

RCB Equities #1  
5967 W. 3<sup>rd</sup> St. #102  
Los Angeles, CA 90036

**VIA Electronic Mail**

May 7, 2014

Daughters of Charity Health System  
c/o Houlihan Lokey Capital, Inc.  
123 N. Wacker Drive, 4<sup>th</sup> Flr.  
Chicago, IL 60606

**CONFIDENTIAL ACQUISITION OFFER**

To the Daughters of Charity Health System:

Subject to the provisions contained herein, RCB Equities #1 (“Purchaser”) hereby offers to purchase all assets and assume all liabilities of Daughters of Charity Health System (“Seller”). This proposal is for a binding agreement, and is not a mere expression of interest. This Offer is presented on Wednesday, May 7, 2014, and can only be accepted through written response received by Purchaser on or before Noon on Tuesday, May 13, 2014.

*1. Form of Transaction.* Upon satisfaction of contingencies during the Exclusivity Period defined below, Purchaser will tender for execution a Member Substitution Agreement (“MSA”) where under a nonprofit entity related to and designated by Purchaser will substitute as the sole corporate member of Daughters of Charity Health System, replacing Daughters of Charity Ministry Services Corporation as the sole corporate member. This MSA when duly executed shall become effective and have no contingencies to Closing on behalf of either party, save and except the receipt of all regulatory approvals, including approval of the Attorney General of California, as may be required, and/or any approvals required in any financing, bond or loan documentation now in effect and to which Daughters of Charity Health System and/or Daughters of Charity Ministry Services Corp. are currently and legally bound, and/or the approval, if required, of appropriate governing religious authorities having jurisdiction over assets owned by the Catholic Church or its related entities.

*2. Exclusive Negotiation Period.* This Offer is contingent upon the agreement of Seller to negotiate exclusively with Purchaser for a period of Forty-five (45) days commencing on the day of the acceptance of this Offer (“Exclusivity Period”). During the Exclusivity Period Seller shall cooperate with

Purchaser’s Initials: RCF  
Seller’s Initials: \_\_\_\_\_

Purchaser and Purchaser's representatives to provide access to any and all data, reports, persons, facilities, intellectual property, and other elements of information concerning Seller's businesses. Seller may provide such access to any other potential transaction counterparties, but shall not contact, respond to inquiries, negotiate, discuss, or otherwise communicate about the terms and conditions of a potential transaction for all or part of Seller's businesses with other potential counterparties. Apart from due diligence discussions, Seller shall only inform any such other counterparties that Seller has entered into an agreement for exclusive negotiations with a potential purchaser of the system. As consideration for Seller's forbearance from negotiating with other counterparties, Purchaser has sent concurrently herewith through courier to Houlihan Lokey Capital, Inc. Los Angeles offices attention Scott Jackson, a check for One Million Dollars (\$1,000,000.00) payable to Seller as a good faith deposit creditable to closing proceeds upon consummation of the transaction, or refundable to Purchaser in the event that a contingency specified hereunder is not met.

3. *Extension of Exclusivity Period.* At Purchaser's sole option the Exclusivity Period may be extended one time for an additional Forty-five (45) days by giving advance written notice to Seller Forty-eight (48) hours prior to the end of the initial Exclusivity Period, and tendering to Seller an additional check for One Million Dollars (\$1,000,000.00), to be treated in the same manner as the initial good faith deposit. Should Purchaser tender an MSA for execution and thereby indicate all contingencies have been satisfied or waived, the Exclusivity Period is extended through Closing, or as otherwise governed by the MSA.

4. *Contingencies to Tendering the MSA for Execution.* Purchaser shall have as contingencies to the tendering of the final MSA to Seller the following, all of which must be met in full to Purchaser's satisfaction, or waived by Purchaser, prior to the expiration of the Exclusivity Period in order for the Purchaser to tender the final MSA:

- (a) *Financial Verification.* Purchaser shall be satisfied that the financial condition of Seller and its related entities is substantially as presented in the most recent audited financial statements of Seller, as may be supplemented by information contained in the Confidential Information Memorandum provided by Seller, and that no adverse material change in financial condition has occurred by the expiration of the Exclusivity Period. This contingency specifically incorporates the requirement that all accrual entries on Seller's general ledger shall have been and shall be reconciled on at least a quarterly basis, and that there are and do not arise any adverse material changes in the accounts of the general ledger as a result of any ongoing reconciliations.
- (b) *Good Title.* Purchaser shall be satisfied that Seller and its related entities have good and marketable title to all real, personal, intangible and intellectual property that are owned by Seller or any of its related entities, and that any lien, pledge, mortgage, encumbrance or other security interest in any property is documented, recorded in Seller's books, and acceptable to Purchaser. Further, there must not be any known environmental conditions on or affecting any property that would materially interfere with the ongoing operation of Seller's and related entities' businesses, or which pose a material liability.

- (c) Good Standing. Seller and all related entities are duly formed, with proper governance, and are and remain as entities in good standing with the jurisdictions under which they were formed and/or do business. There further must be no act, event, governance action, or other matter which might materially impact any entity's Good Standing pending at the time of the expiration of the Exclusivity Period.
- (d) No Further Security Interests. During the Exclusivity Period, Seller and any related entities shall not encumber or cause to encumber, any existing property, shall not purchase further property of a material nature, apply for or extend credit, issue new forms of indebtedness, or otherwise borrow money or create new security interests of any kind in any of its property or businesses, without Purchaser's prior written consent, unless such borrowings or security interests are less than Two-Hundred Fifty Thousand Dollars (\$250,00.00) or otherwise are part of Seller's ongoing and normal course of business.
- (e) No Regulatory, Administrative, or Prosecutorial Action. There shall be no ongoing, newly commenced, or reasonably expected to be commenced regulatory, administrative, prosecutorial or other governmental action or sanction, which threatens or may threaten Seller's continued operation of any or any part of its businesses or those of its related entities.
- (f) No Event of Default. There shall be no events or notices of default under any of Seller's existing commercial or financial obligations, including but not limited to bond covenants, loan covenants, lease covenants, obligations under intellectual property licenses, or other material obligations, the failure to cure would result in a material impact in all or part of any of Seller's businesses or those of its related entities.
- (g) No Petition of bankruptcy, receivership, or seizure. There shall be no filing in any court for any form of bankruptcy or receivership or seizure involving Seller, its related entities, or any assets owned by either.
- (h) Ordinary Course Operations. Seller and its related entities shall continue to operate all business, continue all ongoing capital projects, and renew and enter into usual and customary contracts required for the ordinary and normal course of its businesses during the Exclusivity Period.
- (i) Force Majeure. No event of Force Majeure, including Acts of Nature, labor disruption, civil unrest, or related material event outside of the control of Seller shall have occurred or be threatened at the time of the expiration of the Exclusivity Period. Force Majeure shall also include any act of government adversely and materially impacting the revenue flows to Seller anticipated as of the date hereof from any program in which Seller or its entities participate.

(j) **Internal Approvals.** Seller, and its Sole Corporate Member, shall indicate in writing to Purchaser that they have accepted the terms of the MSA (which shall be tendered in draft form for review and approval by Seller at least fourteen (14) days prior to the expiration of the Exclusivity Period), and shall indicate that there are no further internal approvals, concurrences, board votes or other acts or authorizations required by Seller in order to execute the final MSA immediately when tendered. This requirement shall not include any final approvals required from appropriate governing religious authorities to sell assets held by the Catholic Church.

5. **Bridge Financing.** The MSA shall be tendered together with a Loan and Security Agreement under which the Purchaser will offer to provide working capital financing for Seller's operations during the period following execution of the MSA until closing. The amount of the financing shall be \$30 million in the aggregate, with terms, conditions, interest rates, repayment terms and security interests to be specified in the Loan and Security Agreement.

6. **General Terms.** Following acceptance of this Offer by Seller, the Parties agree to be bound to the provisions hereof, which shall constitute a valid and binding agreement for a process to develop and consummate a transaction subject only to the terms and contingencies stated above. This Confidential Acquisition Offer shall become the Confidential Acquisition Offer Agreement when fully executed by the parties, subject to interpretation and enforcement under the laws of the State of California, binding if executed by duly authorized representatives of the parties in duplicate counterparts, and constituting the full agreement of the parties with respect to the matters contained herein (with full consideration of and continuing effectiveness of the CONFIDENTIALITY AGREEMENT previously executed by these same parties.)

7. **Repudiation Compensation.** The Parties further agree that if there is a breach or repudiation of the Confidential Acquisition Offer Agreement by Seller, that, notwithstanding anything hereinbefore stated, Seller shall immediately refund all monies deposited by Purchaser as good faith credits to the Closing, and in addition, to compensate Purchaser for its time, effort, expenses and professional fees, pay to Purchaser a discontinuation fee of Five Million Dollars (\$5,000,000.00). Should such breach or repudiation occur after the initial Forty-five (45) days of the Exclusivity Period, then the amount of the discontinuation fee payable to Purchaser shall be Ten Million Dollars (\$10,000,000.00).

8. **Subject to Terms of the MSA.** The final expression of the agreement of the parties with respect to the transaction to acquire Seller and its assets shall be in all respects subject to the definitive, written, and executed Member Substitution Agreement.

We look forward to receiving your acceptance of this Offer at your earliest convenience, but in no case later than Noon on Tuesday, May 13, 2014. Acceptance in writing may be accomplished by an authorized countersigning of this letter where provided below.

Very truly yours,

  
RCB Equities #1

AGREED AND ACCEPTED:

Daughters of Charity Health System

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

Dated of Acceptance: \_\_\_\_\_

Purchaser's Initials: RCF  
Seller's Initials: \_\_\_\_\_