total as a % of Gross Rev.	1.6%	3.6%	1.5%	3.7%	1.9%	3.8%	1.4%	3.7%	2.4%	3.7%
Uncompensated Care										
Cost to Charge Ratio	19.5%	25.1%	19.2%	25.0%	20.6%	24.6%	21.0%	24.7%	21.5%	24.4%
Cost of Charity	$1.8	$1,200.7	$2.7	$1,396.2	$3.5	$1,520.9	$2.6	$1,542.1	$5.1	$1,514.6
Cost of Bad Debt	$2.5	$1,085.7	$1.7	$1,127.3	$2.4	$1,186.8	$1.5	$1,245.0	$2.3	$1,353.5
Total	**$4.3**	**$2,286.4**	**$4.4**	**$2,523.5**	**$5.9**	**$2,707.7**	**$4.1**	**$2,787.1**	**$7.4**	**$2,868.1**

Source: OSHPD Disclosure Reports, 2009-2013

The table below shows the Hospital's historical costs for charity care as reported by OSHPD. The Hospital's charity care costs increased from $1.8 million in FY 2009 to $5.1 million in FY 2013. The average cost of charity care for the same five-year period was approximately $3.1 million.

COST OF CHARITY CARE				
Year	Charity Care Charges	Cost to Charge Ratio	Cost of Charity Care to the Hospital	Percent of Total Costs Represented by Charity Care
FY 2013	$23,897,307	21.5%	$5,137,921	1.6%
FY 2012	$12,238,789	21.0%	$2,570,146	0.8%
FY 2011	$16,793,051	20.6%	$3,450,972	1.1%
FY 2010	$13,965,719	19.2%	$2,674,435	0.9%
FY 2009	$9,404,757	19.5%	$1,831,106	0.7%
5-Year Average	**$15,259,925**		**$3,132,916**	

Source: OSHPD Disclosure Reports, 2009-2013

The Hospital reported the following distribution of charity care by inpatient, outpatient, and emergency room charges:

COST OF CHARITY CARE BY SERVICE FY 2010-2014					
		Inpatient	Outpatient	Emergency Room	Total Charges
2014:					
	Cost of Charity	$8,737,490	$1,749,237	$8,761,293	$19,248,020
	Visits/Discharges	175	372	2,666	
2013:					
	Cost of Charity	$11,829,537	$2,335,397	$9,732,373	$23,897,307
	Visits/Discharges	472	902	3,626	
2012:					
	Cost of Charity	$6,090,910	$4,989,645	$1,158,233	$12,238,788
	Visits/Discharges	393	594	2,141	
2011:					
	Cost of Charity	$8,639,914	$1,242,732	$6,910,407	$16,793,053
	Visits/Discharges	351	594	2,389	
2010:					
	Cost of Charity	$4,860,339	$1,039,833	$8,056,546	$13,965,718
	Visits/Discharges	358	528	2,062	

Source: Daughters

Community Benefit Services

The Hospital has consistently provided a significant contribution to community benefit services. As shown in the table below, the average annual cost of community benefit services over the five fiscal years has been approximately $2.7 million per year:

COMMUNITY BENEFIT SERVICES							
Community Benefit Programs	2010	2011	2012	2013	2014	5-Year Average	Total
Benefits for Persons Living in Poverty	$555,215	$685,404	$573,621	$3,653,120	$3,660,297	$1,825,531	**$9,127,657**
Benefits for the Broader Community	$1,992,258	$963,382	$850,340	$381,396	$278,516	$893,178	**$4,465,892**
Total	**$2,547,473**	**$1,648,786**	**$1,423,961**	**$4,034,516**	**$3,938,813**	**$2,718,710**	**$13,593,549**

Source: Hospital

- The Hospital's five-year average cost of community benefit services for persons living in poverty is approximately $1.8 million per year. The services for persons living in poverty include community health improvement, financial and in-kind contributions, and health professions education;

- The Hospital's five-year average cost of community benefit services to the broader community is approximately $900,000 per year. These services include community health improvement, financial and in-kind contributions, health professional education, and subsidized health services; and

- Between FY 2010 and FY 2014, the Hospital's total benefits for persons living in poverty increased from $550,000 in 2010 to $3.6 million in 2014. The Hospital's total benefits for the broader community have decreased from nearly $2.0 million in FY 2010 to approximately $300,000 in FY 2014.

The Hospital's cost of community benefit services over the past five fiscal years included the following program expenditures over $10,000:

COST OF COMMUNITY BENEFIT SERVICES FY 2010-2014					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Services over $10,000 in cost:					
Chilbirth and Family Education	$25,811	$22,987	$27,880	$25,703	$22,267
New Directions Case Management	$150,000	$112,500	$75,000	$12,500	
Medical Respite Center		$25,000	$25,000	$25,000	$25,000
Career Academy		$107,008	$109,136	$109,440	$101,232
Family Medicine Residency Program	$3,500,000	$3,900,000	$4,100,000	$4,000,000	$3,700,000
Nursing Students Clinical & Preceptorship Hours	$16,540	$46,853	$29,878	$22,954	
Living Well Community Health Education		$64,727	$114,811	$68,777	$13,097
Health Benefits Resource Center		$400,469	$359,350	$271,080	$82,262
Parish Nursing	$706,409	$1,674,308	$97,164		
Laboratory Clinical Internships		$90,297	$107,687		
Ultrasound Internships		$186,708	$141,280		
Radiology Program Internships		$40,078			
Meals on Wheels		$44,366			
Community Building Sponsorships			$27,045	$11,241	$19,975
Support Group Administration	$25,736	$27,672	$30,062	$28,055	$24,386
Palliative Care Services	$205,000	$202,000	$198,000	$184,000	$180,000

Source: Daughters

The Hospital's community benefit services have supported many programs for the community including: Living Well Community Education Classes, Health Benefits Resource Center, Career Academy, Cardiac Rehabilitation Center, Medical Respite Center, Pediatric Center for Life, and New Directions Case Management.

- Childbirth and family education: The programs provides classes for pregnant women and family on childbirth and parenting;

- Living Well Community Education Classes: The classes address a wide range of health topics, including cardiovascular disease, heart attacks, stroke, exercise, and cancer. Each month, the program presents a series of childbirth and family education classes for new families and provides support groups for various illnesses;

- Family Medicine Residency Program: The 3-year residency program trains 8 residents per year to become community physicians that care for patients of all ages. The Sports Medicine Fellowship Program is an additional component of the residency program that offers a Certificate of Added Qualification in Sports Medicine to two candidates per year.

The program is partnered with the Indian Health Center, a Federally Qualified Health Center, and affiliated with Stanford University. Students from the Stanford University School of Medicine rotate through the program, and the physician-educators hold positions on Stanford's voluntary clinical faculty;

- Health Benefits Resource Center: The program provides health benefits resources for those living in poverty. It helps low-income individuals and families enroll in government-sponsored health benefits and social services, such as CalFresh. During FY 2013, the program had nearly 2,000 visits, provided approximately 1,500 eligibility screenings, and assisted roughly 1,000 individuals in applying for health insurance;

- Career Academy: The program provides high school students with continuing education, internship, and mentorship in fields related to healthcare. The program offers the opportunity to experience different careers paths within the Hospital;

- Medical Respite Center: The program provides 15 beds for homeless patients to recover from acute hospitalization in a safe and clean environment. The program also assists the homeless with social services, health insurance enrollment, and housing placement;

- New Directions Case Management: The program helps frequent emergency room users with complex medical and psychosocial needs to find the appropriate community resources for stabilization and to obtain case management services. In FY 2013, the program ensured that 24 individuals received intensive case management services;

- Parish nursing: Nurses provide health education and community resources at local churches;

- Laboratory, ultrasound, and radiology internships: The program provides internships for students interested in these fields;

- Meals on Wheels: The program, in collaboration with Health Trust, a grant-making and policy advocacy organization, prepares and provides meals for those in need;

- Community Building Sponsorships: The program provides immunizations and glucose, cholesterol, and blood pressure screenings at health fairs;

- Support Group Administration: The program provides health education to the community; and

- Palliative Care Services: The program provides a director for palliative care services provided to patients.

PROFILE OF PRIME

Prime Healthcare Services, Inc.

Prime Inc. is a for-profit national healthcare system headquartered in Ontario, California. Today, Prime Inc. and its subsidiaries operate 29 hospitals and one skilled nursing facility in nine states, including California, Pennsylvania, Nevada, Kansas, Rhode Island, Texas, Michigan, Indiana, and New Jersey with more than 30,000 employees and 4,500 patient beds.

Dr. Reddy originally established Desert Valley Medical Group in 1985 and Desert Valley Hospital in 1994. After selling both the medical group and the hospital to PhyCor, Dr. Reddy founded Prime Inc. in 2001 for the purpose of reacquiring Desert Valley Medical Group and Desert Valley Hospital from PhyCor. Since 2001, Prime Inc. has continued to expand its presence by acquiring hospitals across the nation. Prime Inc.'s recent hospital acquisitions include the following:

- August 2014 – Prime Inc. acquires St. Mary's Hospital in Passaic, New Jersey;
- August 2014 – Prime Inc. acquires Monroe Hospital in Bloomington, Indiana;
- July 2014 – Prime Inc. acquires Garden City Hospital in Garden City, Michigan;
- May 2014 – Prime Inc. acquires East Valley Hospital Medical Center in Glendora, California. East Valley Hospital Medical Center reverts back to its original name, Glendora Community Hospital;
- December 2013 – Prime Inc. acquires Landmark Medical Center in Woonsocket, Rhode Island; and
- January 2013 – Prime Inc. acquires controlling interest in Knapp Medical Center, located in Weslaco, Texas.

In total, Prime Inc., or an affiliated entity, has acquired a total of 14 hospitals outside of California: Monroe Hospital in Indiana, Saint John Hospital and Providence Medical Center in Kansas, Garden City Hospital in Michigan, Saint Mary's Regional Medical Center in Nevada, St. Mary's Hospital in New Jersey, Lower Bucks Hospital and Roxborough Memorial Hospital in Pennsylvania, Landmark Medical Center and Rehabilitation Hospital of Rhode Island in Rhode Island, and Dallas Medical Center, Harlingen Medical Center, Knapp Medical Center, and Pampa Regional Medical Center in Texas. In addition, Prime Inc. operates Providence Place Rehabilitation Center and Providence Medical Group in Kansas, Saint Mary's Medical Group in New Jersey, and Dallas Medical Physician Group in Texas.

Within California, Prime Inc., or an affiliated entity, owns and operates approximately 2,200 beds at 11 for-profit facilities:

Alvarado Hospital Medical Center, founded in 1972, was acquired by Prime Inc. in 2010. The medical center, with 306 licensed beds and more than 800 nurses and 400 physicians, serves the residents of San Diego. The medical center offers critical care, orthopedic, drug rehabilitation, cardiology, oncology, and general surgery services.

Centinela Hospital Medical Center, located in Inglewood and acquired by Prime Inc. in 2007 serves the residents of Inglewood and its surrounding areas. In 1960, the medical center began construction on a 60 licensed bed addition. Throughout the late 1960s and 1970s, the medical center expanded to include 369 licensed beds. Today, the 369 licensed bed facility includes approximately 1,500 employees and 400 members of the medical staff. The medical center provides orthopedic services, cardiac services, and obstetrics/gynecology services, as well as a "basic" emergency department.

Chino Valley Medical Center, established in 1972, serves the communities of Chino, Ontario, and Pomona. Prime Inc. acquired the medical center in 2004. It currently is licensed for 126 beds with approximately 300 physicians and 7,000 admissions per year. Medical services include emergency treatment, intensive care, radiological, laboratory, and pain management services.

Desert Valley Hospital, located in Victorville, was founded by Dr. Reddy in 1994. The hospital is licensed for 148 beds and serves the High Desert communities of San Bernardino County. Medical services at the hospital include cardiology-neurology, imaging, laboratory, critical care, surgery, physical therapy, and Fast Track services at the "basic" emergency department.

Garden Grove Hospital Medical Center, located and servicing Garden Grove, is a 140 licensed bed acute care facility and was acquired by Prime Inc. in 2008. Established in 1982, the medical center has more than 500 employees and over 550 physician affiliates. The medical center provides 24-hour "basic" emergency treatment services, medical/surgical services, intensive care services, maternity services, and diagnostic imaging services.

Glendora Community Hospital, located in Glendora, was founded in 1958. Previously known as the East Valley Hospital Medical Center, the hospital serves the residents of Glendora and surrounding communities. It is currently licensed for 118 beds and was acquired by Prime Inc. in 2014. The hospital offers a variety of medical services including intensive and critical care services, diagnostic imaging, senior mental health, women's health services, and a 24-hour "basic" emergency department.

La Palma Intercommunity Hospital, a 141 licensed bed facility, provides La Palma and surrounding communities with general acute care services. Established in 1972 and purchased by Prime Inc. in 2006, the hospital provides emergency, maternity, behavioral health, imaging, pharmacy, and intensive care services.

Paradise Valley Hospital, located in National City, is a 291 licensed bed acute care hospital that provides obstetrics, rehabilitation, hyperbaric medicine, behavioral health, "basic" emergency

treatment, surgical, and senior health services. Founded in 1904 and acquired by Prime Inc. in 2007, the hospital operates with more than 300 physicians.

San Dimas Community Hospital, located in San Dimas, opened in 1971 and serves the communities of San Dimas, Glendora, La Verne, Covina, West Covina, Azusa, Walnut, Diamond Bar, Pomona, and Claremont. Prime Inc. purchased the hospital in 2008, and currently owns and operates the 13-acre campus with 101 licensed beds. The hospital offers cardiopulmonary services, diagnostic services, gastroenterology services, orthopedic services, rehabilitation services, women's services, and a 24-hour "basic" emergency department.

Shasta Regional Medical Center, a 246 licensed bed acute care facility located in Redding, was established in 1945. Prime Inc. purchased the medical center in 2008. The medical center provides a "basic" emergency department, cardiac catheterization, stroke treatment, and inpatient diabetes services. Outpatient services include cardiac rehabilitation, pulmonary rehabilitation, and wound care treatment.

West Anaheim Medical Center, located in Anaheim, opened in 1964 and serves the communities of Orange County. Prime Inc. purchased the medical center in 2006, and currently owns and operates the 219 licensed bed facility. The medical center offers general medical/surgical services, behavioral health services, cardiovascular services, respiratory services, and pediatric services.

Prime Healthcare Foundation, Inc.

In 2006, Dr. Reddy founded Prime Foundation for the primary stated charitable purpose of providing healthcare services to the communities served by Prime's hospitals and supporting other charitable activities, such as medical education, scholarships, community educational programs, and a public health library.

Prime Inc., or an affiliated entity, has donated six hospitals to Prime Foundation. Two of the hospitals, Knapp Medical Center and Pampa Regional Medical Center, are located in Texas. The remaining four hospitals are located in California: Encino Hospital Medical Center, Huntington Beach Hospital, Montclair Hospital Medical Center, and Sherman Oaks Hospital.

Encino Hospital Medical Center, located in Encino, is licensed for 150 beds and has more than 500 employees and 300 physicians. Prime Inc. purchased it in 2008. The medical center offers gastrointestinal services, imaging services, rehabilitation services, mental health services, respiratory therapy, sub-acute nursing services, inpatient and outpatient surgery services, and a 24-hour "basic" emergency department.

Huntington Beach Hospital, a 102 licensed bed facility with over 300 physicians and 500 employees, was founded in Huntington Beach in 1967. Acquired in 2006, the hospital was donated to Prime Foundation in 2012, and currently operates as a non-profit general acute care facility. The hospital provides emergency, surgical, cardiovascular, wound care, imaging, intensive care, and behavioral health services.

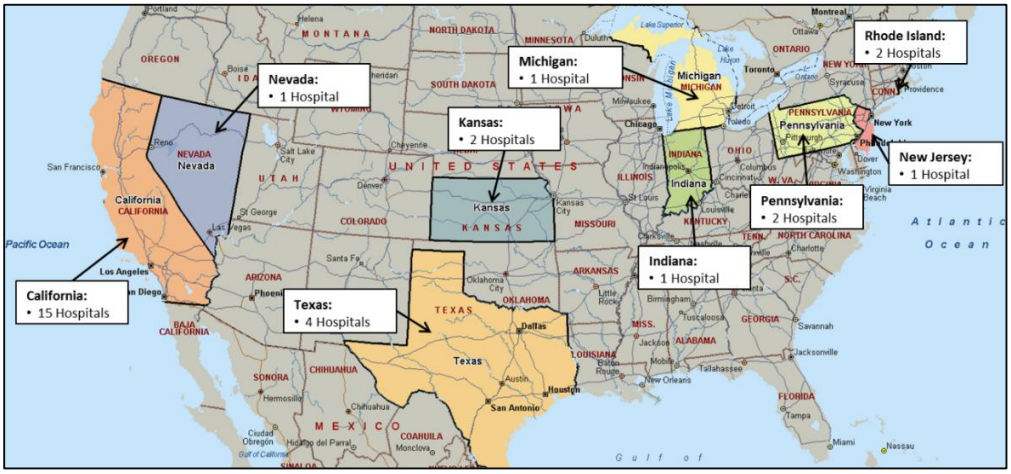
Montclair Hospital Medical Center, acquired by Prime Inc. in 2006, was donated to Prime Foundation in 2010. The 102 licensed bed facility provides healthcare services to the communities of Montclair, Ontario, Claremont, Upland, and Pomona. Healthcare services include general medicine, maternity, rehabilitation, and nutrition services.

Sherman Oaks Hospital, located in Sherman Oaks, opened in 1969 and is staffed by approximately 500 employees and 400 physicians. Prime Inc. acquired the hospital in 2005. The hospital has 153 licensed beds, and offers a 24-hour "basic" emergency department and intensive care, radiology, laboratory, surgery, behavioral health, cardiology, rehabilitation, and sub-acute nursing services.

Location of Hospitals Owned by Prime

The following map identifies the various locations of Prime's fifteen California hospitals:

The following map identifies the location and number of Prime's hospitals by state:



MDS MEDICAL DEVELOPMENT SPECIALISTS consulting

Profile of California Hospitals Owned by Prime

Prime Inc.

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013						
	Prime Inc.	Alvardo Hospital Medical Center	Centinela Hospital Medical Center	Chino Valley Medical Center	Desert Valley Hospital	Garden Grove Hospital Medical Center
City	-	San Diego	Inglewood	Chino	Victorville	Garden Grove
Licensed Beds	2,205	306	369	126	148	140
Patient Days	331,607	30,088	71,719	14,397	33,535	22,904
Discharges[1]	78,874	6,702	18,638	5,352	9,279	6,017
ALOS	4.4	4.5	3.8	2.6	3.6	3.8
Average Daily Census	83	82	196	39	92	63
Occupancy	40.0%	26.9%	53.2%	31.3%	62.1%	44.8%
ED Visits	338,896	24,734	66,449	39,737	38,826	26,838
Inpatient Surgeries	11,484	1,783	1,411	808	1,419	1,246
Outpatient Surgeries	6,728	1,111	513	191	562	815
Births	5,699	0	833	0	1,089	1,693
Payer Mix (Based on Discharges):						
Medicare Traditional	40.7%	40.5%	39.8%	26.0%	29.3%	26.3%
Managed Medicare	10.7%	7.3%	9.5%	15.2%	19.7%	9.2%
Medi-Cal Traditional	12.5%	7.1%	8.5%	11.9%	10.9%	23.8%
Managed Medi-Cal	12.9%	11.5%	25.3%	17.0%	18.9%	20.1%
County Indigent	3.7%	9.1%	0.0%	1.1%	4.5%	4.8%
Traditional Third-Party	7.9%	5.6%	7.5%	19.4%	8.7%	5.7%
Managed Third-Party	5.6%	18.4%	0.0%	5.5%	3.6%	0.7%
Other Indigent	0.6%	0.0%	4.7%	0.1%	0.0%	0.0%
Other	5.4%	0.5%	4.7%	3.8%	4.4%	9.5%
Total	100%	100%	100%	100%	100%	100%
Income Statement:						
Gross Patient Revenue	$5,386,567,996	$610,732,778	$1,327,895,579	$360,851,371	$460,079,434	$409,555,371
Net Pt. Revenue	$1,204,560,785	$129,291,325	$267,441,719	$97,671,516	$114,162,114	$100,314,453
Other Operating Revenue	$10,006,849	$853,602	$1,555,451	$461,721	$1,943,188	$509,831
Total Operating Revenue	$1,214,567,634	$130,144,927	$268,997,170	$98,133,237	$116,105,302	$100,824,284
Total Operating Expenses	$1,173,678,690	$152,906,443	$231,641,308	$91,967,579	$110,921,651	$87,800,789
Net From Operations	$40,888,944	($22,761,516)	$37,355,862	$6,165,658	$5,183,651	$13,023,495
Non-operating Revenue	$24,300,810	$2,722,890	$5,790,467	$1,572,971	$1,733,364	$2,711,872
Non-operating Expenses	$9,930,431	$642,403	$4,236,426	$12,982	$2,244,737	$1,485,650
Provision for Taxes	$0	$0	$0	$0	$0	$0
Net Income	$55,259,323	($20,681,029)	$38,909,903	$7,725,647	$4,672,278	$14,249,717
Other Financial:						
Charity Care Charges	$97,091,461	$204,241	$61,781,029	$973,296	$954,960	$4,398,297
Bad Debt Charges	$337,194,028	$17,666,251	$18,669,337	$51,303,936	$36,001,017	$29,751,204
Total Uncompensated Care	$434,285,489	$17,870,492	$80,450,366	$52,277,232	$36,955,977	$34,149,501
Cost to Charge Ratio	21.6%	24.9%	17.3%	25.4%	23.7%	21.3%
Cost of Charity	$20,974,877	$50,849	$10,704,864	$246,812	$226,200	$937,435
Uncompensated Care as % of Chgs.	8.1%	2.9%	6.1%	14.5%	8.0%	8.3%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statew ide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

CALIFORNIA HOSPITALS OWNED BY PRIME INC.: FY 2013							
	Prime Inc.	Glendora Community Hospital	La Palma Intercommunity Hospital	Paradise Valley Hospital	San Dimas Community Hospital	Shasta Regional Medical Center	West Anaheim Medical Center
City	-	Glendora	La Palma	National City	San Dimas	Redding	Anaheim
Licensed Beds	2,205	118	141	291	101	246	219
Patient Days	331,607	10,331	18,050	56,499	13,836	28,329	31,919
Discharges[1]	78,874	1,559	3,614	10,615	4,073	7,124	5,901
ALOS	4.4	6.6	5.0	5.3	3.4	4.0	5.5
Average Daily Census	83	28	49	155	38	78	87
Occupancy	40.0%	24.0%	35.1%	53.2%	37.5%	31.6%	39.9%
ED Visits	338,896	4,344	15,219	33,747	15,343	42,152	31,507
Inpatient Surgeries	11,484	284	391	476	973	1,726	967
Outpatient Surgeries	6,728	92	262	817	954	1,232	179
Births	5,699	191	403	1,080	410	0	0
Payer Mix (Based on Discharges):							
Medicare Traditional	40.7%	67.9%	47.6%	37.9%	29.7%	61.3%	41.5%
Managed Medicare	10.7%	2.8%	11.1%	5.1%	19.0%	2.7%	16.5%
Medi-Cal Traditional	12.5%	15.5%	15.9%	23.8%	5.1%	10.0%	5.4%
Managed Medi-Cal	12.9%	4.5%	8.7%	7.8%	6.7%	9.7%	11.6%
County Indigent	3.7%	0.6%	2.7%	7.8%	2.1%	0.0%	8.3%
Traditional Third-Party	7.9%	0.1%	9.4%	4.2%	7.8%	8.4%	9.6%
Managed Third-Party	5.6%	1.5%	1.4%	0.0%	25.5%	4.1%	0.9%
Other Indigent	0.6%	0.0%	0.0%	1.7%	0.0%	0.2%	0.0%
Other	5.4%	7.1%	3.1%	11.7%	4.2%	3.6%	6.3%
Total	100%	100%	100%	100%	100%	100%	100%
Income Statement:							
Gross Patient Revenue	$5,386,567,996	$66,720,923	$205,097,623	$484,672,693	$258,080,668	$798,835,700	$404,045,856
Net Pt. Revenue	$1,204,560,785	$18,644,403	$56,986,522	$137,032,609	$61,453,891	$134,359,527	$87,202,706
Other Operating Revenue	$10,006,849	$1,890,589	$253,421	$592,170	$439,988	$956,968	$549,920
Total Operating Revenue	$1,214,567,634	$20,534,992	$57,239,943	$137,624,779	$61,893,879	$135,316,495	$87,752,626
Total Operating Expenses	$1,173,678,690	$23,212,297	$52,880,927	$141,149,059	$57,663,794	$128,464,583	$95,070,260
Net From Operations	$40,888,944	($2,677,305)	$4,359,016	($3,524,280)	$4,230,085	$6,851,912	($7,317,634)
Non-operating Revenue	$24,300,810	$0	$1,313,339	$3,298,197	$1,821,798	$1,706,937	$1,628,975
Non-operating Expenses	$9,930,431	$0	$0	$757,124	$475,526	$15,583	$60,000
Provision for Taxes	$0	$0	$0	$0	$0	$0	$0
Net Income	$55,259,323	($2,677,305)	$5,672,355	($983,207)	$5,576,357	$8,543,266	($5,748,659)
Other Financial:							
Charity Care Charges	$97,091,461	$87,258	$1,660,782	$14,259,586	$1,642,068	$8,085,309	$3,044,635
Bad Debt Charges	$337,194,028	$2,175,317	$13,863,316	$15,692,625	$58,373,009	$39,551,319	$54,146,697
Total Uncompensated Care	$434,285,489	$2,262,575	$15,524,098	$29,952,211	$60,015,077	$47,636,628	$57,191,332
Cost to Charge Ratio	21.6%	32.0%	25.7%	29.0%	22.2%	16.0%	23.4%
Cost of Charity	$20,974,877	$27,885	$426,152	$4,135,333	$364,093	$1,290,551	$712,246
Uncompensated Care as % of Chgs.	8.1%	3.4%	7.6%	6.2%	23.3%	6.0%	14.2%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

Prime Foundation

CALIFORNIA HOSPITALS OWNED BY PRIME FOUNDATION: FY 2013					
	Prime Foundation	Encino Hospital Medical Center	Huntington Beach Hospital	Montclair Hospital Medical Center	Sherman Oaks Hospital
City	-	Encino	Huntington Beach	Montclair	Sherman Oaks
Licensed Beds	507	150	102	102	153
Patient Days	79,537	21,554	19,401	11,598	26,984
Discharges[1]	15,459	2,193	3,681	4,034	5,551
ALOS	23	9.8	5.3	2.9	4.9
Average Daily Census	218	59	53	32	74
Occupancy	2	39.4%	52.1%	31.2%	48.3%
ED Visits	67,779	8,306	17,390	20,964	21,119
Inpatient Surgeries	1,916	282	301	816	517
Outpatient Surgeries	1,096	198	121	432	345
Births	769	0	0	769	0
Payer Mix (Based on Discharges):					
Medicare Traditional	50.7%	72.9%	46.7%	21.1%	61.9%
Managed Medicare	8.0%	4.1%	12.3%	8.9%	6.6%
Medi-Cal Traditional	9.8%	1.8%	4.9%	26.9%	5.4%
Managed Medi-Cal	13.2%	6.5%	9.2%	26.8%	10.1%
County Indigent	2.8%	0.0%	9.5%	1.8%	0.0%
Traditional Third-Party	10.0%	10.6%	11.1%	7.1%	11.0%
Managed Third-Party	0.3%	0.0%	0.8%	0.2%	0.0%
Other Indigent	0.1%	0.0%	0.0%	0.0%	0.2%
Other	5.4%	4.1%	5.6%	7.2%	4.8%
Total	100%	100%	100%	100%	100%
Income Statement:					
Gross Patient Revenue	$857,788,170	$189,495,977	$212,387,808	$158,633,654	$297,270,731
Net Pt. Revenue	$227,598,823	$49,638,807	$55,192,622	$46,741,400	$76,025,994
Other Operating Revenue	$1,025,322	$192,860	$312,649	$249,288	$270,525
Total Operating Revenue	$228,624,145	$49,831,667	$55,505,271	$46,990,688	$76,296,519
Total Operating Expenses	$229,602,782	$53,569,715	$54,646,950	$49,291,194	$72,094,923
Net From Operations	($978,637)	($3,738,048)	$858,321	($2,300,506)	$4,201,596
Non-operating Revenue	$4,079,401	$670,815	$1,199,472	$968,783	$1,240,331
Non-operating Expenses	$257,635	$0	$271,366	$12,360	($26,091)
Provision for Taxes	$0	$0	$0	$0	$0
Net Income	$2,843,125	($3,067,233)	$1,786,427	($1,344,083)	$5,468,014
Other Financial:					
Charity Care Charges	$7,235,861	$862,638	$2,901,928	$276,772	$3,194,523
Bad Debt Charges	$91,168,065	$18,008,998	$22,926,813	$18,462,644	$31,769,610
Total Uncompensated Care	$98,403,926	$18,871,636	$25,828,741	$18,739,416	$34,964,133
Cost to Charge Ratio	26.6%	28.2%	25.6%	30.9%	24.2%
Cost of Charity	$1,928,162	$242,986	$742,388	$85,565	$771,837
Uncompensated Care as % of Chgs.	11.5%	10.0%	12.2%	11.8%	11.8%
State of Calif. Uncompensated Care[2]	3.5%	3.5%	3.5%	3.5%	3.5%

[1] Excludes normal new borns

[2] Statewide average for hospitals

Source: OSHPD Disclosure Reports FY 2013

Key Statistics

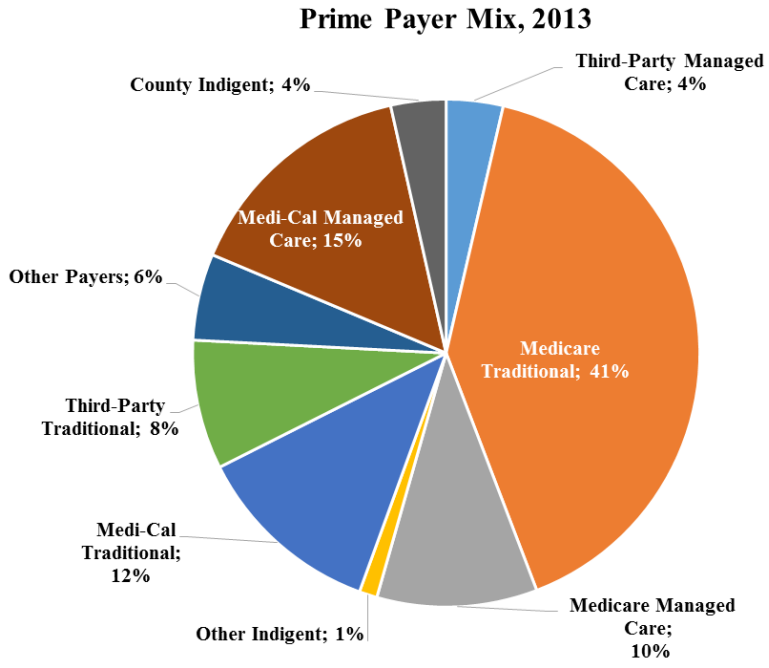
Key statistics for Prime's California hospitals include the following:

- In FY 2013, Centinela Hospital Medical Center was Prime's top performing hospital, reporting $38.9 million in net income. However, six of Prime's hospitals reported a net loss in FY 2013, with the most substantial loss reported at Alvarado Hospital Medical Center ($20.7 million); and

- In FY 2013, Prime operated 2,712 licensed beds with an average occupancy rate of 42% and an average daily census of 1,126 patients.

Payer Mix

In 2013, Prime's California inpatient payer mix consisted of predominantly Medicare Traditional (41%), Medi-Cal Managed Care (15%), Medi-Cal Traditional (12%), and Medicare Managed Care (10%). The remaining 23% of the Hospital's inpatient discharges is made up of Third-Party Traditional (8%), Other Payers* (6%), Indigent (5%), and Third-Party Managed Care (4%).



Total Discharges: 94,333

* "Other" includes self-pay, workers' compensation, other government, and other payers

Source: OSHPD Disclosure Reports, 2013

Quality & Awards

All of Prime's California hospitals have received accreditation as indicated below:

Hospital	Hospital Accreditation	Effective Date
Alvarado Hospital Medical Center	The Joint Commission	6/7/2014
Centinela Hospital Medical Center	The Joint Commission	12/8/2011
Chino Valley Medical Center	Healthcare Facilities Accreditation Program	current
Desert Valley Hospital	Healthcare Facilities Accreditation Program	current
Encino Hospital Medical Center	The Joint Commission	7/25/2014
Garden Grove Hospital Medical Center	The Joint Commission	12/3/2011
Glendora Community Hospital	Healthcare Facilities Accreditation Program	current
Huntington Beach Hospital	The Joint Commission	9/9/2011
La Palma Intercommunity Hospital	The Joint Commission	4/19/2014
Montclair Hospital Medical Center	The Joint Commission	12/10/2011
Paradise Valley Hospital	The Joint Commission	6/1/2013
San Dimas Community Hospital	The Joint Commission	11/2/2011
Shasta Regional Medical Center	The Joint Commission	10/15/2011
Sherman Oaks Hospital	Healthcare Facilities Accreditation Program	current
West Anaheim Medical Center	The Joint Commission	9/1/2011

Source: The Joint Commission Accreditation Program and Health Facilities Accreditation Program

Prime has received several accolades and achievements, some of which include:

- *Healthcare IT News*' "Best Hospital IT Departments" ranked Prime's information technology department fifth in the "Super Hospital" category;

- Centers of Medicare and Medicaid Services' Hospital Value-Based Purchasing Program named Centinela Hospital Medical Center as one of the top 25 hospitals nationwide based on value-based purchasing scores; and

- The Joint Commission recognized 11 of Prime's hospitals as Top Performers on Key Quality Measures. The hospitals in California include: Centinela Hospital Medical Center, Encino Hospital Medical Center, Garden Grove Hospital Medical Center, Huntington Beach Hospital, La Palma Intercommunity Hospital, Paradise Valley Hospital, San Dimas Community Hospital, and Shasta Regional Medical Center; in Kansas: Saint John Hospital; in Pennsylvania: Roxborough Memorial Hospital; and in Texas: Harlingen Medical Center.

The following table reports Prime's FY 2014 quality scores for measures of evidence-based care, patient satisfaction, patient willingness to recommend the hospital, and 30-day mortality rates for heart attack, heart failure, pneumonia, and surgical care patients in comparison to the national average:

QUALITY SCORES COMPARISON: FY 2014				
Domain	**Measure**	**Prime Average**	**California Average**	**National Average**
Clinical Process of Care Domain	Evidence-Based Care	**98.8%**	98.1%	98.3%
Patient Experience of Care Domain	% of Patients Highly Satisfied with Hospital	**61.0%**	68.0%	71.0%
	% of Patients Willing to Recommend the Hospital to Others	**62.0%**	70.0%	71.0%
Outcome Domain	30-Day Mortality Rate for Heart Attack, Heart Failure, Pneumonia, and Surgical Care Patients	**10.4%**	12.0%	12.3%

Source: Daughters

- For measures of evidence-based care, Prime scored higher than the national average (98.8% and 98.3%, respectively);
- Prime scored 10% lower than the national average for the percentage of patients who were highly satisfied with the Hospital;
- The percentage of patients willing to recommend Prime's facilities to others (62%) was 9% lower than the national average of 71%; and
- Prime had a lower 30-day mortality rate (10.4%) for heart failure, heart attack, pneumonia, and surgical care patients than the national average of 12.3%.

The Hospital Readmissions Reduction Program, implemented in 2012, penalizes hospitals for high patient readmissions within 30 days of discharge. Hospital readmissions following treatment for heart attack, heart failure, and pneumonia are considered to be indicative of poor quality. In FY 2015, 223 California hospitals will be penalized by reducing federal reimbursement at an average of 0.41%. The penalty is administered by reducing all of a hospital's reimbursement payments under the Medicare program by a certain percentage for the entire year.

The following graph shows Prime's 30-day readmission rate for heart attack, heart failure, pneumonia, and surgical patients for FY 2014:

30-DAY READMISSION RATES: FY 2014		
Prime Average	**California Average**	**National Average**
20.6%	19.9%	19.9%

Source: Daughters

- Prime had slightly higher 30-day readmissions (20.6%) than the national average of 19.9%;
- For FY 2015, Prime Inc.'s hospitals will be penalized at an average reported estimate of 0.27%: Alvarado Hospital Medical Center (0.05%), Centinela Hospital Medical Center

(0.79%), Chino Valley Medical Center (0.02%), Desert Valley Hospital (0.38%), Garden Grove Hospital Medical Center (0.13%), Glendora Community Hospital (0.00%), La Palma Intercommunity Hospital (0.20%), Paradise Valley Hospital (0.05%), San Dimas Community Hospital (0.46%), Shasta Regional Medical Center (0.65%), and West Anaheim Medical Center (0.29%);

- For FY 2015, Prime Foundation's hospitals will be penalized at an average reported estimate of 0.36%: Encino Hospital Medical Center (0.35%), Huntington Beach Hospital (0.38%), Montclair Hospital Medical Center (0.20%), and Sherman Oaks Hospital (0.49%); and

- Prime's combined hospitals will be penalized at an average reported estimate of 0.30% for FY 2015.

Dr. Prem Reddy Family Foundation

The Dr. Prem Reddy Family Foundation, located in Victorville, is a nonprofit 501(c)(3) charitable organization established in 1986 for the purpose of providing and supporting healthcare education for residents of Southern California and the High Desert communities.

It supports community educational programs, diabetes educational programs, AARP 55 Drive Alive Program, and Lamaze classes for expectant mothers:

- Educational scholarships include: support for students pursuing careers in healthcare, including the Academic Excellence Endowed Scholarship for California State University, San Bernardino, the Western University of Health Sciences, Chaffey Community College, and the Weekend Nursing Program at Victor Valley College;

- Public Health Library includes: books, journals, magazines, videos, and Internet for access to health-related topics. The library, located in Victorville, provides resources for college students, and offers tours for pre-school through high school groups;

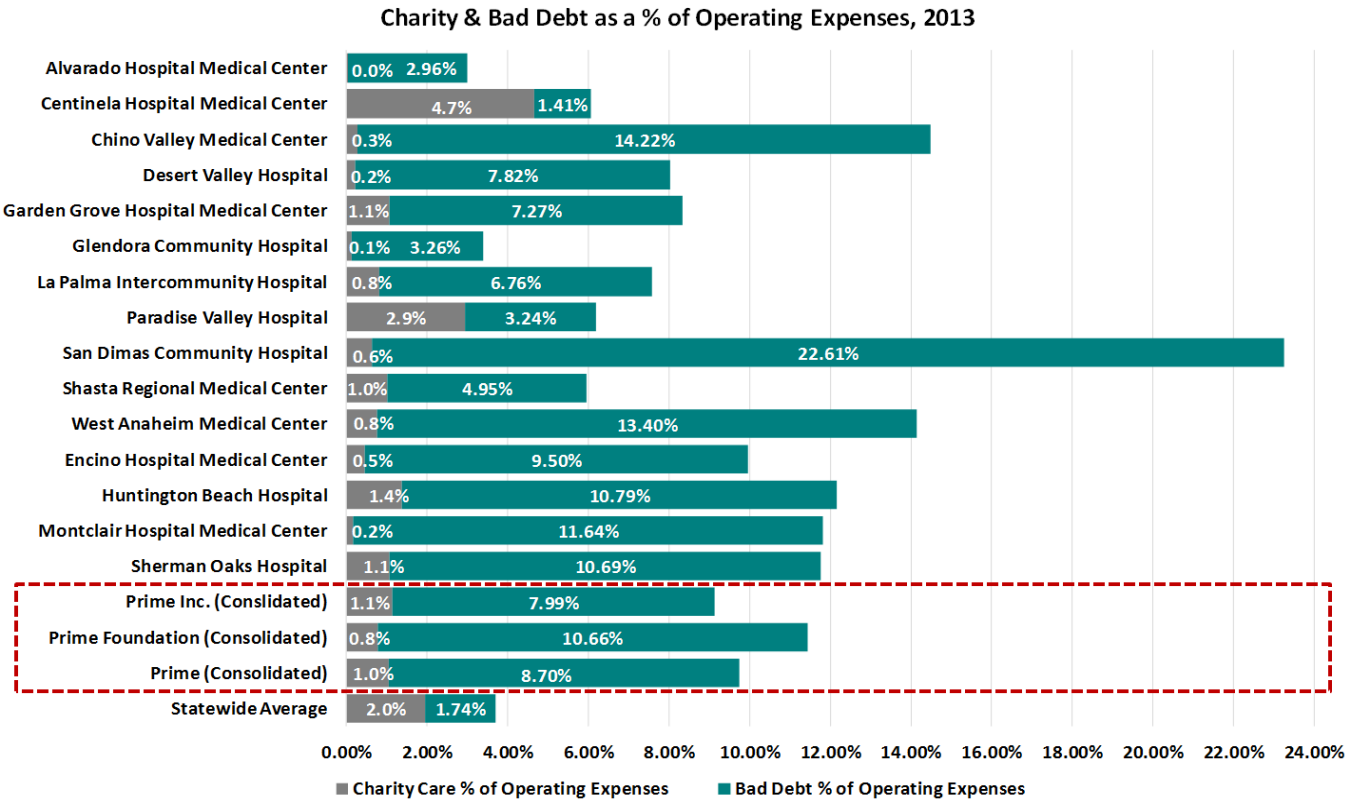
- Circle of Care Foundation includes: the S+AGE program for seniors and the Circle of Care Leeza's Place that offers assistance to individuals and their caregivers who are affected by memory disorders;

- Circle of Friends Program includes: healthcare services at a community health clinic in Huntington Beach for the senior community of Orange County; and

- Kelly Lukart's Vision for the Future Program includes: free eyeglasses for elementary school children.

Charity Care and Bad Debt

The table below shows Prime's charity care and bad debt as a percentage of operating expenses in comparison to the statewide average. Overall, Prime's charity care as a percentage of operating expenses is 1.0% compared to the statewide average of 2.0%. Prime's percentage of charity care and bad debt combined as a percentage of operating expenses (9.7%) far exceeds the statewide average of 3.7%.



Source: OSHPD Disclosure Reports, 2013

ANALYSIS OF O'CONNOR HOSPITAL'S SERVICE AREA

Service Area Definition

The Hospital's service area is comprised of 26 ZIP Codes, from which approximately 82% of its discharges originated in 2013. Approximately 50% of the Hospital's discharges came from the top ten ZIP Codes, located in San Jose, Santa Clara, and Milpitas. In 2013, the Hospital's market share in the service area was 12%.

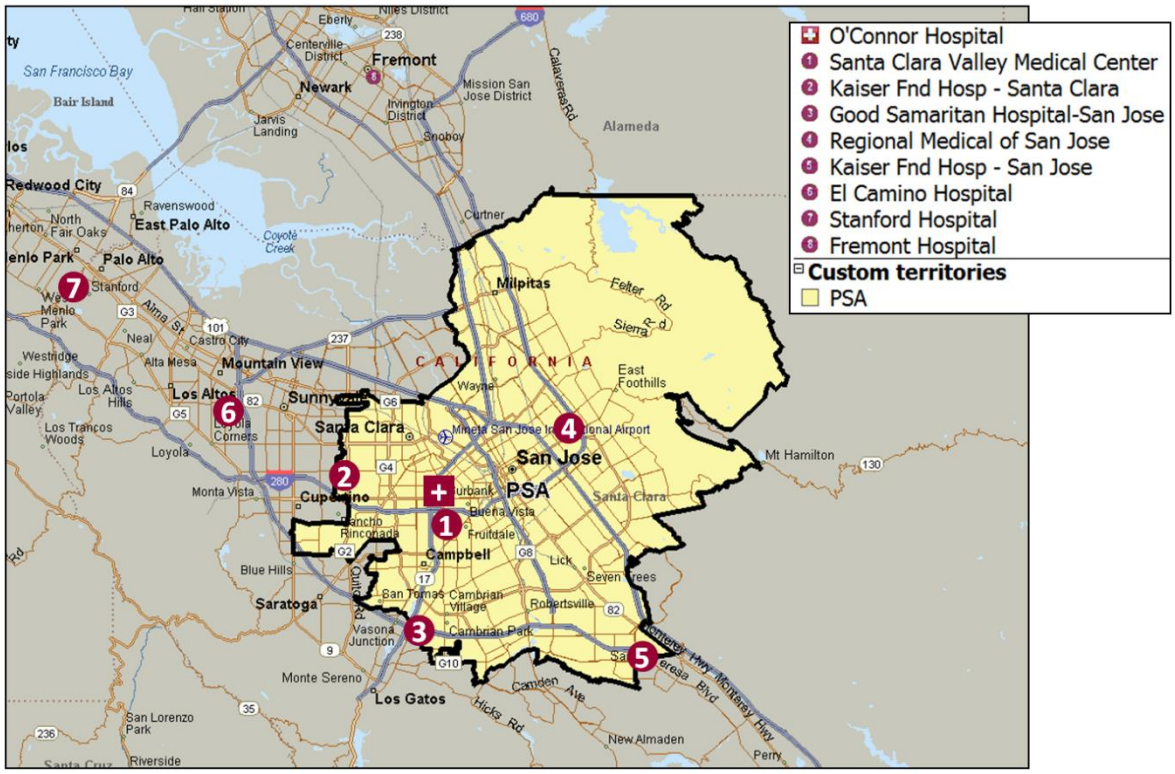
SERVICE AREA PATIENT ORIGIN MARKET SHARE BY ZIP CODE: 2013						
ZIP Codes	Community	Total Discharges	% of Discharges	Cumulative % of Discharges	Total Area Discharges	Market Share
95122	San Jose	695	5.9%	5.9%	4,609	15.1%
95112	San Jose	662	5.6%	11.5%	4,106	16.1%
95127	San Jose	654	5.5%	17.0%	5,050	13.0%
95128	San Jose	628	5.3%	22.3%	3,312	19.0%
95111	San Jose	605	5.1%	27.4%	4,441	13.6%
95050	Santa Clara	583	4.9%	32.3%	2,871	20.3%
95125	San Jose	570	4.8%	37.1%	4,372	13.0%
95116	San Jose	561	4.7%	41.8%	4,942	11.4%
95126	San Jose	519	4.4%	46.2%	2,641	19.7%
95035	Milpitas	413	3.5%	49.7%	4,139	10.0%
95117	San Jose	365	3.1%	52.8%	2,248	16.2%
95121	San Jose	361	3.0%	55.8%	2,639	13.7%
95051	Santa Clara	343	2.9%	58.7%	3,775	9.1%
95132	San Jose	333	2.8%	61.5%	2,674	12.5%
95148	San Jose	308	2.6%	64.1%	2,909	10.6%
95123	San Jose	307	2.6%	66.7%	4,663	6.6%
95136	San Jose	273	2.3%	69.0%	3,121	8.7%
95133	San Jose	237	2.0%	71.0%	1,808	13.1%
95110	San Jose	232	2.0%	73.0%	1,461	15.9%
95008	Campbell	218	1.8%	74.8%	3,238	6.7%
95131	San Jose	217	1.8%	76.6%	1,808	12.0%
95129	San Jose	186	1.6%	78.2%	2,017	9.2%
95124	San Jose	175	1.5%	79.7%	3,328	5.3%
95118	San Jose	174	1.5%	81.2%	2,579	6.7%
95113	San Jose	47	0.4%	81.6%	717	6.6%
95053	Santa Clara	3	0.03%	81.6%	6	50.0%
Sub-Total		**9,669**	**81.6%**	**81.6%**	**79,474**	**12.2%**
All Other		2,206	18.4%	100%		
Total		**11,875**	**100%**			

Source: OSHPD Patient Discharge Database, 2013

Service Area Map

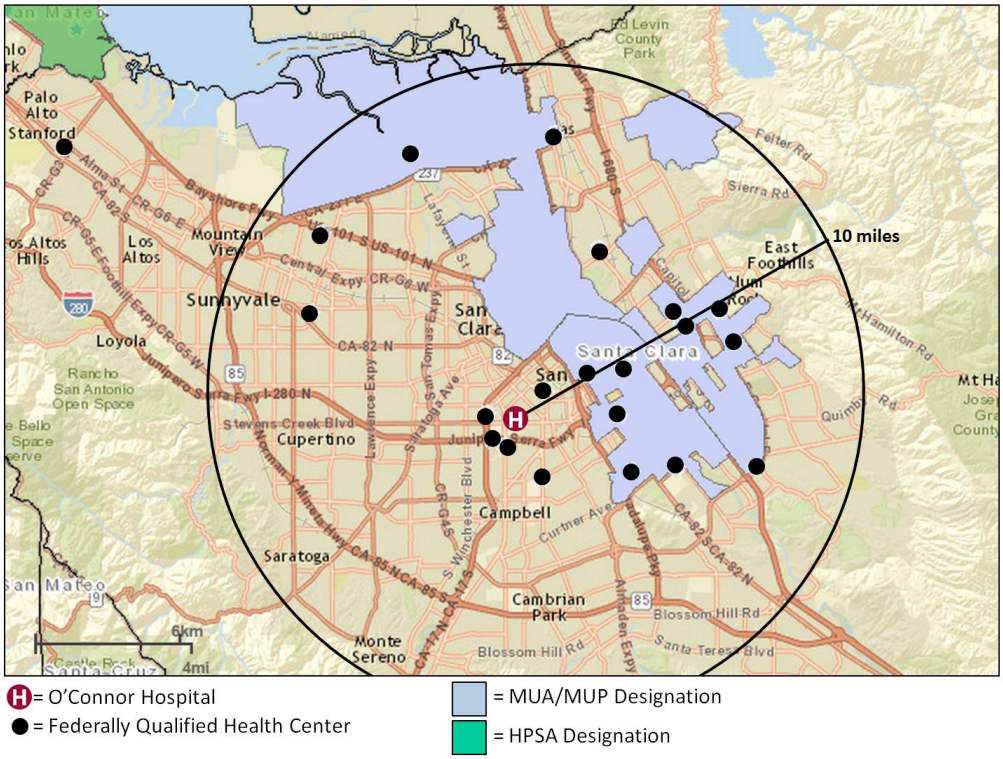
The Hospital's service area, with approximately 1.1 million residents, includes the communities of San Jose, Santa Clara, Milpitas, and Campbell.

There are four other hospitals located with the Hospital's service area: Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose. Santa Clara Valley Medical Center is the overall market leader in the Hospital's service area.



Health Professional Shortage Areas, Medically Underserved Areas, & Medically Underserved Populations

The Federal Health Resources and Services Administration designates Health Professional Shortage Areas as areas with a shortage of primary medical care, dental care, or mental health providers. They are designated according to geography (i.e., service area), demographics (i.e., low-income population), or institutions (i.e., comprehensive health centers). Medically Underserved Areas and Medically Underserved Populations are defined by the Federal Government to include areas or population groups that demonstrate a shortage of healthcare services. This designation process was originally established to assist the government in allocating community health center grant funds to the areas of greatest need. Medically Underserved Areas are identified by calculating a composite index of need indicators compiled and compared with national averages to determine an area's level of medical "under service." Medically Underserved Populations are identified based on documentation of unusual local conditions that result in access barriers to medical services. Medically Underserved Areas and Medically Underserved Populations are permanently set and no renewal process is necessary. The map below depicts these shortage and underserved areas relative to the Hospital's location.



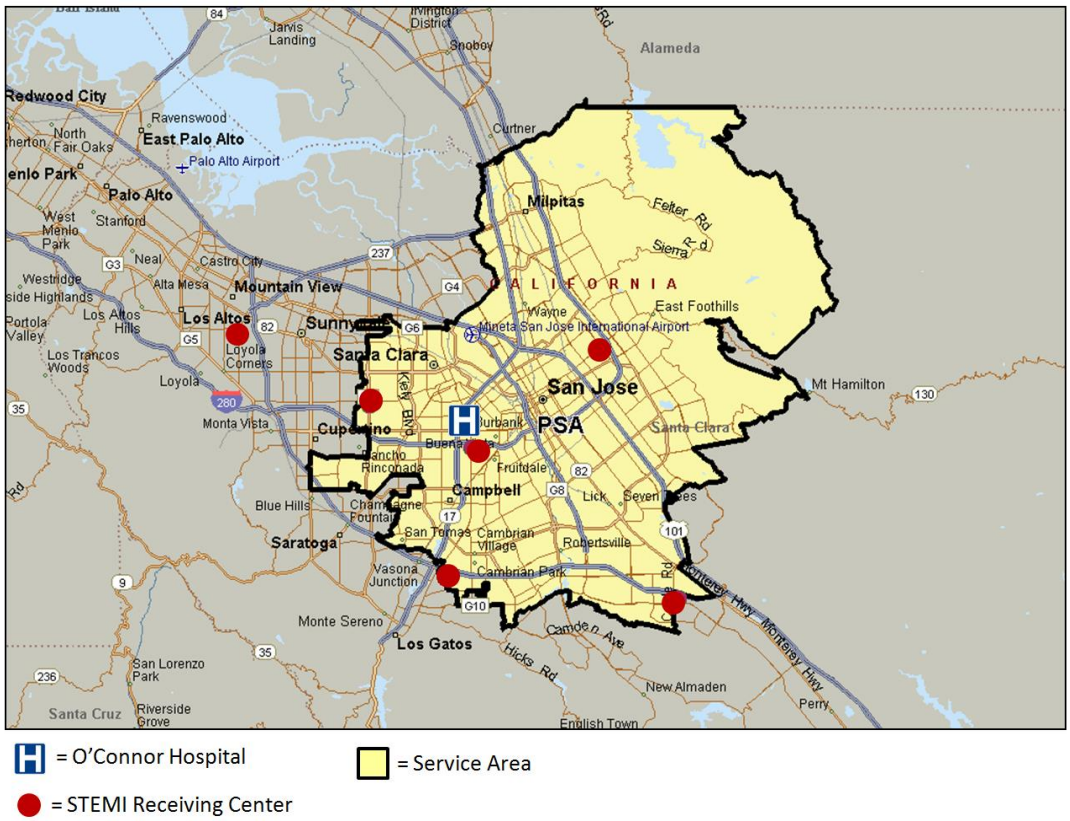
Neither the Hospital, nor its service area, are located in or near a Health Professional Shortage Area. The closest Health Professional Shortage Areas are located to the northwest approximately 18 miles away. Despite the Hospital not being situated in a designated Medically Underserved Area/Medically Underserved Population, the majority of the Hospital's service area to the north and east is Medically Underserved Area/Medically Underserved Population designated, suggesting there is a shortage of healthcare services in this area.

In addition, there are twenty Federally Qualified Health Centers within a ten mile radius of the Hospital. Federally Qualified Centers are health clinics that qualify for enhanced reimbursement from Medicare and Medicaid. Federally Qualified Health Centers must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors. The ACA included provisions that increased federal funding to Federally Qualified Health Centers to help meet the anticipated demand for healthcare services by those individuals who gained healthcare coverage through the various health exchanges.

STEMI Receiving Centers in Santa Clara County

There are seven STEMI Receiving Centers in Santa Clara County that administer percutaneous coronary intervention for patients experiencing an acute heart attack. They are located at the Hospital, Regional Medical Center of San Jose, Good Samaritan Hospital – San Jose, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, and Santa Clara Valley Medical Center.

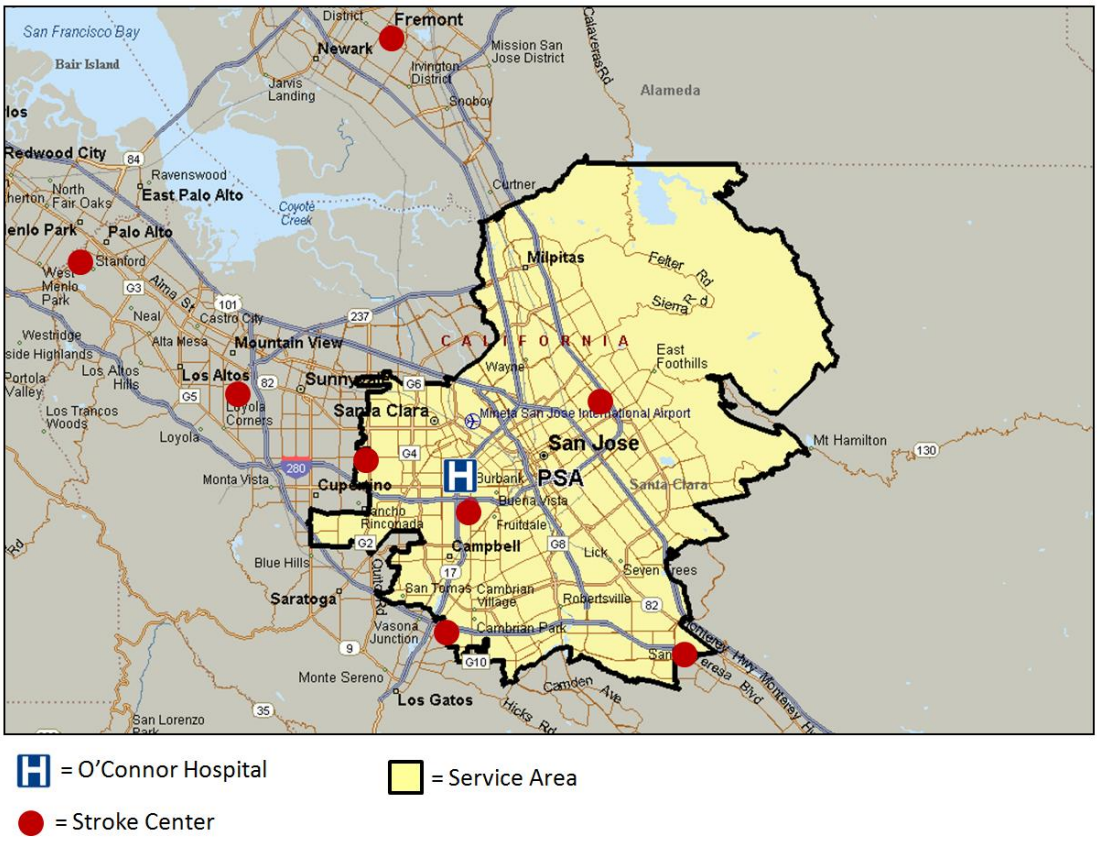
In addition to the Hospital's STEMI Receiving Center, four of the seven STEMI Receiving Centers in Santa Clara are located within the Hospital's service area. They are located at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center.



Certified Stroke Centers in Santa Clara County

There are nine Joint Commission-Certified Stroke Centers in Santa Clara County, including three Comprehensive Stroke Centers, located at Stanford Hospital, Regional Medical Center of San Jose, and Good Samaritan Hospital – San Jose, and six Primary Stroke Centers, located at the Hospital, Kaiser Foundation Hospital – San Jose, Kaiser Foundation Hospital – Santa Clara, El Camino Hospital, Saint Louise Regional Hospital, and Santa Clara Valley Medical Center.

In addition to the Hospital's Primary Stroke Center, the stroke centers at Regional Medical Center of San Jose, Good Samaritan Hospital, Kaiser Foundation Hospital – Santa Clara, and Santa Clara Valley Medical Center are also located within the Hospital's service area.



Demographic Profile

The Hospital's service area population is projected to grow by 2.5% over the next five years. This is lower than the expected growth rate for Santa Clara County (2.9%) and statewide (4.0%).

SERVICE AREA POPULATION STATISTICS 2014-2019			
	2014 Estimate	2019 Projection	% Change
Total Population	1,095,399	1,123,113	2.5%
Households	355,786	366,595	3.0%
Percentage Female	49.5%	49.5%	2.5%

Source: Alteryx's Analytic Apps

The median age of the population in the Hospital's service area is 35.4 years, which is comparable to the statewide median age of 35.5 years. The percentage of adults over the age of 65 is the fastest growing age cohort and projected to increase by approximately 15% between 2014 and 2019. The number of women of child-bearing age is expected to decrease slightly over the next five years.

AGE DISTRIBUTION: 2014-2019				
	2014 Estimate		2019 Projection	
	Population	% of Total	Population	% of Total
Age 0-14	220,806	20.2%	227,166	20.2%
Age 15-44	490,995	44.8%	486,577	43.3%
Age 45-64	269,503	24.6%	278,536	24.8%
Age 65+	114,095	10.4%	130,834	11.6%
Total	**1,095,399**	**100%**	**1,123,113**	**100%**
Female 15-44	236,269	21.6%	233,872	20.8%
Median Age	35.4		36.1	

Source: Alteryx's Analytic Apps

The largest population cohorts in the Hospital's service area are Whites (41%) and Asian/Pacific Islanders (34%). Approximately 67% of the service area is of Non-Hispanic ethnicity. This is lower than the Santa Clara County Non-Hispanic ethnic population (73%), but higher than the California Non-Hispanic ethnic population (61%).

SERVICE AREA POPULATION RACE/ETHNICITY: 2014-2019		
	2014	2019
White	41.3%	39.9%
Black	3.1%	3.1%
American Indian or Alaska Native	0.9%	0.9%
Asian or Pacific Islander	33.8%	34.2%
Other Race	15.8%	16.4%
Two or More Races	5.2%	5.6%
Total	**100%**	**100%**
Hispanic Ethnicity	33.3%	34.4%
Non-Hispanic or Latino	66.8%	65.6%
Total	**100%**	**100%**

Source: Alteryx's Analytic Apps

The average household income in the service area is $107,679. This is approximately 18% less than the county average of $127,270, and 23% above the statewide average of $87,521. Projections anticipate that the percentage of higher income households ($150,000+) in the Hospital's service area will grow at slower rate than those for the county, but at a higher rate than statewide.

SERVICE AREA POPULATION HOUSEHOLD INCOME DISTRIBUTION: 2014-2019												
	2014 Estimate						2019 Projection					
	Service Area		Santa Clara County		California		Service Area		Santa Clara County		California	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
$0 - $15,000	30,006	8.4%	46,564	7.3%	1,484,147	11.3%	24,828	6.8%	37,912	5.8%	1,275,300	9.3%
$15,000 - $24,999	25,799	7.3%	40,286	6.3%	1,325,082	10.1%	23,380	6.4%	35,680	5.4%	1,235,052	9.0%
$25,000 - $34,999	24,225	6.8%	38,626	6.0%	1,220,260	9.3%	21,989	6.0%	34,444	5.2%	1,144,140	8.4%
$35,000 - $49,999	36,718	10.3%	57,881	9.1%	1,672,179	12.7%	33,298	9.1%	51,576	7.8%	1,576,670	11.5%
$50,000 - $74,999	52,794	14.8%	84,688	13.3%	2,235,800	17.0%	43,998	12.0%	69,331	10.5%	2,142,699	15.7%
$75,000 - $99,999	45,815	12.9%	77,594	12.2%	1,600,574	12.2%	38,489	10.5%	63,676	9.7%	1,749,144	12.8%
$100,000 - $149,999	73,053	20.5%	134,416	21.1%	1,944,936	14.8%	87,734	23.9%	156,776	23.8%	2,453,231	17.9%
$150,000 +	67,375	18.9%	158,453	24.8%	1,644,190	12.5%	92,879	25.3%	209,533	31.8%	2,108,282	15.4%
Total	**355,785**	**100%**	**638,508**	**100%**	**13,127,168**	**100%**	**366,595**	**100%**	**658,928**	**100%**	**13,684,518**	**100%**
Average Household Income	**$107,679**		**$127,270**		**$87,521**		**$129,092**		**$152,108**		**$100,285**	

Source: Alteryx's Analytic Apps

Medi-Cal Eligibility

As of 2011, the California Department of Health Care Services reported that 19% of the population in the Hospital's service area was eligible for Medi-Cal. With the implementation of the ACA and the expansion of Medi-Cal, the number and percentage of the State of California's population that is currently eligible for Medi-Cal has greatly increased, reporting more than 2.7 million total enrollees in the Medi-Cal program in 2014. By 2015, California's total number of Medi-Cal beneficiaries is expected to increase to approximately 11.5 million individuals. Based on the Hospital's service area income demographics, and the Hospital's payer mix consisting of 27% Medi-Cal patients, many of the service area residents qualify for coverage under Medi-Cal expansion.

Selected Health Indicators

A review of health indicators for Santa Clara County (deaths, diseases, and births) supports the following conclusions:

- The percentage of low birth weight infants is equal to that of California and superior to the national goal;

- Santa Clara County measures above California and the national goal for first trimester prenatal care; and

- The Hospital's rate for adequate/adequate plus care is lower than California and the national goal.

NATALITY STATISTICS: 2014			
Health Status Indicator	Santa Clara County	California	National Goal
Low birth weight infants	6.8%	6.8%	7.8%
First Trimester Prenatal Care	85.2%	83.6%	77.9%
Adequate/Adequate Plus Care	77.3%	79.5%	77.6%

Source: California Department of Health Care Services

- The overall age-adjusted mortality rate for Santa Clara County is lower than the statewide rate. Santa Clara County's rates for sixteen of the eighteen causes are lower than the statewide rate. The two exceptions are diabetes and Alzheimer's disease. Santa Clara County achieved thirteen out of the fourteen reported national goals based on underlying and contributing cause of death.

MORTALITY STATISTICS: 2014 RATE PER 100,000 POPULATION				
	Santa Clara County		(Age Adjusted)	
Selected cause	Crude Death Rate	Age Adjusted Death Rate	California	National Goal
All Causes	507.2	526.9	641.5	n/a
- All Cancers	130.6	136.5	153.3	160.6
- Colorectal Cancer	12.1	12.4	14.2	14.5
- Lung Cancer	26.4	28.1	34.8	45.5
- Female Breast Cancer	19.3	17.8	20.9	20.6
- Prostate Cancer	13.0	17.1	20.5	21.2
- Diabetes	21.0	22.2	20.4	n/a
- Alzheimer's Disease	37.5	39.1	30.5	n/a
- Coronary Heart Disease	70.7	73.6	106.2	100.8
- Cerebrovascular Disease (Stroke)	25.2	26.5	36.6	33.8
- Influenza/Pneumonia	12.8	13.3	16.1	n/a
- Chronic Lower Respiratory Disease	22.9	24.5	36.2	n/a
- Chronic Liver Disease And Cirrhosis	9.5	9.1	11.5	8.2
- Accidents (Unintentional Injuries)	23.0	22.9	27.3	36.0
- Motor Vehicle Traffic Crashes	5.1	5.1	7.3	12.4
- Suicide	8.4	8.1	10.1	10.2
- Homicide	2.8	2.8	5.2	5.5
- Firearm-Related Deaths	4.3	4.3	7.7	9.2
- Drug-Induced Deaths	7.9	7.5	10.8	11.3

Source: California Department of Public Health, Center for Health Statistics, 2014

- Santa Clara County has lower morbidity rates than the State of California and the national goal overall, with the exception of tuberculosis.

MORBIDITY STATISTICS: 2014 RATE PER 100,000 POPULATION			
Health Status Indicator	Santa Clara County	California	National Goal
AIDS	7.7	8.6	12.4
Chlamydia	308.8	434.5	n/a
Gonorrhea Female 15-44	69.6	139.6	251.9
Gonorrhea Male 15-44	98.4	186.6	194.8
Tuberculosis	10.1	6.1	1.0

Source: California Department of Health Care Services, 2014

2013 Community Health Needs Assessment

In an effort to identify the most critical healthcare needs in the Hospital's service area, a Community Health Needs Assessment is conducted every three years. The Hospital's most recent assessment was completed in 2013 in partnership with the Santa Clara County Community Benefit Coalition. The Coalition targeted Santa Clara County overall, and the Hospital specifically targeted the areas of Campbell, Cupertino, Gilroy, Los Altos, Los Altos Hills, Los Gatos, Milpitas, Monte Sereno, Morgan Hill, Mountain View, Palo Alto, San Jose, Santa Clara, Saratoga, and Sunnyvale.

Based upon the defined service area, the study included a summary of population and household demographics measures related to access to healthcare, mortality, and findings from community interviews as provided below:

- The percentage of people 55-years and over with Alzheimer's is expected to increase by 19% in Santa Clara County between 2008 and 2015;
- The breast cancer incidence rate per 100,000 females is 161.4 in Santa Clara County, compared to 154.1 statewide and 122 nationwide;
- Adults within the service area have higher rates of cholesterol (29%) and hypertension (26%) than the Healthy People 2020 benchmarks of 17% and 16%, respectively;
- The percentage of overweight adults (36%) exceeds the Healthy People 2020 Benchmark (31%); and
- Children are hospitalized at a higher rate for asthma (24.5%) compared to the Healthy People 2020 Benchmark of 18.1%.

The most important healthcare needs in the community were identified to be the following:

- Diabetes;
- Obesity;
- Violence;
- Poor Mental Health;
- Poor Oral/Dental Health;
- Cardiovascular Disease, Heart Disease, and Stroke;
- Substance Abuse;
- Cancer;
- Respiratory Conditions;
- STDs and HIV/AIDS;
- Birth Outcomes; and
- Alzheimer's.

Hospital Supply, Demand, and Market Share

There are four other general acute care hospitals within the Hospital's service area that, together with the Hospital, have a combined total of 2015 licensed beds and an aggregate occupancy rate of nearly 54%. Hospitals in the service area run at occupancy rates that range between 40% at the Hospital to nearly 71% at Kaiser Foundation Hospital – Santa Clara. The Hospital's 358 licensed beds represent approximately 18% of the service area's beds, and its inpatient volume accounts for approximately 14% of discharges and 13% of patient days.

An analysis of the services offered by the Hospital in comparison to services offered by other providers is shown on the following pages. The hospitals shown in the table below were analyzed to determine area hospital available bed capacity by service.

AREA HOSPITAL DATA: 2013									
Hospital	Ownership/Affiliation	City	Within Service Area	Licensed Beds	Discharges	Patient Days	Occupied Beds	Percent Occupied	Miles from Hospital
O'Connor Hospital	**Daughters of Charity Health System**	**San Jose**	**X**	**358**	**11,751**	**52,175**	**143**	**39.9%**	**-**
Santa Clara Valley Medical Center	County of Santa Clara	San Jose	X	574	21,730	117,503	322	56.1%	1.5
Kaiser - Santa Clara	Kaiser Foundation Hospitals	Santa Clara	X	327	20,776	84,368	231	70.7%	3.9
Good Samaritan Hospital - San Jose	Hospital Corporation of America	San Jose	X	474	16,307	78,632	215	45.4%	6.9
Regional Medical Center of San Jose	Hospital Corporation of America	San Jose	X	282	11,955	63,338	174	61.5%	8.3
SUB-TOTAL				**2,015**	**82,519**	**396,016**	**1,085**	**53.8%**	
El Camino Hospital	El Camino Hospital District	Mountain View		443	19,104	84,670	232	52.4%	12.4
Kaiser - San Jose	Kaiser Foundation Hospitals	San Jose		242	11,051	39,380	108	44.6%	12.7
Washington Hospital - Fremont	Washington Township Health Care District	Fremont		389	11,810	58,392	160	41.1%	19.8
Stanford Hospital	Stanford University Hospital	Stanford		613	25,572	140,483	385	62.8%	21.3
Lucile Packard Children's Hospital	Lucile Salter Packard	Palo Alto		311	12,671	83,344	228	73.4%	21.4
Sequoia Hospital	Sequoia Hospital	Redwood City		189	5,885	22,832	63	33.1%	28.8
Dominican Hospital - Santa Cruz/Soquel	Dignity Health	Santa Cruz		288	12,344	60,908	167	57.9%	30.4
St. Louise Regional Hospital	Daughters of Charity Health System	Gilroy		93	3,021	11,026	30	32.5%	33.3
Kindred Hospital - San Francisco Bay Area	THC-Orange County, Inc.	Alameda		99	517	19,181	53	53.1%	36
Mills-Peninsula Medical Center	Sutter Health	Burlingame		376	13,991	62,960	172	45.9%	38.1
Watsonville Community Hospital	Community Health Systems, Inc.	Watsonville		106	4,541	17,387	48	44.9%	41.5
UCSF Medical Center	Regents of the University of California	San Francisco		650	27,861	176,916	485	74.6%	50.8
Hazel Hawkins Memorial Hospital	San Benito Health Care District	Hollister		176	2,519	42,407	116	66.0%	52.0
St. Mary's Medical Center - San Francisco	Dignity Health	San Francisco		403	6,437	34,904	96	23.7%	52.2
California Pacific Medical Center - Pacific	Sutter Health	San Francisco		970	25,948	151,769	416	42.9%	52.7
Memorial Hospital Medical Center - Modesto	Sutter Central Valley Hospitals	Modesto		423	17,307	82,286	237	53.3%	83.5
TOTAL				**7,786**	**283,098**	**1,484,861**	**4,080**	**52.2%**	

Source: OSHPD Disclosure Reports, 2013

- The four largest providers of inpatient services to the service area by market share (Santa Clara Valley Medical Center, Kaiser Foundation Hospital – Santa Clara, O'Connor Hospital, and Good Samaritan Hospital – San Jose) operate at a combined average occupancy rate of nearly 53%.

Hospital Market Share

The table below illustrates market share discharges by individual hospital, within the Hospital's service area, from FY 2009 to FY 2013:

HOSPITAL MARKET SHARE: FY 2009-2013						
Hospital	**2009**	**2010**	**2011**	**2012**	**2013**	**Trend**
Santa Clara Valley Medical Center	22.2%	22.6%	21.9%	22.0%	22.1%	↔
Kaiser - Santa Clara	14.0%	14.3%	14.6%	14.1%	14.0%	↔
Good Samaritan Hospital - San Jose	13.0%	12.3%	12.5%	12.1%	12.2%	↔
O'Connor Hospital - San Jose	**13.3%**	**12.9%**	**12.7%**	**11.9%**	**12.2%**	↘
Regional Medical of San Jose	11.0%	10.6%	11.2%	11.5%	11.8%	↗
Kaiser - San Jose	9.1%	8.9%	8.6%	8.4%	8.3%	↘
El Camino Hospital	5.9%	7.1%	7.0%	7.3%	7.1%	↔
Stanford Hospital	3.0%	3.2%	3.6%	3.5%	3.4%	↔
Lucile Packard Children's Hospital	2.0%	2.0%	1.9%	2.0%	2.0%	↔
Fremont Hospital	1.1%	1.1%	0.9%	1.1%	1.1%	↔
Other Discharges	5.3%	4.9%	4.9%	6.0%	5.9%	↗
Total Percentage	**100%**	**100%**	**100%**	**100%**	**100%**	
Total Discharges	**82,568**	**80,593**	**79,813**	**79,612**	**79,474**	↘

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

- The number of discharges in the Hospital's service area has dropped 4% from 82,568 in FY 2009 to 79,474 in FY 2013;
- Over the last five reported years, the Hospital has fluctuated between third and fourth in terms of overall market share for its service area based on discharges (12.2% in FY 2013). However, the Hospital's market share has dropped from nearly 13% in FY 2009 to roughly 12% in FY 2013;
- Santa Clara Valley Medical Center has consistently ranked first in overall market share for the service area based on discharges (approximately 22% in FY 2013); and
- Kaiser Foundation Hospital – Santa Clara (14%) and Kaiser Foundation Hospital – San Jose (8.3%) have a high combined percentage of the market share for the service area based on discharges (approximately 22% in FY 2013).

The following table illustrates hospital market share by payer category as reported by OSHPD for 2013:

HOSPITAL MARKET SHARE BY PAYER TYPE, 2013											
Payor Type	Total Discharges	Santa Clara Valley Medical Center	Kaiser Fnd Hosp - Santa Clara	Good Samaritan Hospital- San Jose	O'Connor Hospital - San Jose	Regional Medical of San Jose	Kaiser Fnd Hosp - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
Private Coverage	28,719	4.6%	23.0%	19.2%	**8.3%**	5.4%	12.1%	12.1%	2.9%	12.4%	100%
Medicare	24,814	7.9%	16.2%	12.2%	**15.0%**	20.3%	11.1%	6.6%	4.7%	5.9%	100%
Medi-Cal	16,548	62.0%	2.0%	3.7%	**10.2%**	11.2%	1.5%	1.6%	2.0%	5.8%	100%
All Other	6,702	60.0%	0.3%	3.7%	**11.0%**	5.1%	0.4%	2.8%	3.2%	13.4%	100%
Self Pay	2,691	0.0%	4.8%	10.8%	**41.4%**	21.2%	4.8%	2.8%	6.9%	7.3%	100%
Total Percentage		**22.1%**	**14.0%**	**12.2%**	**12.2%**	**11.8%**	**8.3%**	**7.1%**	**3.4%**	**8.9%**	**100%**
Total Discharges	**79,474**	**17,567**	**11,100**	**9,701**	**9,669**	**9,354**	**6,629**	**5,650**	**2,725**	**7,079**	

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

- The largest categories of service area inpatient discharges are private coverage at 36%, followed by Medicare at 31% and Medi-Cal at 21%;
- The Hospital is the market share leader for self-pay at 41%, and has the third highest market share for Medicare at 15%;
- Santa Clara Valley Medical Center is the market share leader for Medi-Cal (62%);
- Kaiser Foundation Hospital – Santa Clara ranks first in private coverage (23%); and
- Regional Medical Center of San Jose ranks first in Medicare at 20%.

Market Share by Service Line

The following table illustrates service area hospital market share by service line for 2013:

HOSPITAL MARKET SHARE BY SERVICE LINE, 2013											
Service Line	Total Discharges	Santa Clara Valley Medical Center	Kaiser Fnd Hosp - Santa Clara	Good Samaritan Hospital-San Jose	O'Connor Hospital - San Jose	Regional Medical Of San Jose	Kaiser Fnd Hosp - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
General Medicine	23,142	23.4%	13.1%	10.2%	**13.2%**	18.3%	9.3%	4.4%	3.5%	4.6%	100.0%
Obstetrics	15,425	20.7%	17.1%	15.6%	**17.7%**	2.6%	9.0%	12.6%	0.1%	4.6%	100.0%
Cardiac Services	7,620	22.6%	15.3%	10.2%	**11.7%**	20.2%	8.3%	3.8%	3.0%	4.9%	100.0%
General Surgery	6,312	17.2%	14.6%	12.9%	**11.5%**	13.9%	8.6%	6.1%	6.4%	8.9%	100.0%
Neonatology	4,938	29.3%	18.1%	15.9%	**9.3%**	2.0%	7.3%	9.5%	0.0%	8.6%	100.0%
Behavioral Health	4,224	20.5%	1.8%	9.4%	**1.8%**	2.3%	1.0%	6.4%	2.3%	54.5%	100.0%
Orthopedics	4,196	11.8%	19.4%	12.8%	**11.5%**	8.9%	10.7%	9.6%	6.4%	8.8%	100.0%
Neurology	3,130	28.2%	11.9%	11.2%	**10.1%**	17.7%	8.0%	2.7%	3.9%	6.2%	100.0%
Oncology/Hematology	2,156	21.8%	11.4%	11.1%	**10.3%**	13.2%	7.6%	6.0%	9.6%	8.9%	100.0%
Spine	1,374	15.5%	2.9%	15.3%	**7.2%**	6.2%	21.3%	11.7%	7.3%	12.7%	100.0%
Other	1,283	34.5%	10.8%	6.7%	**8.5%**	20.4%	3.6%	3.0%	3.9%	8.6%	100.0%
Gynecology	1,222	24.1%	14.1%	16.8%	**13.3%**	6.8%	7.6%	11.3%	3.4%	2.7%	100.0%
ENT	1,115	31.6%	17.7%	7.7%	**8.7%**	6.5%	4.7%	3.2%	8.7%	11.2%	100.0%
Vascular Services	951	13.1%	14.7%	9.0%	**13.5%**	18.3%	7.4%	6.9%	8.6%	8.4%	100.0%
Urology	915	22.3%	22.1%	9.5%	**6.7%**	9.9%	9.5%	6.9%	6.8%	6.3%	100.0%
Neurosurgery	686	15.3%	3.4%	14.3%	**4.2%**	15.0%	2.0%	2.3%	15.0%	28.4%	100.0%
Rehabilitation	580	35.2%	0.2%	27.2%	**0.0%**	0.0%	0.0%	24.0%	0.0%	13.4%	100.0%
All others	205	29.8%	11.2%	9.3%	**12.2%**	4.9%	4.9%	2.0%	16.1%	9.8%	100.0%
Total Percentage		**22.1%**	**14.0%**	**12.2%**	**12.2%**	**11.8%**	**8.3%**	**7.1%**	**3.4%**	**8.9%**	**100.0%**
Total Discharges	**79,474**	**17,567**	**11,100**	**9,701**	**9,669**	**9,354**	**6,629**	**5,650**	**2,725**	**7,079**	

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

- Service lines where the Hospital has a notable market share include obstetrics (18%), vascular services (14%), general medicine (13%), and gynecology (13%);

- In 2013, Santa Clara Valley Medical Center had the highest market share in the service area (22%) and was the market share leader for fifteen service lines including rehabilitation (35%), ear, nose, and throat (32%), neonatology (29%), neurology (28%), general medicine (23%), cardiac services (23%, and obstetrics (21%);

- Kaiser Foundation Hospital – Santa Clara had the highest market share for orthopedics (19%) and Kaiser Foundation Hospital – San Jose had the highest market share for spine services (21.3%); and

- Regional Medical Center of San Jose had the highest market share in vascular services (18%).

Market Share by ZIP Code

The following table illustrates service area hospital market share by ZIP code for 2013:

HOSPITAL MARKET SHARE BY ZIP CODE, 2013												
ZIP Code	Community	Total Discharges	Santa Clara Valley Medical Center	Kaiser Fnd Hosp - Santa Clara	Good Samaritan Hospital- San Jose	O'Connor Hospital - San Jose	Regional Medical of San Jose	Kaiser Fnd Hosp - San Jose	El Camino Hospital	Stanford Hospital	All Others	Total
95127	San Jose	5,050	25.1%	12.9%	5.3%	**13.0%**	24.0%	6.7%	2.8%	2.5%	7.7%	100%
95116	San Jose	4,942	29.8%	6.9%	3.4%	**11.4%**	33.7%	4.8%	1.4%	2.6%	5.9%	100%
95123	San Jose	4,663	15.7%	7.3%	22.1%	**6.6%**	3.4%	28.4%	5.7%	3.1%	7.8%	100%
95122	San Jose	4,609	32.6%	6.5%	4.5%	**15.1%**	24.0%	8.1%	1.8%	1.7%	5.7%	100%
95111	San Jose	4,441	31.2%	4.7%	8.1%	**13.6%**	13.6%	17.0%	2.3%	2.7%	6.8%	100%
95125	San Jose	4,372	18.0%	13.1%	22.4%	**13.0%**	2.8%	9.8%	8.1%	4.0%	8.9%	100%
95035	Milpitas	4,139	15.8%	22.5%	5.4%	**10.0%**	16.4%	1.7%	8.6%	3.9%	15.7%	100%
95112	San Jose	4,106	32.4%	10.6%	6.0%	**16.1%**	12.9%	4.7%	3.9%	3.6%	9.7%	100%
95051	Santa Clara	3,775	12.5%	34.0%	5.6%	**9.1%**	1.1%	0.9%	22.3%	4.4%	10.0%	100%
95124	San Jose	3,328	12.1%	12.4%	38.5%	**5.3%**	1.8%	8.4%	8.3%	3.9%	9.3%	100%
95128	San Jose	3,312	30.3%	16.3%	9.7%	**19.0%**	2.5%	2.3%	6.1%	2.8%	11.0%	100%
95008	Campbell	3,238	14.7%	20.8%	25.2%	**6.7%**	1.1%	2.9%	12.9%	5.3%	10.5%	100%
95136	San Jose	3,121	15.5%	8.4%	22.7%	**8.7%**	3.2%	21.7%	7.3%	4.1%	8.3%	100%
95148	San Jose	2,909	17.2%	9.5%	8.8%	**10.6%**	22.4%	16.5%	4.2%	3.1%	7.7%	100%
95050	Santa Clara	2,871	15.7%	27.1%	6.5%	**20.3%**	1.5%	1.3%	14.6%	3.1%	9.9%	100%
95132	San Jose	2,674	12.1%	21.6%	6.5%	**12.5%**	22.3%	3.1%	7.6%	3.7%	10.5%	100%
95126	San Jose	2,641	24.7%	15.1%	12.8%	**19.7%**	2.0%	3.6%	6.5%	3.8%	11.9%	100%
95121	San Jose	2,639	20.8%	7.2%	7.8%	**13.7%**	22.4%	14.4%	2.9%	2.7%	8.0%	100%
95118	San Jose	2,579	15.0%	9.4%	30.9%	**6.7%**	1.7%	15.5%	8.2%	3.2%	9.3%	100%
95117	San Jose	2,248	32.9%	18.9%	10.0%	**16.2%**	1.5%	1.2%	8.3%	3.2%	7.7%	100%
95129	San Jose	2,017	13.3%	23.6%	14.8%	**9.2%**	0.9%	1.1%	20.6%	6.7%	9.7%	100%
95131	San Jose	1,808	14.6%	20.0%	9.0%	**12.0%**	17.1%	2.2%	10.6%	4.4%	10.1%	100%
95133	San Jose	1,808	20.5%	12.8%	6.0%	**13.1%**	28.7%	4.3%	3.7%	3.8%	7.1%	100%
95110	San Jose	1,461	39.3%	11.9%	6.8%	**15.9%**	4.9%	6.8%	4.4%	2.3%	7.7%	100%
95113	San Jose	717	72.0%	2.0%	2.9%	**6.6%**	4.3%	1.4%	2.2%	3.8%	4.9%	100%
95053	Santa Clara	6	33.3%	16.7%	0.0%	**50.0%**	0.0%	0.0%	0.0%	0.0%	0.0%	100%
Total Percentage			**22.1%**	**14.0%**	**12.2%**	**12.2%**	**11.8%**	**8.3%**	**7.1%**	**3.4%**	**8.9%**	**100%**
Total Discharges		**79,474**	**17,567**	**11,100**	**9,701**	**9,669**	**9,354**	**6,629**	**5,650**	**2,725**	**7,079**	

Note: Excludes normal new borns

Source: OSHPD Patient Discharge Database

- Santa Clara Valley Medical Center is the market share leader in nine service area ZIP codes, located in San Jose, seven of which have over 30% market share;
- Kaiser Foundation Hospital – Santa Clara is the market share leader in five service area ZIP Codes, all of which have over 20% market share;
- Good Samaritan Hospital – San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share; and
- Regional Medical Center of San Jose is the market share leader in five service area ZIP Codes, all of which have over 20% market share.

Service Availability by Bed Type

The tables on the following pages illustrate existing hospital bed capacity, occupancy, and bed availability for medical/surgical, critical care, obstetrics, pediatrics, neonatal, and emergency services (FY 2013 data).

Medical/Surgical Capacity Analysis

Medical/surgical beds in the Hospital's service area were 52% occupied in 2013. The Hospital has the lowest occupancy rate, with nearly 34% medical/surgical beds occupied, whereas Kaiser Foundation Hospital – Santa Clara has the highest occupancy rate at 80%.

MEDICAL/SURGICAL BEDS 2013							
Hospital	Miles from Hospital	Wihtin Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**236**	**6,854**	**28,847**	**79.0**	**33.5%**
Santa Clara Valley Medical Center*	1.5	X	209	9,710	42,036	115.2	55.1%
Kaiser - Santa Clara*	3.9	X	185	13,878	53,886	147.6	79.8%
Good Samaritan Hospital - San Jose*	6.9	X	211	9,426	36,797	100.8	47.8%
Regional Medical Center of San Jose*	8.3	X	160	6,577	28,561	78.2	48.9%
SUB-TOTAL			**1,001**	**46,445**	**190,127**	**520.9**	**52.0%**
El Camino Hospital	12.4		231	11,575	41,532	113.8	49.3%
Kaiser - San Jose*	12.7		175	8,438	31,238	85.6	48.9%
Washington Hospital - Fremont*	19.8		262	7,469	36,140	99.0	37.8%
Stanford Hospital*	21.3		491	23,905	112,308	307.7	62.7%
Lucile Packard Children's Hospital*	21.4		-	-	-	-	-
Sequoia Hospital	28.8		96	2,230	7,169	19.6	20.5%
Dominican Hospital - Santa Cruz/Soquel*	30.4		137	6,787	22,895	62.7	45.8%
St. Louise Regional Hospital	33.3		48	2,143	7,983	21.9	45.6%
Kindred Hospital - San Francisco Bay Area*	36.0		89	471	17,027	46.6	52.4%
Mills-Peninsula Medical Center*	38.1		160	7,605	29,730	81.5	50.9%
Watsonville Community Hospital*	41.5		73	2,196	11,711	32.1	44.0%
UCSF Medical Center	50.8		324	19,691	106,582	292.0	90.1%
Hazel Hawkins Memorial Hospital	52.0		31	1,443	4,483	12.3	39.6%
St. Mary's Medical Center - San Francisco	52.2		263	4,559	17,914	49.1	18.7%
California Pacific Medical Center - Pacific*	52.7		541	15,422	65,397	179.2	33.1%
Memorial Hospital Medical Center - Modesto*	83.5		337	13,376	63,214	173.2	51.4%
TOTAL			**4,259**	**173,755**	**765,450**	**2097.1**	**49.2%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

- The Hospital reported approximately 6,854 inpatient hospital discharges and 28,847 patient days resulting in an average daily census of 80 patients; and

- The Hospital's 236 medical/surgical beds represented 24% of the beds in this category for the service area overall.

Intensive Care Unit/Coronary Care Unit Capacity Analysis

There are 189 intensive care unit/coronary care unit beds within the service area, with an overall occupancy rate of approximately 65%. The Hospital has 22 licensed intensive care beds and eight coronary care beds with a combined average occupancy rate of 60% in FY 2013 (average daily census of 13).

INTENSIVE CARE UNIT/CORONARY CARE UNIT BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**22**	**1,178**	**4,848**	**13.3**	**60.4%**
Santa Clara Valley Medical Center*	1.5	X	32	454	8,877	24.3	76.0%
Kaiser - Santa Clara*	3.9	X	38	704	9,705	26.6	70.0%
Good Samaritan Hospital - San Jose*	6.9	X	63	661	10,238	28.0	44.5%
Regional Medical Center of San Jose*	8.3	X	34	615	11,043	30.3	89.0%
SUB-TOTAL			**189**	**3,612**	**44,711**	**122.5**	**64.8%**
El Camino Hospital	12.4		39	364	5,496	15.1	38.6%
Kaiser - San Jose*	12.7		24	287	3,730	10.2	42.6%
Washington Hospital - Fremont*	19.8		58	416	8,529	23.4	40.3%
Stanford Hospital*	21.3		75	838	19,077	52.3	69.7%
Lucile Packard Children's Hospital*	21.4		-	-	-	-	-
Sequoia Hospital	28.8		20	186	1,859	5.1	25.5%
Dominican Hospital - Santa Cruz/Soquel*	30.4		16	355	4,812	13.2	82.4%
St. Louise Regional Hospital	33.3		8	191	1,728	4.7	59.2%
Kindred Hospital - San Francisco Bay Area*	36.0		10	46	2,154	5.9	59.0%
Mills-Peninsula Medical Center*	38.1		24	301	3,075	8.4	35.1%
Watsonville Community Hospital*	41.5		6	388	1,135	3.1	51.8%
UCSF Medical Center	50.8		90	901	17,721	48.6	53.9%
Hazel Hawkins Memorial Hospital	52.0		8	230	1,163	3.2	39.8%
St. Mary's Medical Center - San Francisco	52.2		37	150	2,951	8.1	21.9%
California Pacific Medical Center - Pacific*	52.7		44	383	9,707	26.6	60.4%
Memorial Hospital Medical Center - Modesto*	83.5		35	381	8,617	23.6	67.5%
TOTAL			**683**	**9,029**	**136,465**	**373.9**	**54.7%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

- In FY 2013, the average daily census was 123 patients for all service area hospitals that collectively had an average occupancy rate of 65%;
- The Hospital provided nearly 12% of the service area's intensive care/coronary care beds in FY 2013; and
- The Hospital accounted for nearly 33% of the service area's intensive care/coronary care discharges in FY 2013.

Obstetrics Capacity Analysis

As shown below, there were 248 obstetric beds located in the service area with an aggregate occupancy rate of 46% in 2013. The Hospital reported 39 licensed obstetric beds with an occupancy rate of 58% (average daily census of 23).

OBSTETRICS BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**39**	**3,195**	**8,195**	**22.5**	**57.6%**
Santa Clara Valley Medical Center*	1.5	X	82	4,609	11,859	32.5	39.6%
Kaiser - Santa Clara*	3.9	X	52	4,391	8,662	23.7	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	69	4,006	11,813	32.4	46.9%
Regional Medical Center of San Jose*	8.3	X	6	390	928	2.5	42.4%
SUB-TOTAL			**248**	**16,591**	**41,457**	**113.6**	**45.8%**
El Camino Hospital	12.4		68	5,161	13,600	37.3	54.8%
Kaiser - San Jose*	12.7		31	2,127	3,525	9.7	31.2%
Washington Hospital - Fremont*	19.8		22	2,041	5,493	15.0	68.4%
Stanford Hospital*	21.3		-	-	-	-	-
Lucile Packard Children's Hospital*	21.4		32	4,528	14,179	38.8	121.4%
Sequoia Hospital	28.8		23	1,635	4,761	13.0	56.7%
Dominican Hospital - Santa Cruz/Soquel*	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		16	687	1,315	3.6	22.5%
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		30	2,009	8,522	23.3	77.8%
Watsonville Community Hospital*	41.5		17	1,376	3,789	10.4	61.1%
UCSF Medical Center	50.8		29	2,164	7,980	21.9	75.4%
Hazel Hawkins Memorial Hospital	52.0		10	487	1,108	3.0	30.4%
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		77	5,388	17,988	49.3	64.0%
Memorial Hospital Medical Center - Modesto*	83.5		29	1,922	4,580	12.5	43.3%
TOTAL			**632**	**46,116**	**128,297**	**351.5**	**55.6%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

(1) Kaiser - Santa Clara, Kaiser - San Jose, Washington Hospital - Fremont, and Mills-Peninsula have Alternate Birthing Centers

- All hospitals within the service area have available capacity, with occupancy rates ranging from 40% at Santa Clara Valley Medical Center to 58% at the Hospital; and

- Hospitals located outside of the service area also have the capacity to provide additional obstetrics services, except for Lucile Packard Children's Hospital with an occupancy rate of 121% based on 2013 OSHPD figures.

Pediatric Capacity Analysis

In FY 2013, service area hospitals had an occupancy rate of 30% with 130 licensed beds. The Hospital reported 27 pediatric beds with 1,402 patient days and an occupancy rate of 14%.

PEDIATRIC ACUTE / INTENSIVE CARE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**27**	**341**	**1,402**	**3.8**	**14.2%**
Santa Clara Valley Medical Center*	1.5	X	52	1,790	5,446	14.9	28.7%
Kaiser - Santa Clara*	3.9	X	26	1,387	4,316	11.8	45.5%
Good Samaritan Hospital - San Jose*	6.9	X	17	888	2,276	6.2	36.7%
Regional Medical Center of San Jose*	8.3	X	8	254	542	1.5	18.6%
SUB-TOTAL			**130**	**4,660**	**13,982**	**38.3**	**29.5%**
El Camino Hospital	12.4		12	42	72	0.2	1.6%
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont*	19.8		15	388	728	2.0	13.3%
Stanford Hospital*	21.3		-	-	-	-	-
Lucile Packard Children's Hospital*	21.4		190	6,678	46,517	127.4	67.1%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel*	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		104	4,162	27,176	74.5	71.6%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		37	1,105	3,371	9.2	25.0%
Memorial Hospital Medical Center - Modesto*	83.5		10	1,464	4,597	12.6	125.9%
TOTAL			**498**	**18,499**	**96,443**	**264.2**	**53.1%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

- The hospitals within and outside the Hospital's service area have the capacity to provide additional pediatric services based on FY 2013 OSHPD figures.

Neonatal Intensive Care Unit Capacity Analysis

As shown below, the Hospital's service area provides 133 licensed beds with an average daily census of 62 patients.

NEONATAL INTENSIVE CARE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**10**	**157**	**1,660**	**4.5**	**45.5%**
Santa Clara Valley Medical Center*	1.5	X	40	208	4,954	13.6	33.9%
Kaiser - Santa Clara*	3.9	X	26	338	6,965	19.1	73.4%
Good Samaritan Hospital - San Jose*	6.9	X	51	393	8,885	24.3	47.7%
Regional Medical Center of San Jose*	8.3	X	6	30	147	0.4	6.7%
SUB-TOTAL			**133**	**1,126**	**22,611**	**61.9**	**46.6%**
El Camino Hospital	12.4		22	574	5,936	16.3	73.9%
Kaiser - San Jose*	12.7		12	199	887	2.4	20.3%
Washington Hospital - Fremont*	19.8		-	-	-	-	-
Stanford Hospital*	21.3		-	-	-	-	-
Lucile Packard Children's Hospital*	21.4		89	697	13,692	37.5	42.1%
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel*	30.4		14	348	2,906	8.0	56.9%
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		10	581	753	2.1	20.6%
UCSF Medical Center	50.8		51	610	12,639	34.6	67.9%
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		36	485	9,528	26.1	72.5%
Memorial Hospital Medical Center - Modesto*	83.5		12	164	1,278	3.5	29.2%
TOTAL			**379**	**4,784**	**70,230**	**192.4**	**50.8%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

- All hospitals in the service area offer neonatal intensive care services with a combined occupancy rate of approximately 47%;
- The Hospital has 10 licensed neonatal intensive care beds, making up approximately 8% of the service area neonatal intensive care beds, with a reported occupancy rate of approximately 46%; and
- The Hospital reported approximately 157 inpatient hospital discharges and 1,660 patient days, resulting in an average daily census of nearly 5 patients.

Sub-Acute Care Capacity Analysis

The Hospital has 24 licensed skilled nursing beds that are used for long-term sub-acute care services. Sub-acute care services are for medically fragile patients who require special services such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management.

As the only general acute care hospital in the area that provides sub-acute care beds, the Hospital receives referrals from other area hospitals for sub-acute care services. In FY 2013, the Hospital had an occupancy rate of 83% based on an average daily census of 20 patients.

SUB-ACUTE CARE BEDS 2013							
Hospital	Miles from Hospital	Within Service Area	Licensed Beds	Discharges	Patient Days	Average Daily Census	Percent Occupied
O'Connor Hospital*	**-**	**X**	**24**	**26**	**7,223**	**19.8**	**82.5%**
Santa Clara Valley Medical Center*	1.5	X	-	-	-	-	-
Kaiser - Santa Clara*	3.9	X	-	-	-	-	-
Good Samaritan Hospital - San Jose*	6.9	X	-	-	-	-	-
Regional Medical Center of San Jose*	8.3	X	-	-	-	-	-
SUB-TOTAL			**24**	**26**	**7,223**	**19.8**	**82.5%**
El Camino Hospital	12.4		-	-	-	-	-
Kaiser - San Jose*	12.7		-	-	-	-	-
Washington Hospital - Fremont*	19.8		-	-	-	-	-
Stanford Hospital*	21.3		-	-	-	-	-
Lucile Packard Children's Hospital*	21.4		-	-	-	-	-
Sequoia Hospital	28.8		-	-	-	-	-
Dominican Hospital - Santa Cruz/Soquel*	30.4		-	-	-	-	-
St. Louise Regional Hospital	33.3		-	-	-	-	-
Kindred Hospital - San Francisco Bay Area*	36.0		-	-	-	-	-
Mills-Peninsula Medical Center*	38.1		-	-	-	-	-
Watsonville Community Hospital*	41.5		-	-	-	-	-
UCSF Medical Center	50.8		-	-	-	-	-
Hazel Hawkins Memorial Hospital	52.0		-	-	-	-	-
St. Mary's Medical Center - San Francisco	52.2		-	-	-	-	-
California Pacific Medical Center - Pacific*	52.7		-	-	-	-	-
Memorial Hospital Medical Center - Modesto*	83.5		-	-	-	-	-
TOTAL			**24**	**26**	**7,223**	**19.8**	**82.5%**

Source: OSHPD Disclosure Reports, 2013

* Unaudited

(1) The Hospital's sub-acute care beds are listed as skilled nursing care beds on the Hospital license

Emergency Department Volume at Hospitals in the Service Area

In 2014, the Hospital had 23 emergency treatment stations. In total, there are currently 141 treatment stations among all service area hospitals. The table below shows the visits by severity category for area emergency departments as reported by OSHPD Automated Licensing Information and Report Tracking System.[23]

EMERGENCY DEPARTMENT VISITS BY CATEGORY 2013											
Hospital	Miles from Hospital	Within Service Area	Stations	Total Visits	Minor	Low/ Moderate	Moderate	Severe w/o Threat	Severe w/ Threat	Percentage Admitted	Hours of Diversion
O'Connor Hospital	**-**	**-**	**23**	**48,229**	**4,228**	**7,898**	**16,509**	**15,335**	**4,259**	**17.6%**	**180**
Santa Clara Valley Medical Center	1.5	X	24	78,934	316	6,064	22,229	28,398	21,927	**23.1%**	451
Kaiser - Santa Clara	3.9	X	32	65,092	16,050	7,347	11,331	24,770	5,594	**13.8%**	42
Good Samaritan Hospital - San Jose	6.9	X	29	47,330	449	12,768	28,210	5,642	261	**16.3%**	29
Regional Medical Center of San Jose	8.3	X	33	62,680	2,922	6,559	24,666	14,216	14,317	**15.2%**	152
SUB-TOTAL			**141**	**302,265**	**23,965**	**40,636**	**102,945**	**88,361**	**46,358**	**17.5%**	**854**
El Camino Hospital	12.4		28	43,780	288	10,171	13,334	9,803	10,184	**15.6%**	254
Kaiser - San Jose	12.7		28	53,250	18,889	6,270	10,764	14,328	2,999	**11.5%**	19
Washington Hospital - Fremont	19.8		23	49,379	2,856	5,967	16,613	12,417	11,526	**13.0%**	0
Stanford Hospital	21.3		54	57,568	6	5,795	15,851	22,820	13,096	**19.1%**	0
Lucile Packard Children's Hospital	21.4		-	-	-	-	-	-	-	**-**	-
Sequoia Hospital	28.8		15	21,934	488	5,488	9,147	4,028	2,783	**18.6%**	0
Dominican Hospital - Santa Cruz/Soquel	30.4		24	41,115	471	3,796	13,105	12,878	10,865	**21.5%**	27
St. Louise Regional Hospital	33.3		8	27,834	2,844	14,581	7,901	2,393	115	**8.4%**	0
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-	-	-	**-**	-
Mills-Peninsula Medical Center	38.1		23	45,425	8,107	10,465	14,863	10,891	1,099	**18.7%**	0
Watsonville Community Hospital	41.5		14	28,145	1,121	2,958	15,928	4,414	3,724	**7.7%**	10
UCSF Medical Center	50.8		33	40,099	654	1,275	12,408	7,735	18,027	**25.7%**	807
Hazel Hawkins Memorial Hospital	52.0		18	16,573	253	6,354	5,093	3,159	1,714	**9.4%**	2
St. Mary's Medical Center - San Francisco	52.2		13	16,856	333	2,482	7,234	5,583	1,224	**16.0%**	162
California Pacific Medical Center - Pacific	52.7		19	27,987	33	1,138	6,407	8,242	12,167	**28.1%**	211
Memorial Hospital Medical Center - Modesto**	83.5		44	64,770	578	5,717	18,354	18,876	21,245	**19.3%**	0
TOTAL			**274**	**506,242**	**46,004**	**68,839**	**159,507**	**147,729**	**84,163**	**16.5%**	**1,127**

Source: OSHPD Alirts Annual Utilization Reports

- The Hospital has 23 emergency department stations and is classified as "basic". In FY 2013, the Hospital had over 48,000 visits, accounting for 16% of the total visits among area hospitals (over 300,000 total visits);

- In FY 2013, over 40% of the Hospital's emergency department visits were classified as severe with/without threat;

- Service area emergency departments had 854 hours of diversion[24] with approximately 451 of these hours attributable to Santa Clara Valley Medical Center. The Hospital had 180 hours of diverted emergency department traffic in FY 2013; and

[23] The Automated Licensing Information and Report Tracking System contains license and utilization data information of healthcare facilities in California.

[24] A hospital goes on diversion when there are not enough beds or staff available in the emergency room or the hospital itself to adequately care for patients. When a hospital goes on diversion, it notifies area Emergency Medical Services units so that they can consider transporting patients to other hospitals that are not on diversion.

- In 2013, approximately 18% of service area emergency department visits resulted in an inpatient admission.

Emergency Department Capacity

Industry sources, including the American College of Emergency Physicians, have used a benchmark of 2,000 visits per emergency station/bed to estimate the capacity of an emergency department. Based upon this benchmark, in FY 2013, the Hospital's emergency department was operating at 105% of its 23-bed capacity. Other area facilities are also at overcapacity: Santa Clara Valley Medical Center (165%) and Kaiser Foundation Hospital – Santa Clara (102%).

EMERGENCY DEPARTMENT CAPACITY 2013							
Hospital	Miles from Hospital	Within Service Area	ER Level	Stations	Total Visits	Capacity	Remaining Capacity
O'Connor Hospital	**-**	**X**	**Basic**	**23**	**48,229**	**46,000**	**(2,229)**
Santa Clara Valley Medical Center	1.5	X	Comprehensive	24	78,934	48,000	(30,934)
Kaiser - Santa Clara	3.9	X	Basic	32	65,092	64,000	(1,092)
Good Samaritan Hospital - San Jose	6.9	X	Basic	29	47,330	58,000	10,670
Regional Medical Center of San Jose	8.3	X	Basic	33	62,680	66,000	3,320
SUB-TOTAL				**141**	**302,265**	**282,000**	**(20,265)**
El Camino Hospital	12.4		Basic	28	43,780	56,000	12,220
Kaiser - San Jose	12.7		Basic	28	53,250	56,000	2,750
Washington Hospital - Fremont	19.8		Basic	23	49,379	46,000	(3,379)
Stanford Hospital	21.3		Basic	54	57,568	108,000	50,432
Lucile Packard Children's Hospital	21.4		-	-	-	-	-
Sequoia Hospital	28.8		Basic	15	21,934	30,000	8,066
Dominican Hospital - Santa Cruz/Soquel	30.4		Basic	24	41,115	48,000	6,885
St. Louise Regional Hospital	33.3		Basic	8	27,834	16,000	(11,834)
Kindred Hospital - San Francisco Bay Area	36.0		-	-	-	-	-
Mills-Peninsula Medical Center	38.1		Basic	23	45,425	46,000	575
Watsonville Community Hospital	41.5		Basic	14	28,145	28,000	(145)
UCSF Medical Center	50.8		Basic	33	40,099	66,000	25,901
Hazel Hawkins Memorial Hospital	52.0		Basic	18	16,573	36,000	19,427
St. Mary's Medical Center - San Francisco	52.2		Basic	13	16,856	26,000	9,144
California Pacific Medical Center - Pacific	52.7		Basic	19	27,987	38,000	10,013
Memorial Hospital Medical Center - Modesto	83.5		Basic	44	64,770	88,000	23,230
TOTAL				**274**	**506,242**	**548,000**	**41,758**

Source: OSHPD Alirts Annual Utilization Reports

- Santa Clara Valley Medical Center has the only "comprehensive[25]" emergency department of the service area hospitals;

- Total emergency department visits at the Hospital increased 6% since FY 2011; and

- Overall, service area hospitals' emergency departments are at approximately 107% capacity. Any reduction in the number of emergency treatment stations at service area hospitals or at the Hospital could have an adverse effect on emergency care services in the service area.

[25] Comprehensive service level emergency departments provides diagnostic and therapeutic services for unforeseen physical and mental disorders that, if not properly treated, would lead to marked suffering, disability, or death.

SUMMARY OF INTERVIEWS

In August, November, and December of 2014, both in-person and telephone interviews were conducted with representatives of the Hospital, Daughters, DCHS Medical Foundation, and Prime, as well as physicians, Santa Clara County representatives, health plan representatives, hospital employees, union representatives, local Federally Qualified Health Center representatives, and other community representatives. The purpose of the interviews was to gather information from area healthcare professionals and community members regarding potential impacts on healthcare availability and accessibility as a result of the proposed change in governance and control of the ownership and operations from Ministry and Daughters to Prime Inc. and Prime Foundation. The list of individuals who were interviewed is located in the Appendices of this report. The major findings of these interviews are summarized below:

Reasons for the Proposed Transaction

Those interviewed cited a number of reasons for why a transaction was necessary, including the following:

- Without the transaction, Daughters and the Health Facilities, including the Hospital, would not be able to sustain their current operations and would likely be forced into insolvency and bankruptcy. Bankruptcy could potentially lead to the reduction of services or the closure of the Hospital, thereby reducing community access to medical care and increasing demand on other area emergency rooms and hospitals;

- Given the Hospital's critical role in providing healthcare for the poor, without a transaction, the community could be at risk of losing key services that are essential for the uninsured and under-insured patient population;

- Daughters does not have the financial resources required to repay outstanding debt, including the repayment of the 2005 and 2014 Bonds. Additionally, Daughters is unable to provide financial support for the protection of the underfunded pension plans, and is also unable to provide the necessary capital required at all of the Health Facilities. The interests of patients, the community, physicians, and employees are best met by finding a suitable health system to assume control of Daughters and the Health Facilities, including the Hospital;

- Almost all interviewed believed that a change in governance and operation is necessary to keep the Health Facilities, including the Hospital, from eliminating services or closing;

- Some interviewed believed that the Health Facilities needed to be sold as a group rather than individually, stating some of the following reasons:

    - Individual sale of the Health Facilities may result in the closure of some of Daughters' hospitals or reduced services;

- The Health Facilities are an obligated group for liabilities associated with the bonds and pension plans;
- Daughters' commitment to services and patients is more likely to continue with a single buyer;
- Selling individual Health Facilities is more complicated and would not result in the highest value; and
- The timing required to sell individual Health Facilities would extend beyond the time that Daughters could financially sustain losing operations.

Many community members and advocacy groups interviewed believed that although a transaction was necessary for Daughters, the Hospital and Saint Louise Regional Hospital should instead be sold to the County of Santa Clara, separately from the other Daughters' hospitals.

Importance of the Hospital to the Community

According to all who were interviewed, the Hospital is a critically important provider of healthcare services to the local community and known for providing essential services to the uninsured, under-served populations, the elderly, and local Asian/Pacific Islander and Hispanic communities. The Hospital is a large provider of services for women and children. The Hospital's emergency and obstetrics services are very important for access, and play an important role in preserving the safety net. Some of the programs and services that were mentioned in the interviews as especially important include the following:

- Emergency services;
- Obstetrics and Neonatal Intensive Care Unit;
- Oncology services;
- Pediatric services;
- Stroke services, including certification as an Advanced Primary Stroke Center;
- Cardiac services, including designation as a STEMI Receiving Center;
- Vascular services;
- Sub-acute care services;
- Orthopedic services;
- Family Medicine Residency Program;

- Wound Care Center; and
- Health Benefits Resource Center.

Representatives of Santa Clara County, local Federally Qualified Health Centers, and community representatives all believed that it was essential for the Hospital to retain all or most of the services that it currently offers, especially emergency and obstetric services, and continue to serve Medi-Cal patients and the uninsured.

If the Hospital does not maintain its current level of healthcare services and contracts for Medi-Cal, severe accessibility and availability issues would be created for residents of the communities served by the Hospital.

Selection of Prime for the Proposed Transaction

Members of the Hospital's management team and O'Connor's Board who were interviewed explained that a number of factors were involved in finalizing the selection of Prime. While three other alternatives for a potential buyer were considered among the final bids, these offers were not believed to provide the same level of benefits and assurances as Prime. Some of the factors that resulted in the selection of Prime that were cited in the interviews include the following:

- Commitment to continue the operation of the Hospital and the other Daughters' facilities as general acute care hospitals;
- Commitment to retain services at the Health Facilities;
- Commitment to $150 million in capital investment;
- Ability to assume all debt and bond obligations;
- Ability to assume responsibility to fully fund the pension plans;
- Commitment to retain the CBAs of the employees at each of the Health Facilities;
- Ability of Prime Inc. to operate the Health Facilities efficiently and profitably;
- Prime's enhanced financial support and access to capital; and
- Ability to negotiate better contracts.

The majority of those interviewed from the Hospital's management and medical staff, as well as from O'Connor's Board, were supportive of the proposed transaction and the selection of Prime. Additionally, most people also conveyed an overall understanding and knowledge of the pressing financial issues and the necessity for Daughters to engage in a transfer of ownership and operation for the system and its related facilities in order to become financially sustainable, fund

the pension obligations, retire outstanding bond debt, avoid bankruptcy filings, and also to ensure continued operations of the Health Facilities.

While many of those interviewed believed that Prime was the best selection and the organization most likely to meet the aforementioned factors, many of these individuals also expressed concerns regarding the potential effects that the proposed transaction could have on the Hospital if the transaction were approved. Some of the concerns with the selection of Prime included the following:

- Prime Inc. may reduce necessary staffing and other types of expenses, which in turn, could have a negative impact on the quality and delivery of patient care;

- Prime Inc. may reduce or eliminate unprofitable or unfavorable services that would negatively impact the accessibility and availability of essential healthcare services for the communities served by the Hospital;

- Prime Inc. may not have the same commitments as Daughters to Emergency Department on-call coverage, medical directorships, medical staff relations, employees, union contracts, charity care, community benefit programs, etc.; and

- Prime Inc. may not sustain the level of commitment, funding, or provider network breadth that is required to support the community's needs for healthcare;

Many nonprofit healthcare organizations, advocacy groups, County of Santa Clara, and other community representatives were against the selection of Prime for these same reasons and the following additional reasons:

- Prime Inc. has inappropriate business models that focus on profit;

- Prime Inc. inappropriately treats patients and discourages underinsured patients from receiving care;

- The Hospital, along with Saint Louise Regional Hospital, should be sold to Santa Clara County because:

    - Santa Clara County's mission is more aligned with Daughters;

    - It would save money for Santa Clara County, prevent the need for future construction, and result in better reimbursement and financial stability for the Hospital;

    - Access to services would be improved;

    - Prime Inc. would close or reduce access to services and programs that were unprofitable; and

- Prime Inc. would not serve the underinsured and uninsured as Daughters had.

Most of the Hospital employees interviewed, some of which were also members of unions, including Service Employees International Union and California Nurses Association, understood the reasons for the transaction, mostly favored Prime, and believed that Prime was the only buyer that would keep the Health Facilities open, preserve jobs, and protect employee pensions.

Views of National Health Plans, Regional Health Plans, and Independent Physician Association Representatives

The majority of health plan representatives expressed that they had strong, long-lasting relationships with Daughters. Their views are divided into two categories below: views from the larger, national health plans whose membership is primarily insured by commercial health products, and views from representatives of health plans that are regional, with a focus on lower-income Medi-Cal and dual Medicare/Medi-Cal eligible patient populations.

The commercial-focused health plans stated that their relationships with Daughters have always been strong. These commercial plans tend to believe that there are alternatives to the Hospital, and therefore, are less concerned with the effects of the transaction on their membership. Despite some uncertainty regarding the reputation of Prime as being uncooperative in contract negotiations, they believe they would be able to establish a contractual relationship with Prime.

The views of representatives from more locally-based health plans, local Federally Qualified Health Centers, and Independent Physician Associations were different as they expressed significant concern surrounding the selection of Prime. These payers are concerned that a willingness to cancel contracts or pass along rate increases and other changes by Prime could impact managed care and integrated delivery models, and reduce provider choice, patient access, and service availability.

Some health plan representatives cited the controversy surrounding Prime that has been reported in the press that includes questions about its coding practices. Others expressed concern about whether Prime will accept reasonable payments for hospital services as are currently in place. A serious issue mentioned in a number of interviews concerned Prime's reported history of alienating physicians who privileges at the newly acquired hospitals. All of those interviewed emphasized the importance of preserving the scope of services as well as the breadth of providers at each of the Health Facilities.

Impact on the Availability and Accessibility of Healthcare Services

Almost all interviewed believed that the change of governance would lead to some reduction in the access to and/or availability of certain services. While many of those connected to the Hospital (management, physicians, O'Connor's Board, and employees) believed that the transaction was necessary in order to keep the Health Facilities open as general acute care hospitals, and that Prime was in fact the best selection among the final proposals, they also believed there would be reductions and even elimination of some unprofitable services. Furthermore, a number of those interviewed who supported the selection of Prime also felt that

the selection of Prime would have a negative impact on the availability or accessibility of some healthcare services to lower-income and poor populations historically served by the Hospital.

Many community members, community nonprofit organizations, and advocacy groups interviewed were against the selection of Prime because they felt that Prime would have a significant negative impact on the availability and accessibility of healthcare services to lower income and poor populations.

Some of those interviewed also expressed concerns that the cost of healthcare may increase, quality may decrease, and community benefits and charity care contributions could be reduced.

Alternatives

The majority of those interviewed that were associated with the Hospital (management, O'Connor's Board, physicians, and employees) believed that the transaction and the selection of Prime was necessary and that there were no other alternatives for Daughters in order to avoid insolvency and bankruptcy and to ensure the full protection of the Church and Multi-Employer Plans for the non-union and unionized employees. Most believed that if Daughters went into bankruptcy, services would be curtailed, some of the Health Facilities could close, and some employee pension funds would be lost. Additionally, many individuals believed Prime's offer was the strongest and provided the highest level of confidence in terms of the assumption and funding of the pension liabilities, continuation of the Health Facilities as general acute care hospitals, and future financial sustainability of the Health Facilities and their operations. In contrast, many community representatives and Santa Clara County representatives did not believe Prime was the best selection and stated that there were other alternatives that would provide greater benefits to the Hospital.

Most of those interviewed from community nonprofit organizations and Santa Clara County believed that the Hospital and Saint Louise Regional Hospital should be sold to the County of Santa Clara for the following reasons:

- It would enhance and preserve services and access as part of the safety net for uninsured and underinsured patients; and

- It would strengthen the financial performance of the Hospital by making it a Disproportionate Share Hospital.

ASSESSMENT OF POTENTIAL ISSUES ASSOCIATED WITH THE AVAILABILITY OR ACCESSIBILITY OF HEALTHCARE SERVICES

Importance of the Hospital to the Community

The Hospital is a critically important safety-net provider of healthcare services to the residents of the surrounding communities. The Hospital is especially essential for its provision of emergency and obstetric services to residents within the service area. The Hospital is a large provider of services to Medi-Cal patients, which is especially important because the County's Santa Clara Valley Medical Center is at full capacity. Other key services offered at the Hospital include other women's health services, the neonatal intensive care unit, cancer services, cardiac services, and the STEMI designation, and certification as a Primary Stroke Receiving Center.

The Hospital also has provided a historically significant level of charity care and community benefits for low-income, uninsured, and under-insured populations residing in the surrounding communities.

Continuation as a General Acute Care Hospital

In the Definitive Agreement, Prime states that it will continue to maintain the Hospital as a general acute care facility for a minimum of five years, subject to availability of physicians necessary to support these services. Additionally, Prime states this commitment shall also be subject to any changes that are deemed necessary, based on community needs, market demand, and the financial viability of such services.

The terms of the Definitive Agreement anticipate that there could be a reduction, or even elimination, of some programs and/or services that are currently offered at the Hospital. According to Prime, Prime will maintain the Hospital's services and provide the same levels of charity care and community benefit services.

Emergency Services

The Hospital is a critically important provider of emergency services to the residents of the surrounding communities. In FY 2013, the Hospital reported nearly 50,000 visits to its 23 emergency treatment stations, operating over capacity at 105% based on a standard of 2,000 visits per station, per year. Emergency departments at other area facilities are extremely overburdened and functioning beyond capacity, including Santa Clara Valley Medical Center (164%), and Kaiser Foundation Hospital - Santa Clara (102%). As a result of the ACA and California's participation in Medicaid expansion, more individuals are now eligible for healthcare coverage. Because of this and the growing shortage of primary care physicians, emergency department utilization is expected to increase within the service area. Keeping the Hospital's Emergency Department open is critical to providing emergency services within the Hospital's service area.

Medical/Surgical Services

With 236 licensed medical/surgical beds, an occupancy rate of 34%, and an average daily census of approximately 80 patients, the Hospital is an important provider of medical/surgical services. An analysis of the current supply and demand of area medical/surgical beds, based on current utilization patterns and an expected population growth of 2.5% over the next five years, indicates that maintaining a licensure of no less than 160 licensed beds[26] is important in ensuring the accessibility and availability of medical/surgical beds in the service area.

Intensive Care/Coronary Care Services

The Hospital reports an occupancy rate of approximately 60% on its 22 licensed intensive care and coronary care beds. These services are an important resource for supporting the emergency department and other medical and surgical services at the Hospital. Service area hospitals are running at a combined occupancy rate of nearly 65% on their 189 total intensive care beds. Although service area hospitals do have some available capacity, any reduction or elimination in the number of intensive care beds at the Hospital could negatively impact the availability and capacity of these same services at Santa Clara Valley Medical Center, Regional Medical Center of San Jose, and Good Samaritan Hospital - San Jose. Maintaining the current licensure of 22 beds is important in ensuring the accessibility and availability of these beds in the service area.

Obstetrics Services

The Hospital has an occupancy rate of nearly 60% on its 39 licensed obstetrics beds based on an average daily census of approximately 23 patients. With nearly 3,250 reported deliveries in FY 2013, the Hospital is an important provider of obstetrics services with approximately 18% of inpatient obstetrics discharges within its service area. A reduction in the type and/or level of obstetrics services provided at the Hospital, or in the number of licensed obstetrics beds, could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities, especially for the large percentage of obstetrics patients that are Medi-Cal patients.

Neonatal Intensive Care Services

The Hospital operates 10 licensed neonatal intensive care beds (24% of the combined area neonatal intensive care beds) and maintains an occupancy rate of approximately 46%. Excluding Kaiser, three other service area hospitals offer neonatal intensive care services and run at a combined occupancy rate of approximately 40%. Santa Clara Valley Medical Center ran at an occupancy rate of approximately 34%, Good Samaritan Hospital - San Jose ran at an occupancy rate of only 48%, and Regional Medical Center of San Jose ran at an occupancy rate of 7%. Because the Hospital has nearly 3,250 deliveries, some of which are high risk, it is important to continue operations of the neonatal intensive care unit.

[26] Assumes retaining capacity for growth and an occupancy rate of 50% on current census.

Pediatric Services

The Hospital is licensed for 27 pediatric beds (20% of the total service area beds) with a relatively low occupancy rate (14%) and average daily census (approximately 4 patients per day). Excluding Kaiser, only three other hospitals offer pediatric services in the service area and ran at a combined occupancy rate of 30% in FY 2013. Santa Clara Valley Medical Center ran at an occupancy rate of approximately 29%, Good Samaritan Hospital - San Jose ran at an occupancy rate of only 37%, and Regional Medical Center of San Jose ran at an occupancy rate of 19%. Additionally, Lucile Packard Children's Hospital, located approximately 21 miles away from the Hospital, is licensed for 190 pediatric beds and runs at an occupancy rate of 67%. While the Hospital's average daily census for pediatric patients is relatively low, nearly one third of emergency services visits are pediatric patients, making the Hospital's inpatient pediatric services important to the residents of the local communities.

Sub-Acute Care Services

Sub-acute patients are medically fragile and require special services, such as inhalation therapy, tracheotomy care, intravenous tube feeding, and complex wound management care. The Hospital is the only general acute care hospital with a sub-acute unit and is licensed for 24 sub-acute beds with a high occupancy rate (84%) and average daily census (approximately 20 patients per day). Because of the specialized capabilities of this unit to care for ventilated patients, a reduction in the number of sub-acute beds provided at the Hospital could have an adverse effect on the availability and accessibility of these key services to members of the surrounding communities.

Reproductive Health Services

The Hospital is an important provider of a range of healthcare services for women including nearly 3,250 obstetrical deliveries per year. Some women's reproductive health services are prohibited by the Ethical and Religious Directives (ERDs) of the Catholic Church including elective abortions and tubal ligations. Since the Hospital will no longer be sponsored by Daughters of Charity of St. Vincent de Paul, Province of the West, it will no longer be required to adhere to the ERDs. Since Prime will not be subject to the ERDs, it is expected that patients will not be transferred elsewhere for these services. It is expected that patients and physicians will seek elective reproductive services at the Hospital including tubal ligations. Prime has stated in its interview with MDS that it will not prohibit physicians from offering or performing reproductive procedures, and at the request of community members and physicians, it will support the addition of other reproductive procedures as may be needed in a large volume delivery service (such as abortions for fetal anomaly). Additionally, without the ERDs in place, physicians will no longer be prohibited from offering reproductive services in their campus offices. Thus, access and availability of these services should improve. According to Prime, the physicians at its hospitals provide services that include sterilizations, contraception, and other reproductive services. Prime cited that these services have been added at St. Mary's Regional Medical Center, a formerly Catholic hospital in Reno, Nevada, that was purchased by Prime in 2012.

Below is a table showing instances where the Hospital recorded reproductive-related procedures that were in accordance with the ERDs in 2013. The table also shows Prime's combined California hospitals also providing similar types and levels of service as the Hospital.

REPRODUCTIVE SERVICES BY DIAGNOSTIC RELATED GROUP		
Diagnostic Related Group	O'Connor Hospital	Prime
770: AbortionW D&C, Aspiration Curettage or Hysteroctomy	8	192
778: Threatened Abortion	23	81
779: Abortion w/o D&C	9	56
777: Ectopic Pregnancy	10	114
767: Vaginal Delivery W Sterilization &/OR D&C	4	180
Total 2013 Discharges	**54**	**623**

Source: OSHPD Patient Discharge Database

Effects on Services to Medi-Cal, County Indigent, and Other Classes of Patients

Approximately 70% of the Hospital's inpatient discharges are reimbursed through Medicare and Medi-Cal. The Hospital currently participates in the Medicare program and the Medi-Cal managed care program, and also has managed care contracts for these types of patients.

Prime has made a commitment in the Definitive Agreement to keep the Hospital's Emergency Department open for at least five years in order to ensure access of services to Medicare and Medi-Cal patients. However, in order for the Medicare and Medi-Cal patients to access other key services not provided through the Hospital's Emergency Department, the Hospital must maintain its participation in both programs, as well as maintain its contractual agreements with payers. In the Definitive Agreement, Prime has not made any specific commitments regarding continued participation in the Medicare and the Medi-Cal managed care programs, nor has Prime committed to maintain current contractual agreements.

However, Prime has stated in its interview with MDS that it would be willing to accept reasonable rates for Medi-Cal managed care that were comparable to other similarly situated hospitals, and Prime is also willing to accept the Medi-Cal default rate, which is likely to be higher, if it were to not contract for Medi-Cal managed care. Additionally, Prime will also commit to accepting Medi-Cal patients for elective medical procedures, and Prime stated that it currently contracts with Medi-Cal managed care plans in all of the California counties where Prime hospitals are located.

If the Hospital did not participate in the Medicare and Medi-Cal managed care programs, Prime stated that it currently contracts with these classes of patients could be denied access to certain healthcare services, thus creating a negative impact on the availability or accessibility for these patient populations.

Effects on the Level and Type of Charity Care Historically Provided

Many uninsured and under-insured individuals in the community rely on the Hospital for healthcare services. The Hospital has historically provided a significant amount of charity care, averaging approximately $3.1 million per year over the last five years (on a cost basis). Prime has agreed to maintain and adhere to Daughters' current policy on charity care (or a comparable policy) for a minimum of five years, though no specific commitment has been made to maintain historical levels of financial support for charity care at the Hospital currently supported by the Hospital.

Effects on Community Benefit Programs

The Hospital has historically provided a significant amount of community benefit services, averaging $2.7 million per year over the last five years (on a cost basis). The Hospital supports a significant number of community benefit programs that serve residents from the surrounding lower-income communities. Some of the Hospital's community benefit programs include Family Education, Medical Respite Center, Career Academy, Family Medicine Residency Program, Health Benefits Resource Center, Community Building Sponsorships, and Palliative Care Services among others. Prime has not made any specific commitments in the Definitive Agreement to maintain the Hospital's community benefit programs.

Effects on Staffing and Employee Rights

Prime has agreed to continue the employment at comparable salaries, job titles, and duties, for both the unrepresented employees and unionized employees at the Hospital, DCHS Medical Foundation, and Caritas Business Services, who remain in good standing and are still employed by Daughters as of the closing date. Prime has agreed to adhere to severance obligations as defined in the written employment agreements, or if no such agreement exists, Prime will adhere to Daughters' severance pay obligations for a period of twelve months following the closing date.

In addition to the Hospital's employees, Prime has agreed to make offers of employment to Daughters' system office employees, Daughters' executives, the Health Facilities' CEOs, the DCHS Medical Foundation President and CMO, and the Caritas Business Services' Senior Directors, who remain in good standing and are still employed by Daughters as of the closing date. Prime shall offer salaries, wages, job titles, and duties that are comparable to those in place prior to the closing.

While Prime makes short-term commitments for employment and maintenance of CBAs, it is expected that Prime will reduce labor costs by eliminating some management and other positions within the Hospital. It is also expected that the number of employees will be reduced unless the Hospital's patient volume increases. Additionally, Prime is viewed as a tough negotiator of union agreements, and as a result, employees may experience changes to salaries, wages, and benefits when many of the union contracts expire in 2015.

Effects on Medical Staff

Prime has not made any specific commitments in the Definitive Agreement to maintain physician contracts or the Hospital's medical staff. Additionally, Prime has not made any specific commitments to maintain the medical staff officers or the department or committee chairs/heads or vice-chairs/heads of the Hospital's medical staff.

Alternatives

Upon evaluation of the final four bids, the Daughters' Board, Ministry's Board, and O'Connor's Board did not believe that other alternatives offered the same advantages as Prime's offer in terms of ability to repay Daughters' outstanding bond debt, assume and fully fund the pensions, and financially sustain and operate the Health Facilities.

If the proposed transaction were not approved, Daughters would be forced to consider other options. It is possible that a previously submitted and negotiated Definitive Agreement could be entered into with one of the other final bidders; however, it may not meet the same terms and commitments currently proposed by Prime. These alternatives may negatively impact the pension plans, the provision of services at the Health Facilities, the levels of community benefits and charity care provided, among other potential impacts, depending on the commitments made by these organizations.

As a result of Daughters' current pressing financial situation, the majority of those interviewed believed bankruptcy would occur, resulting in the possible reduction of services or closure of some of the Health Facilities. Bankruptcy could have a very negative impact on employees, employee pensions, creditors, and the services offered to the community.

CONCLUSIONS

Daughters contends the proposed Definitive Agreement and change in governance and control of Daughters and O'Connor will help ensure continued operation of the medical services offered at the Hospital and avoid bankruptcy.

Potential Conditions for Transaction Approval by the California Attorney General

If the California Attorney General approves the proposed transaction, Medical Development Specialists, LLC, recommends the following conditions be required in order to minimize any potential negative healthcare impact that might result from the transaction:

1) For at least ten years from the closing date of the transaction, the Hospital shall continue to operate as a general acute care hospital;

2) For at least ten years from the closing date of the transaction, the Hospital shall maintain its 23 licensed treatment stations, providing 24-hour emergency medical services at no less than current licensure and designation, with the same types and/or levels of services;

3) For at least five years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Cardiac services, including the two cardiac catheterizations and designation as a STEMI Receiving Center;
    b. Cancer services, including radiation therapy and the Ambulatory Infusion Center;
    c. Advanced certification as a Primary Stroke Center;
    d. Neonatal intensive care services, including a minimum of 10 neonatal intensive care beds;
    e. Orthopedics and joint replacement services;
    f. Wound care and hyperbaric medicine services;
    g. Pediatric services, including a minimum of 14 pediatric beds; and
    h. Pediatric Center for Life.

4) For at least ten years from the closing date of the transaction, the Hospital shall maintain the following services at current licensure, types, and/or levels of services:

    a. Critical care services, including a minimum of 22 intensive care/coronary care beds;
    b. Obstetric services, including a minimum of 39 obstetrics beds;
    c. Sub-acute care services, including a minimum of 24 sub-acute beds; and
    d. Women's health services, including mammography.

5) For at least ten years from the closing date of the transaction, the Hospital shall maintain physician on-call coverage agreements with currently contracted specialties and/or maintain other comparable coverage arrangements with physicians at fair market value;

6) For at least five years from the closing date of the transaction, the Hospital shall maintain a charity care policy that is no less favorable than the Hospital's current charity care policy and the Hospital should provide an annual amount of Charity Care equal to or greater than $15,295,925 (the "Minimum Charity Care Amount"). For purposes herein, the term "Charity Care" shall mean the amount of charity care costs (not charges) incurred by the Hospital in connection with the operations and provision of services at the Hospital . The definition and methodology for calculating "charity care" and the methodology for calculating "cost" shall be the same as those used by OSHPD for annual hospital reporting purposes. The Minimum Charity Care Amount will be increased on an annual basis by the rate of inflation as measured by the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California;

7) For at least five years from the closing date of the transaction, the Hospital shall continue to expend an average of no less than $2,718,710 annually in community benefit services. This amount should be increased annually based on the Consumer Price Index for San Jose-Sunnyvale-Santa Clara, California. The following community benefit programs should be maintained with the same or greater level of financial support and in-kind services that are currently being provided:

    a. Family Medicine Residency Program;
    b. Career Academy;
    c. Health Benefits Resource Center; and
    d. RotaCare San Jose.

8) Prime shall maintain privileges for current medical staff members at the Hospital who are in good standing as of the closing date of the transaction. Further, the closing shall not change the medical staff officers, committee chairs or independence of the Hospital's medical staff and those such persons shall remain in good standing for the remainder of their tenure;

9) For at least ten years from the closing date of the transaction, the Hospital shall maintain its participation in the Medi-Cal managed care program, providing the same types and/or levels of emergency and non-emergency services to Medi-Cal beneficiaries, on the same terms and conditions as other similarly situated hospitals offering substantially the same services, without any loss, interruption of service, or decrease in quality, or gap in contracted hospital coverage, including continuation of the following contracts:

    a. Santa Clara Family Health Plan;
    b. Santa Clara Valley Health Plan; and
    c. Anthem Blue Cross of California.

10) For at least ten years from the closing date of the transaction, the Hospital shall maintain its participation in the Medicare program, providing the same types and/or levels of emergency and non-emergency services to Medicare beneficiaries by maintaining a Medicare Provider Number;

11) Prime shall commit the necessary investments required to maintain OSHPD seismic compliance requirements at the Hospital through 2030 under the Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983, as amended by the California Hospital Facilities Seismic Safety Act, (Health & Saf. Code, § 129675-130070); and

12) Prime shall comply with the $150 million "Capital Commitment" set forth in section 7.9 of the Definitive Agreement.

APPENDICES

List of Interviewees

Last Name	First Name	Position	Affiliation
Alvarado	Dolores	Chief Executive Officer	Community Health Partnership
Armstrong	Hilary	Supervising Attorney	Law Foundation of Silicon Valley
Battles	Stephanie	Vice President, Human Resources	Daughters of Charity Health System
Block, MD	George	Chief Medical Officer	O'Connor Hospital
Brach	Dennis	Chair, O'Connor Hospital Foundation Board	O'Connor Hospital
Brownstein	Bob	Director of Policy & Research	Working Partnership
Carroll	David	CFO & Chief Business Development Officer	O'Connor Hospital & Saint Louise Regional Hospital
Cayabyab	Cecilia	Nursing Director, Oncology & Orthopedics	O'Connor Hospital
Chicoine	Louis	Executive Director	Abode Services
Cox	Pat	Chief Executive Officer	Valley Health Plan
Darrow	Elizabeth	Chief Executive Officer	Santa Clara Family Health Plan
Dean	Rosylie	Coalition Member	Coalition for a Downtown Hospital
Diedrich	Dee	Chief Medical Officer	Daughters of Charity Health System
Dover	Jim	President & CEO, O'Connor Hospital & Saint Louise Regional Hospital	O'Connor Hospital & Saint Louise Regional Hospital
Doyle	Jim	Coalition Member	Coalition for a Downtown Hospital
Ehrlich	Sharon	Steward	California Nurses Association
Enriquez	Manny	Field Vice President, Contracting	Humana
Espinoza	Rey	Chief Executive Officer	Gardner Family Health
Ferrari	Lisa	Regional Vice President, Southern California	Anthem Blue Cross of California
Ferrer	Frederick	Chief Executive Officer	The Health Trust
Fornoles	Maddy	Administrative Director, Nursing Operations & Clinical Efficiency	O'Connor Hospital
Forrester	Shawn	Vice President, Network Management	Aetna
Gardner	Patricia	Chief Executive Officer	Silicon Valley Council of Nonprofits
Gilchrist	John	CEO, O'Connor Hospital Foundation	O'Connor Hospital
Gill	Augustina	Chief Executive Officer	RotaCare Bay Area, Inc.
Goeringer	Dawn	Chief Clinical Officer	O'Connor Hospital
Goll	Peter	Chief Executive Officer	PMG of San Jose
Hansen	Todd	Chief Operating Officer	The Health Trust
Heather	Mike	Chief Financial Officer	Prime Healthcare Services, Inc.
Hickey	Nancy	Coalition Member	Coalition for a Downtown Hospital
Ho	Wendy	Advocacy Program Manager	United Way Silicon Valley
Holmes	Ryan	Assistant Director of Healthcare Ethics	Markkula Center for Applied Ethics, Santa Clara University
Hunt	Liz	Chief Operating Officer	Indian Health Center Clinic
Isaai	Robert	President & CEO	Daughters of Charity Health System
Javidi	Mitra	Regional Network Director	Health Net Community Solutions
Johnson	Debbie	Steward	California Licensed Vocational Nurses Association
Kenny	Sister Eileen	Chair, O'Connor Hospital Board	O'Connor Hospital
King	Kathleen	Chief Executive Officer	Healthier Kids Foundation
Koff-Ginsborg	Elisa	Executive Director	Behavioral Health Contractors' Association
Konda	Richard	Executive Director	Asian Law Alliance
Kraft	Kersten	President	Santa Clara County Individual Practice Association (SCCIPA)
Leigh Hutton	Carole	Chief Executive Officer	United Way Silicon Valley
Leininger	Bob	Coalition Member	Coalition for a Downtown Hospital
Lew	Michele	President & CEO	Asian Americans for Community Involvement
Lorenz	Paul	Chief Executive Officer	Valley Medical Center
Luong	Derek	Biomedical Engineer & Steward	International Union of Operating Engineers, Stationary Engineers, Local 39
Mankinen	Teresa	Steward	Service Employees International Union, United Healthcare Workers West
Melikian	Annie	Chief Financial Officer	Daughters of Charity Health System
O'Brien	Erin	President & CEO	Community Solutions
Padua	Thad	Vice Chair, O'Connor Hospital Board	O'Connor Hospital
Pakuckas	Paul	Regional Vice President, Solutions Medicaid California	Anthem Blue Cross of California
Papouchian	Arminé	Vice President, Network Management	Blue Shield of California
Patel	Paryus	Corporate Chief Medical Officer	Prime Healthcare Services, Inc.
Paul, MD	Ria	Chief Medical Officer	Indian Health Center Clinic
Penner, DO	Mark	Medical Director, Emergency Department	O'Connor Hospital
Rabin	Gaynor	Director, Managed Care	Daughters of Charity
Randall	Sister Michelle	Vice President, Mission Integration	O'Connor Hospital
Reddy, MD, FACC, FCCP	Prem	Chairman, President, & CEO	Prime Healthcare Services, Inc.
Sabatino	Carol	Vice Chair, O'Connor Hospital Foundation Board	O'Connor Hospital
Santiago	René	Director & Deputy County Executive	Santa Clara Valley Health & Hospital System
Schell	Troy	General Counsel	Prime Healthcare Services, Inc.
Schwefler	Ernie	Regional Vice President, California	Anthem Blue Cross of California
Scott	Steve	Vice President, Payor Solutions	Anthem Blue Cross of California
Shabanian	Tina	Director, Provider Contracting and Specialty Networks	Blue Shield of California
Siebert	Greg	Vice President, Network Management	United HealthCare
Villasenor	Quilla	Director, Pediatric Center for Life, DCHS Medical Foundation	Daughters of Charity
Wallerstein	Ernie	President & CEO	DCHS Medical Foundation
Walters	Bob	Vice President, Facilitites Planning & Development	Daughters of Charity Health System
Weinstein	Diane	Senior Associate, General Counsel	Anthem Blue Cross of California
Wilder	Chris	Executive Director	VMC Foundation
Winning	Jane	Director, Cardiac Catheterization Lab & Surgery	O'Connor Hospital
Young	Bill	Steward	Engineers and Scientists of California, Northern California Local 20

Hospital License

License: 070000072
Effective: 01/01/2014
Expires: 12/31/2014
Licensed Capacity: 358

State of California
Department of Public Health

In accordance with applicable provisions of the Health and Safety Code of California and its rules and regulations, the Department of Public Health hereby issues

this License to

O'Connor Hospital

to operate and maintain the following **General Acute Care Hospital**

O'CONNOR HOSPITAL
2105 Forest Ave
San Jose, CA 95128-1425

Bed Classifications/Services
334 General Acute Care
65 Perinatal
27 Pediatric
14 Intensive Care
10 Intensive Care Newborn Nursery
8 Coronary Care
210 Unspecified General Acute Care
24 Skilled Nursing (D/P)

Other Approved Services
Basic Emergency
Cardiac Catheterization Laboratory Services
Cardiovascular Surgery
Mobile Unit - PET
Nuclear Medicine
Occupational Therapy
Outpatient Services - SPORTS MEDICINE at 455 O'Connor Drive, Suites 150 and 170, San Jose
Outpatient Services - WOUND CARE at 125 Ciro Avenue, #201, San Jose
Physical Therapy
Radiation Therapy
Respiratory Care Services
Social Services
Speech Pathology

This **LICENSE** is not transferable and is granted solely upon the following conditions, limitations and comments:
Effective August 20, 2004 suspend one bed: Room 3411 12 Perinatal beds as LDRP's. This includes Rooms 3310, 3311,3312, 3315, 3320, 3321, 3322, 3323, 3330, 3331, 3332, 3333.

Ron Chapman, MD, MPH
Director & State Health Officer

Charlene Popke, District Manager

Refer Complaints regarding these facilities to: The California Department of Public Health, Licensing and Certification, San Jose District Office, 100 Paseo de San Antonio, Suite 235, San Jose, CA 95113, (408)277-1784

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