

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

VIA Electronic Mail

May 21, 2014

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

SUMMARY OF SYSTEM ACQUISITION OFFER

To the Daughters of Charity Health System:

RCB Equities #1 (“RCB”) hereby submits this letter Summary of Acquisition Offer and attached materials (including proof of funds, prioritized due diligence requests and initial mark up of purchase and sale agreement), as its offer, subject in all respects to the execution of a definitive Member Substitution Agreement, to acquire all assets and assume all liabilities of Daughters of Charity Health System (“DCHS”).

1. About RCB. RCB Equities #1 (“RCB”) is California limited liability corporation funded by private investors who are committed to preserving health care assets for California communities. The capital partners of RCB control assets valued in billions of dollars, which are invested over a broad array of markets, including business equity, secured debt instruments, and real estate. The capital partners, who are large employers in the Los Angeles area in their own right, rely upon the managing partner and his associates to focus on opportunities for investments in health care assets as a means of (1) preserving health care assets for the community at large, (2) advancing nonprofit goals, including access to health care for all sectors of the community, (3) diversifying portfolio investment, and (4) managing risk.

Besides significant capital, RCB provides the expertise required to complete the transaction, restructure the business, and manage its continued nonprofit operations while meeting the challenges of healthcare’s future. The core group of advisers working with RCB includes credentialed business, finance, legal, and healthcare management specialists, with extensive experience in financial restructuring, medical management, real estate, investments, government relations, business development, and hospital operations.

RCB's advisers have been engaged in their respective fields for decades. Specifically applicable to a transaction with DCHS, RCB advisors have: (a) worked extensively with the California Attorney General in receiving nonprofit member substitution approval in other transactions, (b) established government contacts at all levels of State, County, and local California government, and have the skills to gain the support of officials, not only for the transaction, but for continued support in years to come, (c) undertaken numerous financial restructurings, and (d) managed hospitals. In this last regard, RCB believes that it can provide expertise in fine tuning hospital operations to compliment the excellent operating processes that, for the most part, DCHS hospitals already enjoy.

RCB is well aware that future successful hospital operations will require management of the entire continuum of care by providing each patient a complete 'medical home.' RCB believes it can work with existing DCHS managers to further implement the medical home concept DCHS has started to provide. RCB has the additional expertise needed in medical management, physician management and development, coordinating care with extended care facilities, outpatient facilities and rehab facilities, and in working with the payor community to assure fair and full compensation for the risk undertaken by providers at all levels. RCB is well positioned to manage full integration of community health services of high quality and reasonable cost, as well as population health, with prudent operational and financial management of the business.

2. Proposed Transaction. RCB proposes a straight forward member substitution transaction, whereby a nonprofit affiliate of RCB would take the place of Daughters of Charity Ministry Services Corporation as the sole corporate member of Daughters of Charity Health System, and thereby assume control over and responsibility for DCHS assets and liabilities, while preserving the nonprofit nature of the assets. RCB tentatively has concluded that a significant financial restructuring involving all aspects of DCHS's balance sheet will be required in order to preserve and eventually expand the business of the DCHS hospitals and physician groups. Post-closing, RCB expects to provide working capital to the enterprise as needed while the restructuring is undertaken. A proof of funds is attached.

The draft Member Substitution Agreement ("MSA"), also attached, which is now fully subject to additional changes and negotiations among the parties, when finalized and duly executed, shall 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, any federal antitrust approvals 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.

RCB makes no representations about its separate assumption of collective bargaining agreements or the financing of pension plans due to the structure of the transaction, being in essence a 'stepping into the shoes of' arrangement, with the RCB designated entity taking the place of Daughters of Charity Ministry Services Corporation. The remaining structure of the DCHS enterprise would be unaffected. Therefore, whatever the obligations of the

enterprise are now, whether it be Obligated Group bonds, labor agreements or pension requirements, will continue to be the obligations of the enterprise post-closing. Once in an ownership position, RCB expects to undertake a substantial restructuring of some of the existing commitments of the enterprise in order to allow the healthcare assets to continue to be available to the community.

RCB does not envision keeping the assets ‘Catholic’ in nature. A secular, nonprofit organization is envisioned, but it will be guided by ethical principles. RCB wishes to emulate the Daughters of Charity storied history of service, and the hospitals of DCHS under RCB stewardship will continue in their tradition of service the the communities as a whole.

In that regard, RCB makes the following specific commitments with respect to hospital services and community benefits:

Community Benefits: For five (5) years following the Closing and subject to changes resulting from federal and state law, or changes in market conditions or financial viability of any entity subject hereto, RCB will provide for:

1. Continuation of each hospital’s historical charity care levels in amounts not less than the average annual amount of charity care provided by each respective entity over the three (3) years;
2. Continuation of each hospital’s historical level community benefits in an amount not less than the average annual amount of community benefits provided by each respective entity over the three (3) years.

Hospital Services: For five (5) years, RCB will provide that each hospital shall:

1. Maintain its general acute care license and operate in a manner reasonably comparable to current operations;
2. Continue to operate emergency medical services at the same level as is currently operated.

3. ***Interim Financing.*** RCB, in conjunction with its offer to acquire the DCHS enterprise, also offers to provide financing for the system as it awaits receipt of certain HQA program reimbursements. RCB, subject to approvals that may be required of bondholders and any other security interest holder with a priority claim on collateral, hereby offers to lend to DCHS, prior to closing, up to \$100 million in working capital, secured by a priority security interest in the proceeds of future HQA program receipts. This extension of credit will be subject to a nominal interest rate in the event the underlying acquisition transaction closes, but will be subject to a default interest rate in the event the underlying acquisition transaction does not close.

4. ***Further Due Diligence.*** Also attached hereto is RCB’s priority due diligence list. RCB reserves the right to add items and questions to the list that arise from its further

inquiries. RCB commits that it will move promptly to complete due diligence and finalize the MSA so as to allow prompt filing of approval requests.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael E. Quinn". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

For RCB Equities #1