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PRELIMINARY NON-BINDING PROPOSAL REGARDING THE
DAUGHTERS OF CHARITY HEALTH SYSTEM ACQUISITION
OPPORTUNITY

Dear Geoffrey:

Attached please find our non-binding letter of intent (LOI) regarding the Daughters of Charity Health System (“DCHS” or the “System”) acquisition opportunity.

Please consider this non-binding LOI to establish Lightstone as a qualified party to perform further due diligence and evaluation of the opportunity. This will include, at minimum, facility visits, management presentation, legal and financial reviews, as well as other in-depth due diligence.

We are providing the following information, organized in manner consistent with your suggested outline.

1. A detailed description of your organization, including a summary of your financial wherewithal and your experience in operating similar

operations.

The acquirer will be a subsidiary or affiliate of The Lightstone Group, in affiliation with Warwick Investors LLC. The Lightstone Group is one of the largest and most successful privately held real estate companies in the United States. The firm owns and manages a diversified portfolio of industrial, office, retail, multifamily and hospitality properties located throughout the United States. Headquartered in New York City, The Lightstone Group has regional offices in key markets across the country, including New Jersey, Chicago, Detroit, and Baltimore. Warwick Investors LLC is a private investment firm owned by Lawrence Krule, who most recently was the Chief Restructuring Officer of MetroSouth Medical Center and was responsible for its 4 year restructuring and turnaround. MetroSouth was sold in 2012 to Community Health Systems, Inc (CHS) for 20 times the initial investment. Houlihan Lokey represented MetroSouth in that sale to CHS.

2. Assets to be acquired. Please indicate the assets you are interested in purchasing, including the particular hospitals, central business office, medical office buildings, DCHS Medical Foundation and any ancillary properties. Please also indicate your expected treatment of the provider numbers related to the operations acquired. The System is willing to consider a wide range of proposals, including bids for individual or a group of DCHS businesses; however, preference will be given to Preliminary Proposals or combinations thereof that minimize the number of transactions balanced with the best terms for disposition of all of the System's operations.

At this stage, we would be interested in purchasing all the assets listed for sale, subject, of course, to significant further due diligence. We would contemplate assuming all or most of the provider numbers involved.

3. Treatment of the Medical Foundation. An overview of the anticipated treatment of the System's Medical Foundation and related physicians.

We would envision keeping the Medical Foundation, and maintaining employment of the physicians through this vehicle. Obviously it would be necessary to interview the leadership team and understand their qualifications, intent and commitment to the new organization, among other due diligence.

4. Amount and Form of Consideration. The total purchase price and form of consideration to be paid (e.g., cash, securities, assumption of obligations). If your proposed acquired operations include medical office buildings and/or other non-hospital ancillary properties as outlined in Section 2H of the Memorandum, please indicate the portion of the purchase price attributable to this pool of assets and your willingness to exclude such assets from your proposal.

Our preference is to acquire all the assets for sale. The preferred method is an asset sale, but we realize that may not be possible in every asset case. The modality of purchase will include assumption of some or all debt, assumption of some or all unfunded pension liability and some cash payment. The assumption of any debt will not be a closing condition. Our current non-binding indication is that the total value of consideration will be in the \$450 to \$500 million range; with many variables to consider. We understand this is both a distressed asset group, and also a competitive sale process. We believe our offer will be competitive in value and preferred in flexibility, timing and structure.

5. Working Capital Assumption. Please indicate your expectations surrounding the acquisition of the System's working capital assets (excluding cash) and assumption of working capital liabilities.

At this stage, we are flexible in form as to a purchase (or assumption) of net working capital or, alternatively, a price adjustment to reflect a value transfer for the difference. A significant component of this equation is the difference in valuation of the AR.

6. CBA Agreements and Non-Union Employee Retention. Please provide an overview of your intentions to assume the System's collective bargaining agreements (understanding that your diligence so far has not made such agreements available to you), as well as the retention / treatment of employees of the operations to be acquired. Preference will be given to Preliminary Proposals that maximize the retention of employees and assume the existing collective bargaining agreements.

In principal, we are not opposed to the assumption of the CBAs. However it's nearly impossible to address the assumption of any as yet unseen documents, let alone the retention of employees without any interviews or

indirect reviews and evaluations. That said, we are philosophically comfortable with assumption of the CBAs, and the immediate assumption of all/most staff (reference our performance in the MSMC situation). We would be willing to make a limited commitment of reasonable level of staff retention, under most circumstances for a reasonable, but short, transition period.

7. Post-Retirement Obligations. Please indicate your treatment of the System's post-retirement obligations including the: (i) Retirement Plan for Hospital Employees (a multiemployer defined benefit pension plan), (ii) DCHS Retirement Plan (a non-ERISA guaranteed single-employer defined benefit pension plan) and (iii) retiree health insurance program. Preference will be given to Preliminary Proposals that contemplate the assumption of post-retirement obligations.

In principal, we are not opposed to the assumption of post – retirement obligations, but we would need more information and independent audit and actuarial projections to understand the cost and consequences of these commitments. Regardless of the outcome, we could likely say now that this net cost/assumption would be another factor in the multifaceted composition of the net purchase price/consideration.

8. Treatment of Other Agreements. An overview of the anticipated treatment of any executory contracts, leases, etc. relating to the assets to be acquired. Please specify any intended contract modifications, assumptions and assignments of agreements.

Although its too early to tell the outcome, our review of all contracts is certainly a critical step in the due diligence process. Among many categories, the third party payor contracts, the CBAs and the post-retirement obligations are among the most important. Also, all leases and purchasing agreements are extremely important.

9. Sources of Capital. A description of the anticipated sources of capital (cash, debt and/or equity) that you intend to use to fund the Transaction.

We expect to fund this transaction with cash on hand. There will, very likely, be no financing condition to close.

10. Anticipated Operating Plan and Capital Commitments. A description of your anticipated business plan and any contemplated future capital commitments to re-invest in the acquired operations.

Again, it is too early in the process to identify the expected business plan. That said, it is our intent to turn around these operating entities and then grow through acquisitions, to achieve better leverage, purchasing power and negotiated rate advantage.

11. Community Service and Charity Care. A description of planned community service and charity care.

We would intend to keep the current charity policy in place for the immediate future.

12. Process and Timing. A proposed timetable and implementation strategy for consummation of the Transaction. Preference will be given to proposals that contemplate a prompt diligence review period and expected timeline to closing.

We would expect a reasonably prompt and timely due diligence process, taking into consideration of course the number and location of the individual properties. We expect that we would deploy one team of consultants and advisors to be on the ground visiting all the locations sequentially, while at the same time a second centrally based team would be coordinating and analyzing the due diligence effort. I would envision a conventional hospital acquisition process that includes but is not limited to a review of clinical, financial, operating, staffing, regulatory, HR, environmental, legal and community related matters. We would imagine this would take between 3 to 5 months for due diligence and asset purchase negotiations and another 4 to 7 months for all necessary approvals and then closing.

13. Due Diligence. A detailed description of additional information and due diligence required to submit a binding offer and execution of a final definitive agreement related to a Transaction. Such description should include a specific outline of topics, documents or facilities to be reviewed.

We would be happy to provide a detailed due diligence list when needed. However in the interest of time, you should assume our due diligence list

will be as comprehensive as one experienced in these types of transactions would expect.

14. **Specific Contingencies to Closure.** A description of any material conditions or contingencies to the consummation of a Transaction (e.g., regulatory approval, board approval, financing, etc.) and your experience and expectations regarding the estimated timing required to obtain such approvals.

It is clear that this transaction would require, at minimum, the approval of the California Attorney General (for conversion), the Vatican (for desacralization) and the California Department of Health. This transaction has the attention of all senior members of Lightstone and turnaround time is extremely expeditious. Our experience is that the first three approvals can take 3-9 months, or longer, depending on the urgency of the transaction (usually financially driven), efficiency of the application, flexibility of the approving parties and nature of the opposition, if any.

15. **Other Parties.** The identification and detailed description of any other parties, other than your organization, that will participate in the consummation of the Transaction, subject to the terms of the Confidentiality Agreement, and/or future operation of the System's operations (e.g., joint venture partners, co-investors, financing sources, third-party managers, etc.).

We will be evaluating the inclusion of many potential third party advisors, consultant and managers that we would be bringing to the transaction. These include consultants in areas of executive hospital management, revenue cycle management, contract negotiation, GPOs, ED operations, EMR, IT, and HR. Furthermore, we will likely be offering the opportunity for other financial partners to participate in this effort.

16. **Contact Information.** The name and contact information for the individual(s) to whom all inquiries relating to the Preliminary Proposal should be made and the identity of any third party advisors you intend to utilize in the process.

Primary contacts are:

Lawrence Krule
372 Central Park West, Suite 7N
New York, NY 10025
REDACTED

David Lichtenstein
460 Park Avenue, Suite 1300
New York, NY 10022
REDACTED

If you have any questions related to this non-binding LOI, please feel free to reach out to either of Larry or David.

Thank you and we look forward to working with you on this transaction.



Lawrence Krule
Warwick Investors LLC