



HOULIHAN LOKEY

August 31, 2014

Mr. Ron Bloom
Lazard Ltd
30 Rockefeller Plaza
New York, NY 10112
Email: Ron.Bloom@Lazard.com

Re: Blue Wolf Proposal to Acquire Control of Daughters of Charity Health System and Affiliates (DCHS)

Dear Ron:

Many thanks to you and the team of Blue Wolf advisors for your continuing efforts to shape a compelling proposal for restructuring DCHS.

The DCHS team members have reviewed the drafts submitted this week and considered the discussions that your and our teams have had in person and by telephone. Before we return comments on specific proposal related documents submitted by Blue Wolf representatives, several structural and business issues require clarification from Blue Wolf. A written response would be best, but please feel free to call me for discussion and/or clarification before responding.

1. *Credit support from a Daughters of Charity entity.* Blue Wolf's presented position has moderated over time, but remains in essence that a Daughters of Charity entity must provide financial or credit support for the ongoing health system enterprise, with the form and amount of such support, but not its basic requirement, being open to negotiation. For our part, we have been clear that post-closing financial or credit support from a Daughters of Charity entity is not available. At Friday's DCHS board meeting, it was again made clear to us that final proposals from buyers should not include financial or credit support from the Daughters of Charity. We ask now for Blue Wolf to confirm that it is willing to proceed without it.
2. *Sources of funding.* From our call last week, the Blue Wolf team indicated that it intended for DCHS to have approximately \$200 million of liquidity post-transaction to support the ongoing operations and make the capital investments necessary to support the operations and future growth. From our calculations we estimate that this is based on (a) completion of the MOB portfolio sale (the proposed maximum amount of \$100 million),

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(b) an unrestricted capital contribution from the Daughters of Charity and (c) either the assumption of the 2014 Bonds or a refinancing of this debt. At this time, we request that you please confirm that this is correct and provide details of any contingency plans for the proposed sources of capital in the event that your contemplated funding sources cannot be accessed. Further, please advise us on Blue Wolf's requirement for the minimum liquidity post-closing.

3. *The post-closing tax-exempt status of the corporations owning the facilities financed with the 2005 bonds.* Blue Wolf's proposal that either or both of the 2005 and 2014 bonds remain outstanding after closing requires, as we have discussed, that the hospital entities satisfy the requirement of maintaining their 501(c)(3) status at all times. The termination of sponsorship of the tax-exempt hospitals by Daughters of Charity will end their eligibility for exemption under the Catholic Church group ruling. The resulting potential of default post closing necessarily concerns Daughters of Charity, as both a failure to keep an important commitment to bondholders and an event that could draw claims from the bondholders. Accordingly, this element of the proposed structure also raises concerns that we believe need to be addressed concretely. We ask now for Blue Wolf to state the means by which it would avoid taxability of the bonds based on loss of 501(c)(3) status of the hospitals and the means by which DCHS's board and bondholders would be protected from any consequences of such an event in light of the fact that they would not have any exposure in the event of a full refunding of the tax-exempt debt. A legal opinion running to appropriate recipients that the hospitals will remain 501(c)(3) organizations, notwithstanding the withdrawal of sponsorship, is a necessary part of that solution. Receipt of a private letter ruling or determination letters from the Internal Revenue Service prior to closing or allowance of a grace period from the U. S. Conference of Catholic Bishops or structural reliance on an existing 501(c)(3) organization may be other parts of the solution. We ask now for a complete description of Blue Wolf's solution and time frames for their completion and their relationship, if any, to closing conditions.
4. *2014 Bonds.* The 2014 Bonds mature in July 2015 as they are Short-term Indebtedness under the DCHS Master Indenture and are secured by liens, among others, that take their first-priority status from the bonds' character as Short-term Indebtedness. We ask for Blue Wolf's proposal for a structure that addresses the treatment of the 2014 bonds, that does not depend on consent of the 2014 bondholders for implementation and that can be implemented under the constraints of the DCHS Master Trust Indenture ("MTI") with regard to incurrence of indebtedness and permitted liens. To the extent that Blue Wolf's proposal anticipates a refinancing transaction, please provide us with your current expectations of the debt that can be raised in compliance with the MTI and your expectations of the timing of obtaining a commitment letter for this loan (something that we expect to review as part of your September 12 submission).
5. *Qualified Agreement – 2014 Bonds.* The 2014 Bonds require DCHS to secure a Qualified Agreement (as defined in the Continuing Covenants Agreement, "CCA") by October 31, 2014. In order to meet the standards of a Qualified Agreement, if the proposed transaction contemplates an assumption of some or all of the 2005 Bonds, then

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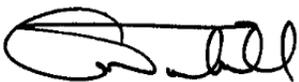
the Bondholders must not have a basis to object to the assumption (see Schedule A to the CCA); otherwise, DCHS could find itself either facing the need to proceed with an alternative transaction agreement or a default of the 2014 Bonds and a possible cross-default of the 2005 Bonds. In this regard, the opinion referenced above in paragraph 3 is extremely important. Further, although you have requested a discussion with the 2014 Bondholders, which they have declined, we understand that the holders are particularly interested in your post-transaction business plan and the creditworthiness of the Borrower thereafter. While we are not aware of any basis for a bondholder objection, we repeat our request for this business plan information and are prepared to provide Blue Wolf with the assurance that this information will not be shared with any other bidder.

6. *Deposit.* During our discussion last weekend, the DCHS team asked that Blue Wolf incorporate into its proposal a material deposit or some other form of assurance to the Blue Wolf obligations to consummate a transaction. We have not heard from you in this regard and seek your proposal on this important criterion.

As we have discussed, on several occasions, the DCHS transaction team sees elements of the Blue Wolf proposals as potential positive distinguishing features relative to the other proposals that are developing. Nevertheless, we wanted to draw your attention to the above elements as we believe they are significant challenges that on a relative basis will put a Blue Wolf proposal at a disadvantage compared to others. These are also in addition to the concerns we have expressed on the “third party contingency” aspects of the Blue Wolf proposal (e.g., support of the RPHE trustees to the proposed pension plan treatment and ratification of new collective bargaining agreements).

As noted above, we remain open and willing to discuss these challenges and potential solutions in an effort to enable Blue Wolf to provide its best and final proposal toward a contingency-free transaction by submission deadline of September 12, 2014.

Sincerely,



Andrew Turnbull
Houlihan Lokey

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