



CONFIDENTIAL

Letter of Intent

August 2, 2012

John Lackey  
Chair  
Board of Directors  
Knapp Medical Center  
1401 E. Eighth Street  
Weslaco, Texas 78596

Re: Proposal to Purchase Knapp Medical Center

Dear Mr. Lackey:

This letter of intent will confirm that Prime Healthcare Services Foundation ("PHSF") or a wholly owned subsidiary of PHSF (together the "Buyer") is interested in acquiring substantially all of the assets of Knapp Medical Center ("KMC"), Knapp Medical Group ("KMG"), and Mid-Valley Physicians Association ("MVPA") (KMC, KMG, and MVPA shall be collectively referred to as the "Seller"), and assuming certain of its liabilities and obligations, on terms that would be mutually agreeable. In this letter, (a) Buyer and the Seller are sometimes called singularly a "Party" and collectively the "Parties"; and (b) Buyer's possible acquisition of the assets of the Seller is sometimes called the "Proposed Transaction".

PART ONE

The Parties wish to commence negotiating a definitive written acquisition agreement providing for the Proposed Transaction (the "Definitive Agreement"). To facilitate the negotiation of a Definitive Agreement, on Buyer's request, Buyer's counsel shall prepare an initial draft. The execution of any such Definitive Agreement would be subject to the satisfactory completion of Buyer's ongoing investigation of the Seller's business and would also be subject to approval, among others, by Buyer's board of directors and Seller's board of directors.

KMC  
00686

6. Consideration. The consideration to be paid by Buyer for the Purchased Assets shall consist of the following:

a. Cash Consideration. On the date of Closing, Buyer shall deposit an amount equal to: (1) the amount necessary to satisfy Seller's bond debt and obligations under swap agreements which is estimated to be no less than \$57 Million; and (2) \$9 Million.

Letter of Intent  
Page 8 of 11

If you are in agreement with the foregoing, please sign and return one copy of this letter, which thereupon will constitute our understanding with respect to its subject matter.

Very truly yours,

**BUYER:**

PRIME HEALTHCARE SERVICES  
FOUNDATION:

By: 

Michael J. Sarrao  
Secretary & Treasurer

Agreed to as to the Binding Provisions on August \_\_\_\_, 2012.

**SELLER:**

KNAPP MEDICAL CENTER:

By: \_\_\_\_\_

John Lackey  
Chair

KMC  
00693