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Valuation Analysis of the Proposed Sale of USC/Kenneth Norris Jr. Cancer Hospital

Prepared by:

AlixPartners, LLC

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This report presents our conclusions with respect to our assistance to the Office of the Attorney General for the State of California (the "AG") in connection with its review of the proposed sale (the "Proposed Transaction") of University of Southern California ("USC")/Kenneth Norris Jr. Cancer Hospital ("Norris Hospital"), a charitable not-for-profit cancer hospital located in Los Angeles, California, to Tenet HealthSystem Norris, Inc. ("THN"), a subsidiary of Tenet Healthcare Corporation ("Tenet"). AlixPartners was retained to review valuation documents prepared for the Proposed Transaction, review relevant corporate documents and materials related to the Proposed Transaction, review historical and projected financial and operating information and prepare valuation analyses.

DESCRIPTION OF NORRIS HOSPITAL

USC – Kenneth Norris, Jr. Cancer Hospital ("Norris"), a nonprofit public benefit corporation, owns Norris Hospital. USC is Norris' sole corporate member. Norris Hospital is a 60-bed facility that provides inpatient care and outpatient clinical services for cancer patients and supports the research mission of the USC – Norris Comprehensive Cancer Center ("Cancer Center"). The Cancer Center is located in the Norris Buildings and is an organized research unit of USC's Keck School of Medicine. Cancer treatment options provided by Norris Hospital include surgery, radiation therapy and chemotherapy, as well as more advanced approaches to cancer management such as immunotherapy and gene therapy. Norris Hospital's medical staff have particular expertise in the treatment of cancers of the bladder, prostate, kidney, testis, female reproductive system, breast, lung, gastrointestinal tract, melanoma, leukemia, lymphomas and AIDS-related cancers.

Norris Hospital is located on the USC Health Sciences Campus in Los Angeles, California. The facility provides access to cancer patients for teaching, research and patient care services by faculty physicians and students of USC's Keck School of Medicine. USC developed Norris Hospital principally to support the Cancer Center, a National Cancer Institute ("NCI") designated comprehensive cancer center.

Norris Hospital experienced significant growth in net patient service revenue over the last five fiscal years ended June 30, 2002. On average, revenues

have increased 11.7% per year since 1997 and 19.1% per year since 2000. During this same period, Norris Hospital's earnings before interest expense, income tax, depreciation and amortization ("EBITDA") margin steadily improved from 4.5% in 1997 to 16.7% in 2002. Norris Hospital's earnings before interest expense and income tax ("EBIT") margins rose from –7.3% in 1997 to 10.8% in 2002. However, year to date results for the 6 months ended December 31, 2002 show a dramatic decline in performance. Annualized 6 month results would yield a 1.5% increase in revenue for the year while EBITDA and EBIT margins are down to 9.1% and 3.0%, respectively.

DETERMINATION TO SELL THE ASSETS AND NEGOTIATIONS

With concerns of administrative burdens, operational inefficiencies and exposure to liability that arise from USC's operation and/or management of hospital facilities, the Norris Hospital Board of Directors (the "Board") evaluated the sale of the Norris Hospital business in 2001. The Camden Group ("Camden") a healthcare consulting firm jointly chosen by USC and Tenet to develop a strategic plan for the USC Health Sciences Campus, made presentations to the Board in March and June of 2001. In its presentations, Camden recommended significant capital expenditures over the next five years to keep Norris Hospital viable. Camden also presented concerns over Norris Hospital's size compared to larger cancer hospitals.

In light of Camden's recommendations and concerns over the downside risks associated with USC's ownership of Norris Hospital, the Board deliberated over the possible sale of Norris Hospital to Tenet, the current manager of the hospital, at a September 2001 Board meeting. Tenet HealthSystem Hospitals, Inc. ("THH"), who managed Norris Hospital under a management contract, had rights of first negotiation and refusal in a proposed sale. The Board approved a resolution that it would be in the best interest of Norris Hospital to pursue a transaction with Tenet and empowered the Senior Vice President for Administration of USC to enter into negotiations with Tenet.

PROPOSED TRANSACTION

The Proposed Transaction is structured according to the Asset Purchase Agreement ("APA") between Norris and THN and supplemental agreements that control specific areas of the transaction. Under the APA, THN will buy from Norris substantially all of the assets of Norris Hospital excluding current assets such as cash, cash equivalents, marketable securities and accounts receivable (but including certain inventory and prepaid expenses), and real property. THN will also assume certain liabilities, including obligations that arise from written contracts, commitments or covenants to which Norris was a party prior to the close of the Proposed Transaction, open purchase orders entered into by Norris in the ordinary course of business, obligations to hired employees for paid time off, sick pay and vacation and other liabilities. THN will pay a total of $35 million in cash consideration to Norris.

The purchase price of $35 million (the "Purchase Price") was proposed via a letter of intent that was drafted through negotiations with Tenet. The Board approved the execution of this letter on December 20, 2001, subject to the approval of the transaction by the governing boards of USC and satisfaction of other terms and conditions. The terms of the Proposed Transaction were further negotiated in subsequent months and in July 2002 the Board passed resolutions to execute and deliver the APA to Tenet. At closing, $20 million will be paid. The remaining $15 million will be paid on the earlier of 5 years after closing or when beds are transferred from Norris Hospital to a new 10-story patient care tower that Tenet will build (the "New Tower"). THN will also be required to make capital expenditures of not less than $10 million during the five-year period after the closing date to make additions, improvements or renovations to the existing Norris buildings. The supplemental agreements to the APA include the following:

- a Lease Agreement between USC and THN, pursuant to which THN will lease and operate inpatient and outpatient services in the two buildings currently occupied by Norris Hospital. THN's lease payments to USC are included in the Purchase Price. In addition, THN will pay its share of capital and all operating expenses proportionate to the area of the buildings that it will occupy plus an administrative overhead charge equal to 10% of THN's share of operating expenses excluding utilities;

- a License Agreement by and among USC, Norris and THN, pursuant to which THN receives a royalty-free right and the authority to use certain

variations of the "USC" and "Norris" names and designs in connection with the operation of Norris Hospital;

- a Norris Agreement between USC and THN, pursuant to which neither Norris nor USC will compete with THN in the ownership or management of institutional cancer services for a period of seven years in the following counties of Southern California: Imperial, Kern, Los Angeles, Orange, Riverside, San Bernadino, San Louis Obispo, Santa Barbara and Ventura; and

- a Cancer Center Support Agreement between THN, USC and USC University Hospital, pursuant to which THN will maintain and operate Norris Hospital in such a manner as to facilitate the Cancer Center's maintenance of its designation as a NCI designated comprehensive cancer center.

SOURCES OF INFORMATION

The following is a general summary of the primary documentation that has been provided to us with respect to the referenced matter. In performing our analysis, we relied upon financial and other information, including prospective financial information, obtained from Norris Hospital management ("Management"), from Tenet and from various public, financial, and industry sources. Our conclusion is dependent on such information being complete and accurate in all material respects. However, as is customary in the business valuation profession, the scope of our work will not enable us to accept responsibility for the accuracy and completeness of such provided information.

For the purposes of our analysis, some of the primary documents we have reviewed include:

- Asset Purchase Agreement between THN and Norris dated September 30, 2002;
- Lease Agreement between USC as Landlord and THN as Tenant, dated 2002;
- Norris Agreement between THN and USC dated 2002;
- License Agreement by and among USC, Norris and THN dated 2002;

- Management Agreements between Tenet HealthSystem Hospitals, Inc. and Norris Hospital dated June 1, 1997 and July 1, 2001;
- Lease Agreement between Norris and USC dated April 1, 1983;
- Valuation prepared by Cap Gemini Ernst & Young ("CGEY") with respect to the Proposed Transaction dated June 19, 2002 and accompanying workpapers;
- Valuation prepared by CGEY with respect to the Proposed Transaction dated July 15, 2002 and accompanying workpapers;
- Components of the Norris Hospital Notice and Application pursuant to California Corporations Code §5914;
- Strategic plan presentations for USC University Hospital and Norris Hospital prepared by the Camden Group and dated 2002 and July 26, 2001;
- Letters from the Coalition for Quality Healthcare in opposition to the Proposed Transaction dated November 25, 2002 and November 22, 2002;
- Audited financial statements of Norris Hospital for the fiscal years ended June 30, 1998 through 2002;
- Interim financial statements of Norris Hospital for the year-to-date periods ended December 31, 2002 and 2001;
- Norris Hospital Budgets for Fiscal Years 2002 and 2003;
- Information provided by Management regarding the history, outlook and operations of Norris Hospital; and
- Other publicly available financial, economic and industry data.

PROCEDURES

During the course of our analysis we undertook the following procedures among others:

- Reviewed the valuations and corresponding workpapers prepared by CGEY with respect to the Proposed Transaction;
- Interviewed Carol Freeman, Chief Operating Officer of Norris Hospital and a Tenet employee, and James Hughey, Chief Financial Officer of Norris Hospital and a Tenet employee, to discuss the financial

performance and the future outlook for Norris Hospital and other pertinent information;

- Site visit to Norris Hospital;
- Discussions with representatives of CGEY;
- Reviewed relevant corporate material of Norris (including transaction documents, board presentations, financial statements, budgets, etc.);
- Analyzed the terms of the Proposed Transaction, including the price paid and the consideration offered, based on a review of the transaction documents and discussions with representatives of Norris Hospital;
- Reviewed Norris Hospital's historical financial and operating data; and
- Conducted valuation analyses related to Norris Hospital as part of the review of the Proposed Transaction.

CGEY VALUATION OF NORRIS HOSPITAL

In connection with the Proposed Transaction, USC engaged CGEY to develop reasonable operating assumptions and financial projections for Norris Hospital and develop a fair market valuation of Norris Hospital based on these financial projections.[1] The purpose of the CGEY valuation was to ensure that Norris received appropriate consideration for the Norris Hospital assets.

CGEY determined that the value of Norris Hospital ranged from $32 to $45 million as of June 19, 2002. As part of our analysis, we reviewed the CGEY valuation report and its assumptions. CGEY discusses three different methodologies used in valuing hospitals, the Market Comparable (which we will hereinafter refer to as the Market Transaction Approach), Replacement Cost and Discounted Cash Flow ("DCF") approaches. The CGEY report describes the Market Transaction and Replacement Cost approaches for Norris Hospital, then discards each and relies solely on the DCF.

CGEY Market Transaction Approach

In developing its Market Transaction Approach, CGEY relied on its database of hospital transactions to determine a range of value for hospitals similar to

1 Cap Gemini Ernst & Young Valuation report, 6/19/02.

Norris Hospital that had been purchased in recent years. CGEY examined three valuation metrics (or "multiples") in its analysis:

- Purchase price as a multiple of last twelve months ("LTM") net revenue;
- Purchase Price per licensed bed; and
- Purchase price as a multiple of EBITDA.

CGEY selected transactions involving general acute care hospitals with EBITDA margins ranging from 10% to 15% as the peer group for Norris Hospital in its analysis. The CGEY report dated June 19, 2002 indicates that that its peer group for Norris Hospital only included hospitals in the western United States, although the corresponding workpapers indicate that the peer group transactions include all hospitals with EBITDA margins ranging from 10% to 15%. The corresponding multiples to the peer group are as follows:

- Purchase price / LTM net revenue: 101%;
- Purchase price / licensed bed: $245,901; and
- Purchase price / EBITDA: 7.4x.

Applying these multiples to Norris Hospital's respective financial results indicated the following range of value:

- Purchase price / LTM net revenue: $68,000,000
- Purchase price per licensed bed: $14,750,000; and
- Purchase price / EBITDA: $64,000,000.

CGEY chose not to rely on the results of its Market Transaction Approach analysis on the grounds that few hospitals are similar to Norris Hospital. While there are potential differences between Norris Hospital and other hospitals purchased in the marketplace, we believe that the Market Transaction approach is an appropriate valuation methodology for hospitals. We will discuss our Market Transaction Approach analysis in detail later in this report.

CGEY Replacement Cost Approach

CGEY also discussed the Replacement Cost valuation method, which provides an approximation of the cost that would be required to construct a replacement facility similar to Norris Hospital. CGEY estimated the range of construction and equipment cost to be $1,000,000 to $1,200,000 per bed.

These multiples yield a range of $60,000,000 to $72,000,000 in construction and equipment costs for a new 60-bed cancer facility. As mentioned earlier, CGEY discarded the results of its Replacement Cost analysis in determining its range of value for Norris Hospital. We do not believe that the Replacement Cost Approach is an appropriate valuation methodology for hospitals that will continue to operate their existing facility.

CGEY Discounted Cash Flow Approach

In developing its DCF analysis, CGEY began by developing five-year financial projections for Norris Hospital. CGEY based its revenue projections on both growth in patient volume and prices increases for services, with revenue growing from $80.7 million in 2002 to $109.2 million in 2006. This translates into revenue growth of 18.5% in 2002 and approximately 8% per year for the remainder of the projection period. CGEY projected EBITDA margins to range from 14.7% in 2002 to 17.4% in 2006, with EBITDA growing from $11.9 million in 2002 to $19.0 million in 2006. CGEY projected EBIT to grow from $7.3 million (9.0% margin) in 2002 to $12.7 million (11.7% margin) in 2006. CGEY's analysis was conducted prior to the end of Norris Hospital's 2002 fiscal year. Our updated DCF analysis reflects Norris Hospital's current performance. The range of discount rates used by CGEY in its DCF analysis ranged from 13%-17%, which is above levels typically seen for valuations in the hospital industry. We have estimated that the appropriate rate of return for an investment in the capital of Norris Hospital is 10.0% as we discuss in more detail later in this report.

ALIXPARTNERS VALUATION APPROACHES

We conducted our valuation analysis after reviewing year-to-date financial results and speaking with Management to discuss the financial performance and future outlook of Norris Hospital. In order to determine whether Norris will receive fair market value for its assets, we applied two standard valuation methodologies: the Income Approach and the Market Transaction Approach.

Income Approach

The Income Approach indicates the fair market value of a business or the assets of a business based on the value of the cash flows that the business or the assets can be expected to generate in the future. A variation of the

Income Approach, the Discounted Cash Flow ("DCF") Method, is comprised of four steps: 1) Estimation of future cash flows for a certain discrete projection period; 2) Estimation of the present value of the cash flows using a rate of return that considers the relative risk of achieving the cash flows and the time value of money; 3) Estimation of the residual value of cash flows subsequent to the discrete projection period; and 4) Combination of the present value of the residual cash flows with the discrete projection period cash flows.

Rate of Return

In order to determine the required rate of return on Norris Hospital's total capital, it is necessary to calculate Norris Hospital's Weighted Average Cost of Capital ("WACC"). The WACC is comprised of the cost of Norris Hospital's equity as well as the typical cost of debt. The WACC is calculated using the following formula:

WACC = Ke x (% equity) + Kd x (% debt)

where:

Ke = required rate of return on equity capital
Kd = required rate of return on debt capital

The equity rate of return, calculated by use of Capital Asset Pricing Model (CAPM), begins with a risk-free rate, U.S. government Treasury bonds, then adds a risk premium which stockholders require to assume the additional risk of equity investment.

The formula for CAPM is expressed as follows:

Ke = Rf + B x (Rm - Rf) + SSP

where:

Ke = required rate of return on equity capital
Rf = risk-free rate of return (long-term government bonds)
Rm = market return
SSP = small stock premium
B = beta or systematic risk of this type of equity investment

We used the yield on a twenty-year U.S. Treasury bond to estimate the risk-free rate of return. This interest rate as of February 15, 2003 was 4.94%.

Due to the increased risk of holding equity securities as compared to holding debt securities, investors demand a risk premium as part of their return on equity capital. This risk premium is defined as the difference between the market return on equity and the risk-free rate of return. The equity risk premium is composed of two components: a risk premium for investments in large companies, and an additional risk premium for the increased riskiness of smaller companies (defined as companies with a market capitalization less than $104 million) such as Norris Hospital. We applied a risk premium of 7.40% for large companies and a risk premium of 5.33% for small companies. These risk premia are calculated in The 2002 Valuation Edition of Ibboston Associates' Stocks, Bonds, Bills and Inflation.

The beta of 0.37 that we used for our rate of return was based on hospital industry data for a long-term weighted average beta.

Inserting these assumptions into the CAPM results in a required rate of return on equity capital of 13.0%.

To determine the weight placed on debt and equity we looked at average debt to capital ratios in the hospital industry. These measures indicate an industry capital structure of 30.0% debt and 70.0% equity. As such, we incorporated this capital structure into our WACC calculation for Norris Hospital.

Inserting these assumptions into the WACC equation results in a rounded required rate of return on capital of 10.0%.

DCF Scenario I: Baseline Assumptions

Revenue Growth

In developing our financial projections for the discrete period, we used the annualized net operating revenue for the six-month period ended December 31, 2002 for the first projected year of the discrete period (Fiscal 2003). Because Norris Hospital is a 60-bed facility with an average daily census of 46 occupied beds, it is constrained in terms of future inpatient volume

growth. We therefore assumed that revenue growth would be generated through outpatient volume growth and price increases for services and that inpatient volume would remain relatively constant.

Estimation of Future Cash Flows

According to Management (which is composed of Tenet employees), Norris Hospital's long-term sustainable EBIT margin is expected to range from 3%-5%, which on the low end is consistent with year-to-date results of 3% but much lower than results for the previous three fiscal years. Several factors appear to contribute to Norris Hospital's declining profitability. A nursing shortage has led to an increase in salaries, wages and benefits for nurses and other medical workers. Furthermore, supply costs are higher due to increased pharmaceutical prices. Costs associated with malpractice have also been on the rise. In our analysis, we assumed that Norris Hospital's profitability would steadily improve over time, with Norris Hospital's EBITDA margin growing from 9.1% in 2003 to 12.5% in 2006 and throughout the remainder of the projection period. We projected that EBIT margin would grow from 3.0% in 2003 to 5.9% in 2007 and 7.0% throughout the remainder of the projection period.

To calculate Norris Hospital's projected free cash flow, we adjusted after-tax accounting net income to derive net income in cash terms. We then added back non-cash charges for depreciation. (Depreciation represents the accounting charge for past capital expenditures and reflects the current use of those assets.) Next, we subtracted increases in working capital and capital expenditures. (Working capital, defined as current assets less current liabilities, represents the capital that Norris Hospital needs to support its day-to-day operations.) Working capital therefore needs to increase to support the growth of Norris Hospital's operations going forward. (Capital expenditures are cash outlays for property and equipment such as new MRI and X-ray machines.) Capital expenditures are not directly reflected in accounting net income.

Management expects that $17-$18 million of capital expenditures will be made over the next three years, including $3-$5 million for a new information technology system. Beyond the initial three years, we assumed that capital expenditures would be 5.5% of net operating revenues, based on historical averages for Norris Hospital and industry results. Working capital was estimated to be 8.3% of the change in operating revenues based on a review of Tenet's historical levels of working capital as a percentage of sales. Using

the previously discussed discount rate of 10%, we brought these future cash flows back to their present value equivalent.

The residual value is an estimate of the present value of the Hospital's cash flows subsequent to the discrete projection period (2003-2007). A residual cash flow was calculated based on growing 2007 revenue at a long-term growth rate of 3%, assuming a 12.5% EBITDA margin and normalized capital expenditures and depreciation. This residual cash flow was capitalized and brought back to its present value equivalent using a 10% discount rate. The sum of the present value of the discrete cash flows and the present value of the residual yielded an estimate of the fair market value of Norris Hospital's total capital.

Norris is retaining the majority of its current assets, including cash, cash equivalents, marketable securities and accounts receivable as part of the Proposed Transaction. This is a relatively common practice in the hospital industry, though not all hospital transactions are structured this way. As a result, THN (as would any buyer) will be forced to make an initial working capital infusion into Norris Hospital in addition to the future working capital investment it will need to grow the business. Because THN, a subsidiary of Tenet, will own and operate Norris Hospital, we assumed a level of initial working capital based on Tenet's historical working capital as a percentage of sales. Based on this review of Tenet's performance, we estimate that THN will have to make an initial cash outlay for working capital of $6.9 million. This initial cash outlay represents an offset to the value of Norris Hospital's total capital and as such we accounted for this in determining our value conclusion.

DCF Scenario I results in an estimate of the fair market value of the total capital of Norris Hospital of $50.6 million. Deducting the initial working capital infusion that will be required from THN results in a value of $43.8 million for the Norris Hospital assets that are being purchased by THN. Details of this analysis can be found in Exhibit I.

DCF Scenario II: Optimistic Assumptions

We performed a second DCF analysis which reflects different growth and margin assumptions relative to DCF Scenario I. In this scenario, we assumed higher volume growth and therefore increased revenue growth. We maintained our EBITDA margin assumptions from DCF Scenario I

throughout the discrete projection period and increased our EBITDA margin assumption to 13.0% for the residual.

DCF Scenario II results in an estimate of the fair market value of the total capital of Norris Hospital of $59.0 million. Deducting the initial working capital infusion that will be required from THN results in a value of $52.2 million for the Norris Hospital assets that are being purchased by THN. Details of this analysis can be found in Exhibit II.

Market Transaction Approach

The Market Transaction Approach indicates the fair market value of a hospital or the assets of a hospital by comparing it to other similar hospitals recently purchased. Considerations such as size, profitability and time of sale are analyzed and evaluated. The applicable transactions would be individual hospital purchases rather than the purchase of hospital management companies.

One limitation of the Market Transaction Approach is that information regarding the level of planned and/or necessary capital investments for the purchased hospitals is generally not available and thus is not reflected in the analysis. These specific capital needs can be reflected in the DCF analysis. Furthermore, hospital transactions vary in terms of the transfer of current assets to the buyer. In the Proposed Transaction, the current assets, with the exception of certain inventory and prepaid expenses, are not being transferred to Tenet. While we believe this practice to be common in the hospital industry, the amount of working capital retained by the seller may vary. This may affect the degree of comparability between transactions.

Over the past several years, we have observed numerous transactions involving hospitals. These transactions involved the purchase of both for-profit and not-for-profit hospitals. These hospitals were located throughout the United States and included both urban and rural hospitals. In addition, the financial performance of each hospital varied from troubled to healthy. We reviewed both private and public transactions, however the terms of many of these transactions are confidential.

Investors typically value hospitals based on a Market Value of Invested Capital ("MVIC") to revenue multiple or a MVIC to EBITDA multiple. Based on the confidentiality of most non-public transactions, it was very

difficult to collect meaningful EBITDA data. However, many transactions did provide revenue figures and multiples for the acquired hospitals.

In order to arrive at a range of values for Norris Hospital, given Norris Hospital's relatively small size, we analyzed smaller hospitals that generated between $50-$100 million in annual revenues. Multiples for these observed transactions averaged 0.59x revenue. Additionally, we considered hospitals and hospital systems with net income margins in the approximate range of Norris Hospital's historical and expected net income margins, ranging from 0.0% to 5.0% of sales. Observed revenue multiples for these transactions averaged 0.53x revenue. We applied the midpoint of these multiples to Norris Hospital's annualized operating results for the six months ended December 31, 2002 to estimate the value of Norris Hospital's total capital. As we discussed above, not all transactions in our database are structured such that the seller retains its working capital. Therefore, the respective multiples, which are based on purchase price, do not always reflect the total consideration being received by the seller. In the case where a seller retains its working capital, it is appropriate to make a deduction from the fair market value result to reflect the initial working capital the buyer will have to infuse into the business. In the event that working capital is being transferred to the buyer, it is not necessary to make such a deduction from value. We have considered both of these scenarios to determine the fair market value range of the Norris Hospital assets being purchased by THN.

The Market Transaction approach results in a fair market value of the Norris Hospital assets being purchased by THN ranging from $40.2 million to $47.0 million. Details of this analysis can be found in Exhibit III.

ALIXPARTNERS FINDINGS AND CONCLUSIONS

Based on our analysis using standard industry techniques, we determined the fair market value of Norris Hospital be within the range of $40 to $52 million.

As discussed earlier in this report, the consideration for Norris Hospital's assets will be received in two separate payments, one of which could be received as long as five years after the close of the Proposed Transaction. To determine the present value of the future payment, we assumed that the discount rate should reflect the risk of Tenet making the deferred payment. Therefore, we applied a discount rate of 5.1%, which is equal to the yield on a

five-year bond issued by Tenet. Assuming this payment occurs in five years, the present value of these payments is $31.7 million. Details of this analysis can be found in Exhibit IV.

In addition to the $31.7 million in cash consideration, Norris will retain its current assets, excluding certain inventory and prepaid expenses. As of December 31, 2002, Norris had $23.1 million in current assets net of current liabilities and excluding inventory and prepaid expenses. This figure includes $13.6 million in cash and cash equivalents. We estimate that Norris Hospital requires approximately $2 million in cash to fund its daily operations, and that the remainder is excess cash. In order to compare the total consideration received by Norris with the fair market value of the Norris Hospital assets being transferred, it is necessary to reflect a normal level of cash. We have therefore normalized the level of retained assets and included only the required cash to determine the value of the consideration that Norris is receiving on a fair market value basis. The normalized value of Norris' retained assets is $11.5 million. This analysis is detailed in Exhibit V.

We determined the value of the total consideration Norris will receive in the Proposed Transaction, including cash consideration and the normalized level of retained assets, to be $43.1 million.

INTANGIBLE ITEMS AFFECTING THE DETERMINATION OF VALUE

Norris Hospital is unique in terms of both its highly specialized services and its relationships with USC and Tenet. Norris Hospital was founded to support the mission of USC's Cancer Center. Tenet and USC have had a 17-year relationship through Tenet's ownership and operation of USC University Hospital and management of Norris Hospital. Because Tenet is constructing the New Tower, its ownership of Norris Hospital will likely enable USC and the Cancer Center to expand clinical research activities and therefore further the mission of the Cancer Center. The Proposed Transaction will allow the Cancer Center to have access to the new inpatient facilities to be constructed by Tenet and also to the improved outpatient facilities, which will be upgraded through the $10 million of required post-closing capital expenditures.

At the same time, the Proposed Transaction would eliminate the administrative burdens, operational inefficiencies and exposure to liabilities that USC faces from the operation of Norris Hospital. Furthermore, the

proposed transfer of Norris Hospital to Tenet will allow Norris to avoid substantial capital expenditures relating to the Norris Buildings. Tenet, as the buyer, has also agreed to a closed medical staff at Norris Hospital, limited to members of the Keck School of Medicine. This limits Tenet's flexibility with respect to staffing. Transferring Norris Hospital to Tenet therefore allows USC to avoid bifurcating its teaching program and to maintain access to a NCI designated comprehensive cancer center. Another willing buyer may not be in the same position or be willing to confer these benefits on Norris Hospital and USC. Furthermore, another buyer might also be wary operating of a small, specialized hospital in close proximity to a larger, more diversified for-profit hospital. These intangible items are difficult to quantify but can have a significant impact on the value of Norris Hospital's assets. As such, we did not account for these items in determining our fair market value range.

CONSIDERATION TO BE PAID TO USC

As part of the Proposed Transaction, USC will receive a payment from Norris, funded by the sale of the Norris Hospital assets, of $5 million. The AG has requested an assessment of the reasonableness of this payment.

The $5 million payment to USC is being made in consideration for:

- The termination of an existing contract pursuant to which Norris operates Norris Hospital in the two Norris Hospital buildings;
- An agreement not to compete with THN for a period of seven years in the provision of institutional cancer services by ownership or management;
- A license agreement pursuant to which THN will receive a royalty-free right to use the names "USC" and/or "Norris", abbreviations and derivations of these names and associated logos;
- An agreement not to license the use of USC's name or the Norris name to any other cancer program as long as any affiliate of Tenet offers institutional cancer services on USC's Health Sciences campus.

CGEY prepared a valuation of the license agreement, non-compete and exclusivity agreements (collectively, the "Covenant") between Tenet and USC in a report dated July 15, 2002. Their methodology was to value the

potential loss of patient volumes if the Covenant were not in place. To do this, CGEY utilized the same DCF methodology and financial projections utilized in the previously discussed valuation dated June 19, 2002. The only variation was the assumed loss in patient volumes. CGEY examined three scenarios with reduced patient volumes to determine a range of the reduction in value but for the Covenant. Based on this methodology, CGEY concluded that the fair market value of the Covenant between USC and Tenet ranges from $4.8 million to $6.6 million.

Given USC's concerns regarding the risks associated with the ownership and management of hospitals and its expectations of various intangible benefits from the transfer of Norris Hospital to Tenet, we believe that USC does not have incentive to compete with THN in the provision of cancer services. In addition, the contract between Norris and USC pursuant to which Norris operates Norris Hospital in the Norris buildings will expire in 2003. We do however believe that there is significant value associated with the trade names, trademarks, service marks, logos and related designs associated with the names USC and Norris. As such, the $5 million payment does not seem unreasonable.

LIMITING CONDITIONS

This report is intended solely for the use of the AG for the purpose stated herein and may not be used, in whole or in part, for any other purpose without our written consent. Our report has been prepared in accordance with and is subject to the conditions as agreed to in our agreement.

Yours very truly,

ALIXPARTNERS LLC,

R. Bruce Den Uyl
Principal

California Attorney General **Exhibit I**
USC/Kenneth Norris Jr. Cancer Hospital
Discounted Cash Flow Analysis - DCF Scenario I: Baseline Assumptions
As of February 15, 2003

			Projections - Years Ended June 30					Residual
		FYE-02	FY-03	FY-04	FY-05	FY-06	FY-07	
Net Operating Revenue		**$82,678,487**	**$83,927,574**	**$88,123,953**	**$92,530,150**	**$97,156,658**	**$102,014,491**	**$105,074,925**
Growth:			*1.5%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*3.0%*
EBITDA			7,637,409	8,812,395	10,178,317	12,144,582	12,751,811	13,134,366
Depreciation			5,080,340	5,951,228	6,453,847	6,640,197	6,725,823	5,779,121
EBIT			2,557,069	2,861,167	3,724,470	5,504,385	6,025,988	7,355,245
Non-Operating Revenue			-	-	-	-	-	-
Income Before Taxes			2,557,069	2,861,167	3,724,470	5,504,385	6,025,988	7,355,245
Income Taxes @	40.0%		1,022,828	1,144,467	1,489,788	2,201,754	2,410,395	2,942,098
Net Income			**1,534,242**	**1,716,700**	**2,234,682**	**3,302,631**	**3,615,593**	**4,413,147**
Net Income			1,534,242	1,716,700	2,234,682	3,302,631	3,615,593	4,413,147
Plus: Depreciation			5,080,340	5,951,228	6,453,847	6,640,197	6,725,823	5,779,121
Less: Capital Expenditures			(6,000,000)	(6,000,000)	(6,000,000)	(5,343,616)	(5,610,797)	(5,779,121)
Less: Working Capital Requirements	8.3%		(103,674)	(348,299)	(365,714)	(384,000)	(403,200)	(254,016)
Available Cash Flow			510,907	1,319,629	2,322,814	4,215,212	4,327,419	4,159,131
Present Value Factor	10%		0.9825	0.9204	0.8368	0.7607	0.6915	
Present Value of Available Cash Flow			185,664	1,214,635	1,943,640	3,206,477	2,992,574	

Present Value Factor of Future Cash Flows		
Sum of Present Value of Available Cash Flow	$	9,542,990
Present Value of Residual		41,088,522
Enterprise Value	**$**	**50,631,512**
Deduction for Retention of Current Assets	$	6,862,314
Indicated Value of Transferred Assets	**$**	**43,769,197**

Residual Calculation		
Residual Cash Flow	$	4,159,131
Divided by Capitalization Rate (r-g)		7.00%
Equal: Residual Value		59,416,154
Times: PV Factor		0.6915
PV of Residual Value	**$**	**41,088,522**

California Attorney General **Exhibit II**
USC/Kenneth Norris Jr. Cancer Hospital
Discounted Cash Flow Analysis - DCF Scenario II: Optimistic Assumptions
As of February 15, 2003

			Projections - Years Ended June 30					Residual
		FYE-02	FY-03	FY-04	FY-05	FY-06	FY-07	
Net Operating Revenue		**$82,678,487**	**$83,927,574**	**$90,641,780**	**$97,893,122**	**$105,724,572**	**$114,182,538**	**$117,608,014**
Growth:			*1.5%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*3.0%*
EBITDA			7,637,409	9,064,178	10,768,243	13,215,572	14,272,817	15,289,042
Depreciation			5,080,340	5,951,228	6,453,847	6,698,940	6,907,670	6,468,441
EBIT			2,557,069	3,112,950	4,314,396	6,516,632	7,365,147	8,820,601
Non-Operating Revenue			-	-	-	-	-	-
Income Before Taxes			2,557,069	3,112,950	4,314,396	6,516,632	7,365,147	8,820,601
Income Taxes @	40.0%		1,022,828	1,245,180	1,725,759	2,606,653	2,946,059	3,528,240
Net Income			**1,534,242**	**1,867,770**	**2,588,638**	**3,909,979**	**4,419,088**	**5,292,361**
l								
Net Income			1,534,242	1,867,770	2,588,638	3,909,979	4,419,088	5,292,361
Plus: Depreciation			5,080,340	5,951,228	6,453,847	6,698,940	6,907,670	6,468,441
Less: Capital Expenditures			(6,000,000)	(6,000,000)	(6,000,000)	(5,814,851)	(6,280,040)	(6,468,441)
Less: Working Capital Requirements	8.3%		(103,674)	(557,279)	(601,861)	(650,010)	(702,011)	(284,315)
Available Cash Flow			510,907	1,261,719	2,440,623	4,144,057	4,344,708	5,008,046
Present Value Factor	10%		0.9825	0.9204	0.8368	0.7607	0.6915	
Present Value of Available Cash Flow			185,664	1,161,333	2,042,218	3,152,350	3,004,530	

Present Value Factor of Future Cash Flows		
Sum of Present Value of Available Cash Flow	$	9,546,095
Present Value of Residual		49,475,052
Enterprise Value	**$**	**59,021,146**
Deduction for Retention of Current Assets	$	6,862,314
Indicated Value of Transferred Assets	**$**	**52,158,832**

Residual Calculation		
Residual Cash Flow	$	5,008,046
Divided by Capitalization Rate (r-g)		7.00%
Equal: Residual Value		71,543,516
Times: PV Factor		0.6915
PV of Residual Value	**$**	**49,475,052**

California Attorney General **Exhibit III**
USC/Kenneth Norris Jr. Cancer Hospital
Market Transaction Approach
Based on Annualized Results for the 6 Months Ended December 31, 2002

	MVIC/ Revenue	MVIC/ Revenue
Selected Multiples	0.56x	0.56x
Results - 6 Months Ended 12/31/02 (Annualized)	$ 83,927,574	$ 83,927,574
Indicated Range of Value of Total Capital	$ 47,035,742	$ 47,035,742
Deduction for Retention of Current Assets	$ 6,862,314	$ -
Indicated Value of Transferred Assets	**$ 40,173,428**	**$ 47,035,742**

California Attorney General **Exhibit IV**
USC/Kenneth Norris Jr. Cancer Hospital
Present Value of Cash Consideration

Closing Payment - 2003		$	20,000,000					
Deferred Payment - 2008		$	15,000,000					
				2004	**2005**	**2006**	**2007**	**2008**
Present Value Factor [1]	5.1%			0.9511	0.9046	0.8603	0.8182	**0.7782**
Present Value of Deferred Payment		**$**	**11,673,187**					
Present Value of Total Cash Consideration		**$**	**31,673,187**					

(1) Yield on Tenet Healthcare Corp. five-year BBB- rated bond.

California Attorney General **Exhibit V**
USC/Kenneth Norris Jr. Cancer Hospital
Fair Market Value of Retained Assets

	As of December 31, 2002	Normalized Level of Cash
Retained Current Assets		
Cash & Cash Equivalents	$ 13,614,249	**$ 2,000,000**
Accounts Receivable	24,857,678	24,857,678
Due from Health Insurance Programs	681,980	681,980
	$ 39,153,907	$ 27,539,658
Current Liabilities	$ 16,065,365	$ 16,065,365
Retained Assets - Net	$ 23,088,542	**$ 11,474,293**