

LAZARD

September 2, 2014

Mr. Andrew Turnbull
Managing Director
Houlihan Lokey
123 North Wacker Drive
Chicago, IL 60606

Re: Blue Wolf Capital Fund III, L.P. Restructuring, Conversion and Disaffiliation
Proposal to the Daughters of Charity Health System and Affiliates (DCHS)

Dear Andrew,

We are in receipt of your letter dated August 31, 2014.

Below, we respond to each of the items you raise, but I wanted to start by placing our response in context.

As you know, we have embraced the key objectives which DCHS has articulated regarding this transaction and have fashioned our approach accordingly.

- We will honor the promises that DCHS has made regarding accrued pension benefits for both active and retired employees.
- We respect and will continue DCHS' mission of providing vitally needed high quality healthcare to those most in need of such care.
- We will maintain the entire DCHS system intact.
- We will offer employment to DCHS's existing workforce consistent with the need to create a sustainable enterprise.

Finally, we are confident that our transaction will successfully withstand the rigorous scrutiny of California's Attorney General when it is placed before her.

Let me now address each of your points in turn.

1. Given our commitment to your objectives we will require modest financial assistance from the existing sponsors. We are confident that this assistance can be structured in such a way that it will impose a minimal burden on the existing sponsors and we are open to discussing ways that the continuing work of the existing sponsors could benefit from the revitalization of DCHS.

2. DCHS needs approximately \$300 million of liquidity to support ongoing operations and make capital investments for future growth. We anticipate this liquidity coming primarily from sale of the MOB portfolio, existing balance sheet cash at closing, anticipated QAF payments and support from the Daughters of Charity as discussed above.
3. To bridge any potential "gap" period, we have also been analyzing the Catholic Church grace period allowance you mentioned in your letter. As such, we are interested in discussing with the Daughters of Charity and the US Conference of Catholic Bishops the potential for maintaining the hospital system's 501(c)(3) status as derived from the Catholic Church's group exemption until a new determination letter for group exemption is received. During this period, DOCHS would be prepared to comply with the Ethical and Religious Directives for Catholic Health Care Services (with all contemplated transactions other than the disaffiliation continuing in accordance with the planned timeline). In terms of the 501(c)(3) application, we are currently considering two options: (i) form a new California nonprofit corporation as soon as practicable that will file a Form 1023, together with a request for group exemption (something we are prepared to initiate very quickly), or (ii) assuming it is acceptable to the Daughters of Charity, have DOCHS file for its own 501(c)(3) group exemption status at signing. In both cases, the company filing the application would file as a "supporting organization" (as that term is understood under the tax code) in respect of the hospital system. In addition, we are currently exploring potential arrangements with other existing charities to determine if deriving a tax exemption from those groups is a viable option. We believe that implementation of our bridging proposal with continued affiliation or arrangement with an existing charity should address the concerns you have raised.
4. Blue Wolf expects to refinance the 2014 Bonds with the proceeds of a privately-sourced, taxable financing facility that will qualify as "Short-Term Indebtedness" under the Master Trust Indenture. This facility will, as permitted by the Master Trust Indenture, be secured by the issuance of an "Obligation" under the Master Trust Indenture and by various receivables. Together with any undrawn proceeds from the sale of the 2014 Bonds that remain in the Working Capital Fund established under the respective bond indentures, proceeds drawn under the new financing facility will be used to defease or repay the 2014 Bonds pursuant to the provisions of Article X of the 2014 bond indentures. In accordance with their terms, upon the defeasance of the 2014 Bonds, each of the bond indentures, the loan agreements and the Continuing Covenants Agreement will cease to be of any further force and effect. Blue Wolf expects to deliver with its September 12 submission one or more commitment letters in best and final form from financing parties for a Short-Term Indebtedness facility of approximately \$125 million.

5. As discussed above, Blue Wolf expects to refinance and defease the 2014 Bonds, which will be reflected in the commitment letters delivered with the September 12 submission. As a consequence of that re-payment or defeasance, the Continuing Covenants Agreement, in addition to the 2014 bond indentures and loan agreements, will cease to be of any force and effect. So, while Blue Wolf shares your expectation that the 2005 bondholders would have no basis for objection, the obligation to deliver an agreement meeting the elements of a "Qualified Agreement" will terminate with the re-payment or defeasance of the 2014 Bonds. Nevertheless, Blue Wolf is willing to share the proposed post-transaction business plan with the 2014 Bondholders, subject to appropriate confidential treatment of such material by the 2014 bondholders.
6. While we will not be offering to make a deposit upon the signing of definitive documentation, we are prepared to demonstrate both our confidence in and our high-level of commitment to consummating the transaction with minimal closing conditions.

We appreciate the opportunity to discuss with you any and all aspects of our proposed transaction prior to our final submission on September 12, 2014 as we believe that an open and constructive dialogue offers the best path to our putting forward a proposal that meets both our needs.

We are available to continue our discussion this week by phone and would suggest that we meet in person next week in California.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ron Bloom', with a long horizontal flourish extending to the right.

Ron Bloom

cc: Robert Issai, Daughter of Charity Health System
John Chesley, Esq. Ropes & Gray