BLUEWOLF

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October 1, 2014

Sister Marjory Ann Baez
Chairperson of the Board
Daughter of Charity Health System
26000 Altamont Road
Los Altos Hills, CA 94022

Mr. Robert Issai
President & Chief Executive Officer
Daughter of Charity Health System
26000 Altamont Road
Los Altos Hills, CA 94022

Re: Daughter of Charity Health System

Dear Sister Marjory and Robert:

After what I am sure has been an extremely challenging process, I understand that you are nearing a final decision on selecting the party that will best secure the future of the Daughters of Charity Health System. As the individual who will serve as the Chief Executive Officer under one of those proposals, I wanted to reach out to communicate our commitment, hopes and vision for the System.

The core objectives which you have described for the future of the system - to have these hospitals provide both the highest quality healthcare to people regardless of their ability to pay and high quality, secure jobs with pensions for these employees - mirrors the objectives and values which have guided me and our team throughout our careers.

Beginning with our initial proposal of June 4, 2014 and continuing with our September 10th presentation to your advisors, our September 12th offer letter and our correspondence of September 19th, we have emphatically embraced your objectives.

In our most recent letter, accompanying our revised offer of September 28th, we also have removed our request that the Daughters provide financial assistance to the Hospitals as part of our transaction, eliminating what we have been told was the key concern with our prior proposals. (I have attached copies of each of these documents for your reference.)

We appreciate that the Daughters' wish to exit their involvement in the system with both their principles and pocketbook intact and that this will require that we bring:

- enough capital to assure that mission, healthcare and pensions are all preserved;

- a management team with a well-vetted track record of building sustainable organizations that operate in accordance with your values;

- a long-term vision of a stable and well-capitalized System deeply engaged with its communities.

Our proposal does exactly this. We will begin with the System having approximately $300 million in liquidity. This will allow the System to make necessary investments in buildings and equipment, give employees confidence that their pensions will be paid and fund the costs required to implement needed changes in the System's operations. In addition to our economic resources, however, I want to emphasize that we bring people with demonstrated long-term track records of delivering healthcare consistent with your values and mission.

Let me start by giving you a sense of my deep commitment to healthcare. I began my career as a critical care physician, caring for patients in near death situations, as well as training young doctors to provide effective and compassionate care. When our hospital at the George Washington University fell into severe financial difficulties, I assumed leadership roles, first as Medical Director and then as CEO, where I designed and implemented programmatic growth strategies that expanded services, improved quality, built excellence throughout the hospital and improved operational efficiency. This resulted in the transformation of the hospital to a destination facility with a national reputation in many specialties and a margin from operations in excess of 12%.

Arriving at The Brooklyn Hospital Center in 2008 as President and CEO, I led the hospital's revitalization from insolvency to being widely recognized for quality and financial stability. During the past six years, our medical staff has grown with new physicians in every specialty and we are one of the few safety net hospitals in Brooklyn and New York City that has preserved its mission, developed clinical excellence, constructively partnered with labor and developed new and meaningful relationships with other medical institutions.

I would urge you to contact Sister Carol Keehan, President of the Catholic Health Association, with whom I worked when I was CEO of George Washington University Hospital, Dr. Nirav Shah, SVP and COO of Clinical Operations at Kaiser-Permanente, and the former commissioner of health for New York State, who is deeply familiar with my work at the Brooklyn Hospital or Dr. Stuart Levine, Executive Medical Director of Heritage Development Organization, and former Chief Medical Officer of HealthCare Partners. Contact information for each of them is attached to this letter.

Dick Wright, who will serve as Chairman of the System after our transaction, is a forty year veteran executive within the health care industry. As one of the first employees of Universal Health Services (UHS), and over the course of his distinguished career, Dick served as a hospital CEO and ultimately as Senior Vice President of the UHS Acute Care Division with oversight of every hospital in the company. In the mid 1990's, Dick changed roles, serving as the executive responsible for all acute care acquisitions, where he continued to strengthen and grow the acute care division and also helped expand the behavioral health division into the largest provider of behavioral healthcare in the United States.

In addition, Dick has extensive experience in California. He led the acquisition of Lancaster Community Hospital and developed the 157 bed replacement hospital, Palmdale Regional Medical Center; led the acquisition of Corona Regional Medical Center, a 240 bed hospital located in Rivesider County; and developed the strategic plan for the Southwest Healthcare System in Wildomar. Recently retired from this role, UHS remains one of the strongest national providers of high quality healthcare in the nation.

If you would like to hear from others about Dick, I would urge you to contact Charles Barnett of Ascension Health, Arnold Schaffer of Alvarez and Marsal, or John Calderone, Chief Executive Officer of Olympia Medical Center. Contact information for each of them is attached to this letter.

In choosing Blue Wolf as our financial partner, we selected a well-capitalized firm, with approximately $500 million in assets under management, supported by a number of the largest institutional investors in the United States. As you know, Blue Wolf's investment in the Daughters will be the largest single investment in its Fund and will bring substantial fresh capital to the system. We selected Blue Wolf as a partner not only because they have the capital to create a stable future, but also because of their exceptional reputation. At the hospital I currently lead, we have formed a partnership with Blue Wolf to develop our outpatient network, allowing us to move quickly and confidently along a path to assure our long-term success.

If you would like to learn more about Blue Wolf, its managing partner Adam Blumenthal and their commitments both to healthcare and to meeting community needs, I would urge you to contact John Hamm, MD, former Premier of Nova Scotia and former President of the Medical Society of Nova Scotia, who served as chairman of a Blue Wolf portfolio company; Francine Parker, former CEO of the Henry Ford Health Plan and currently executive director of the UAW Retiree Medical Benefits Trust, a $60 billion organization which provides retiree health benefits to over 800,000 people, where Adam serves as Trustee and chairs the investment committee, or Robert Naftaly, former Chief Operating Officer of Blue Cross Blue Shield of Michigan, who is the founding chairman of the UAW RMBT. Contact information for each of them is attached to this letter.

I hope this letter provides you with some insight beyond the legal and financial parameters of our proposal. We have nothing but the highest admiration for the tremendous job you have done in continuing to deliver high quality care through a most difficult financial period. Certainly, the decision with which you are faced is difficult and complicated: financial realities demand that you minimize impact to the Daughters and their other important work, the needs of the community demand that you select a responsible management team that has a long standing commitment and demonstrated ability to deliver high quality care; social obligation means that you must ensure the well-being and future of the thousands of staff and their families who have dedicated years of hard work and service to providing care for the underserved; and finally your mission requires you to select a team that is committed to the critical role of the safety net in ensuring that everyone, regardless of their position in society, has access to a system that above all delivers value-based care with dignity and respect.

We are firmly convinced that our proposal meets all of these objectives and positions these hospitals to continue to play their vital role for years to come. As we have said before, we would be happy to sit with you and your Board directly to present ourselves and answer any questions that they might have.

Thank you again for your time and consideration.

Sincerely,

Richard Becker, MD

cc: Andrew Turnbull, Houlihan Lokey
John Chesley, Esq. Ropes & Gray

Appendix I

September 28, 2014 Revised Offer

BLUEWOLF

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September 28, 2014

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

Dear Andrew:

I write in response to your letter of September 23rd, Ropes & Gray's September 25th mark-up of our September 12th draft of the Restructuring, Conversion and Disaffiliation Agreement ("RCDA"), and your conversation on September 27th with our financial advisor Ron Boom.

We understand that the DCHS Board will be meeting on October 3rd to make a decision about how to move forward with the restructuring of DCHS. We therefore wanted to take this opportunity to provide the Board with our best offer as to how we can assist them in this matter.

While we will not dwell on it again here, we remind the Board, as we have previously stated in our September 12 letter (i.e., as part of our offer package) and other communications, of our fundamental commitment to have the DCHS hospitals continue both the vital role they play in providing high-quality health care to underserved communities and to provide good jobs and promised pensions to their employees and retirees, and of the extraordinary individuals who will be leading our effort; we assume that that material has already been provided to the Board.

We would like to highlight an extremely significant and positive change in our offer regarding the Daughters providing financial assistance to the Hospital System as a part of the transaction. As you can see in the attached revised draft of the Restructuring, Conversion and Disaffiliation Agreement, our revised working capital target is now designed to eliminate any contribution requirement from the Daughters. It also takes into the account all of the transaction and related fees that you scheduled in your letter of September 23rd.

You will also note that we have accommodated and addressed most of the other material issues you raised, including agreeing that the new Board would act to authorize the Management Services Agreement and the purchase option/asset purchase agreement, the commitment regarding $300 million of capital improvements over 5 years and additional commitments as to the existing workforce. You will note that while we have retained our proposal for continuing the church group exemption for a bridge period after the close of the transaction, we do not believe that the requirements to continue this exemption should be burdensome on the Daughters or expose them to ongoing risk, and we've modified the language to remove any elements that might be construed as presenting such issues. We would be happy to have further discussions between counsel on this point to the extent that is useful to you.

Please be assured that none of these changes in any way come at the expense of our commitments to the mission and employees nor to the long-term viability of these great hospitals.

We trust we have now addressed completely the select issues that needed resolution, and we hope that we can now quickly move to complete definitive documentation.

Please contact either myself or Ron Bloom if you wish to discuss this further.

Sincerely,

BLUE WOLF CAPITAL FUND III, L.P.

By: Blue Wolf Capital Advisors III, L.P.
Its: General Partner

By: Blue Wolf Capital Advisors III, LLC
Its: General Partner

By:

Adam Blumenthal
Managing Partner

Appendix II

September 19, 2014 Letter

LAZARD

September 19, 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:

I appreciate the time you and your team took on yesterday's phone call. I write to follow-up on the call and give you some additional reactions to the various issues we discussed.

Let me deal first, as did you, with the three issues you raised having to do with the economics of the relationship between the Daughters of Charity, the Daughters of Charity Foundation, Blue Wolf and NewFound Health. While each are separate, we recognize that they each provide important information for you in making this decision. I will then address the issues related to the structure and risks of the transaction.

Looking at the economic issues, I am authorized to indicate that in the context of reaching an understanding on a transaction that you and the other advisors would recommend to the Daughters, Blue Wolf is prepared to make meaningful changes to our proposal to accommodate your concerns.

1. **Working Capital Adjustment**

   Our proposal with respect to working capital is, as you know based on bridging from a projected 12/31/14 balance sheet to our target liquidity of $300 million, after accounting for the new capital that we will raise and invest. If operations and therefore the actual 12/31/14 balance sheet is stronger than forecast, a smaller amount would be needed - the proposal is simply to achieve our target

   We are happy to compare our analysis with yours and in particular we look forward to receiving supporting detail behind your statement that the various fees, severance, and other liabilities which you are asking us to pay at closing will total $30 million. At this point, without this data, we of course have not been able to include and account for these in our offer.

Lazard Frères & Co. LLC
30 Rockefeller Plaza
New York, NY 10112

2. **Deposit**
We understand your position that a deposit would enhance your certainty that the party you select to go forward will stay the course between signing and closing. As we have explained, we strongly believe that Blue Wolf's enormous investment to date, the number of stakeholders who are counting on Blue Wolf, and the reputation of Blue Wolf, Lazard, Dr. Becker and Mr. Wright should give you every confidence that when we receive the necessary approvals, we will expeditiously close. That said, we do understand this concern.

3. **NewFound Health's $45 million, 10-year Sponsorship of the Daughters of Charity Foundation**
As we discussed, this would be a commitment of the Blue Wolf-affiliated investment company which would serve as the primary investor in the transaction. It is that entity, not the Hospital System, which would make the contributions. While we will shortly provide further detail on how we see this working, we are glad that you have recognized that it is a positive element of our proposal and we welcome your views on how to structure this to maximize its benefits to the Daughters. We would also appreciate an introduction to any other advisors who would have an interest in this matter.

4. **Bridging the Short Period until the New Entity Receives 501(c) Status**
As we indicated, we are today reaching out the United States Conference of Catholic Bishops and remain confident that this matter will not be an impediment to a successful transaction. We would welcome your participation in these discussions. It is by no means novel and we believe that the Daughters' advisors and Blue Wolf's, working together can craft a solution acceptable to all parties.

5. **Management Services Agreement**
You expressed concern as to whether the MSA would unduly burden the Hospital System. Let me once again assure you that we have designed the MSA based on a comprehensive review of industry regulations and standard terms. Indeed, by providing for a reduced fee until the system is restored to financial health, it is likely more favorable to the Hospitals than one that could be attained in the open market. And, as we stated and have previously discussed, our turn-around plan fully accounts for these arrangements. If you have further concerns here, we would be happy to discuss them, although we would appreciate a better understanding of exactly where your concern lies.

6. **Closing Sequence**
You expressed concern about which actions would be taken by the old Board as opposed to the new. As Charlie indicated, we are open to discussing this issue and accommodating your concerns.

7. **Post-Closing Treatment of Non-Represented Employees**
Subject to maintaining the proper deference to the new Board, we are prepared to address your concerns in this area. As you know, under our transaction the Hospital System will not be sold and therefore will continue to have in place the policies and programs under which it currently operates, including its severance and other human resources policies. In general, we believe that changes to work practices, benefit and organization consistent with

those we have suggested to the represented employees, will be necessary for the non-represented group as well. You should be aware that our general approach is to make these changes without reducing base rate of pay and we can certainly assure you all employees will be treated with dignity and respect for their historic service to the organization. Again, we welcome your input.

8. **Labor Agreements**
You expressed a concern regarding the likelihood of ratification of collective bargaining agreements along the lines we have discussed. We believe that the materials submitted with our bid reflects the strong support of the leadership of UNAC and the SEIU for our proposal and we are completely confident that upon your acceptance of our offer we will be able to obtain ratification of new collective bargaining agreements. These agreements would be effective at closing and would will allow us to realize the labor cost savings for employees represented by these two unions of the magnitude we have prior discussed. We have provided you with letters from the Presidents of those two organizations confirming our belief. We do not have the same level of confidence as to the timing of new CBAs with the CAN, however we are confident that, with hard work, fair dealings and perseverance we will achieve our targets these as well. A key tenet of Blue Wolf's business is its ability to work constructively with organized labor.

While we formally cannot represent that SEIU and UNAC have not reached similar understandings with other bidders nor whether CNA has in fact reached such an understanding, we encourage you to ask them directly and would be eager to hear how they respond.

9. **MAE Definition**
We understand your concern regarding our proposed revision to the MAE definition and we are prepared to work with Ropes & Gray to craft a compromise position.

10. **Release and Discharge**
Inclusion of the board members of DCHS in the release is acceptable. With respect to your proposed indemnity provisions, we are prepared to work with Ropes & Gray to craft an indemnity with respect to the ERISA issues raised.

11. **Government Approval**
You expressed a concern regarding how conditions that the Attorney General might place on her approval might impact our commitments. You offered to provide suggested language for us to review and we are confident that we can address this concern.

12. **Post-Closing Enforcement**
You expressed concern about how we would memorialize our commitment to Pastoral Care and capital investments into the Hospital System after the closing. Again, subject to proper deference to the new Board, we are prepared to address this concern.

As you can see, we are prepared to address, in a significant way, many of the issues that you raised. And while we expect that there will be an additional group of smaller issues, we are confident that once we reach an agreement on the issues that you identified as the most critical, and you have received direction from your Board, we can quickly move to complete definitive documentation.

As mentioned at the beginning of this letter, in the context of reaching an agreement that you are prepared to recommend to the DCHS Board of Directors, we are prepared to look again at our position regarding the level of Working Capital that drives the contribution from the Daughters of Charity and to consider a deposit payable upon execution of definitive documentation.

We therefore would suggest that we convene on Wednesday of next week in Chicago to further discuss and resolve these issues.

Please let us know as soon as possible if we can move forward on this basis so we can make the necessary arrangements, and work constructively with you and your counsel to develop appropriate documentation.

In closing let me once again emphasize that while we recognize the importance of the issues discussed above and are prepared to address them, we cannot emphasize enough that these economic accommodations will not come at the expense of the core tenets of our offer. Or transaction is built and we will not deviated from our commitment to have these hospitals both continue the vital role that they play in providing high-quality health care to underserved communities and in providing good jobs and promised pensions to their employees and their families.

Sincerely,

Ron Bloom

cc: John Chesley, Esq. Ropes & Gray

Appendix III

September 12, 2014 Offer Letter

BLUE WOLF

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September 12, 2014

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

Re: Daughters of Charity Health System

Dear Andrew:

Blue Wolf Capital Fund III, L.P. ("Blue Wolf") hereby submits this offer to restructure, recapitalize and revitalize the Daughters of Charity Health System ("DCHS").

Over the last four months, Blue Wolf has undertaken a massive effort to understand and assess the situation facing DCHS and to determine whether or not we could offer a constructive solution.

The conclusions we have reached are, to put it mildly, quite sobering.

On the one hand, we have come to understand and deeply appreciate the critical role played by the DCHS hospitals in their communities. The Daughters' commitment to providing health care for disadvantaged members of the community who are less able to access the type of high-quality care others may take for granted is inspiring and one we fully share. This deep moral and ethical commitment is evident throughout the DCHS system and has been well represented during our many discussions and interactions with the DCHS executive team as well as the staff at each hospital. The high quality of healthcare services that have been consistently maintained, even under the most challenging financial circumstances, is, quite frankly, extraordinary.

On the other hand, we have become acutely aware, as we know are you, of the severe operational and financial crisis that imminently threatens DCHS's mission and the jobs and retirement benefits that DCHS promised to its current and former employees.

All of our work has gone into constructing an offer that honors DCHS's mission while confronting with clear eyes the challenges that the system faces.

As you will see, our offer embraces all of the evaluation criteria that you have articulated.

- ✓ We are prepared to maintain and continue to operate all of DCHS's acute care facilities.

- ✓ We will continue DCHS's critical role as a provider of high-quality healthcare to the underserved families in the communities in which it operates.

- ✓ We will maintain the retirement benefits earned to date for current and former DCHS employees.

- ✓ We will inject substantial new capital into the system to facilitate an operational revitalization.

- ✓ We are prepared to move expeditiously to a closing, conditioned only on necessary approvals by government and the Holy See and customary conditions regarding documentation and the lack of material adverse changes in the condition of the system.

- ✓ Our business plan provides for and contemplates the substantial capital spending required to upgrade DCHS's facilities, equipment and information systems.

- ✓ Our management team has substantial relevant experience in revitalizing safety net hospitals and a successful track record in transforming deeply distressed organizations with complex multi-constituency issues.

- ✓ We explicitly disavow and foreswear the use of bankruptcy or any similar process to eliminate or modify any existing contracts or understandings.

- ✓ Finally, to demonstrate our admiration of and commitment to the Daughters of Charity and your work, New Found Health Holdings, an entity that Blue Wolf will create as part of the transaction, is prepared to enter into a ten-year $45 million sponsorship with the Daughters of Charity Foundation. The funds would be payable ratably over the period of the sponsorship.

As detailed in the attached documents, Blue Wolf's proposal is based on both a realistic assessment of DCHS's strengths and weaknesses and a unique collaboration with the system's key stakeholders.

We have developed a highly-detailed and comprehensive plan that we are confident will deliver over $180 million in increased annual operating cash flow by the end of 2016. Our plan includes reducing labor costs, as well as numerous operational improvements and growth initiatives and will be sufficient to stem current losses, honor all pension and other financial obligations and invest in vitally needed capital improvements.

We have already made substantial progress in both quantifying these opportunities and reaching memoranda of understanding with key stakeholders necessary to their implementation.

We think it is clear that Blue Wolf is the preferred choice of many of DCHS's key stakeholders. And while we fully recognize and respect that the decision at this stage is yours alone to make, we do think that this stakeholder support both makes regulatory approval far more likely and substantially enhances the likelihood that we receive the necessary support of these stakeholders as we execute on our restructuring plan.

In order for us to fully fund the turn-around, invest in capital upgrades and deferred capital maintenance and provide a liquidity cushion for the unanticipated contingencies that will inevitably arise, we must have a well-stocked pantry as we begin our effort. Therefore a critical component of our restructuring plan is our comprehensive approach to re-capitalizing the system's balance sheet. By maintaining DCHS's non-profit status, the 2005 bond debt will remain outstanding, thus allowing the new capital we raise to be injected into the system to ensure maximum financial flexibility. Together with our significant improvements to operating cash flow, this stronger balance sheet will allow the system to make up for the recent forced reduction to spending on vitally needed capital improvements and maintenance capital expenditures.

Without the $300 million of cash and available borrowing capacity our plan makes available to the system, it would simply not be prudent for us to undertake this effort.

Blue Wolf is prepared to make DCHS the largest commitment in its investment fund, and we have been able to raise significant third party financing. However, given DCHS's current circumstances, third-party lenders are understandably cautious about the level of commitment they are prepared to make.

Therefore, in order for us to continue DCHS's mission, in particular its commitment to indigent care and to preserving and honoring its pension plans and promises, DCHS will require a limited one-time contribution from the Daughters of Charity. Based on the financial forecast with which we have been provided, we estimate that this contribution will be $60 million.

This contributed amount would be adjusted based on actual operational performance of the system. We are targeting a prudent level of liquidity and asking for your limited assistance as part of that effort. We seek this contribution for no other reason and if operational results are better than forecast, our need and therefore the request will be adjusted accordingly.

And while we understand that you would strongly prefer to not offer this assistance, we hope that you will evaluate this element of our offer in the overall context of all of the commitments that we are making as part of this transaction.

The Blue Wolf team comes with a track record that shares precisely DCHS's vision of preserving and expanding high-quality, mission-driven healthcare services to underserved communities. Our team members' work in similar environments around the country is characterized by successfully restructuring distressed safety net hospitals serving diverse, low-income populations while preserving both their mission and important economic role.

Our team will be led by individuals of extraordinary accomplishment and integrity.

Our Chief Executive Officer will be Dr. Richard Becker. Dr. Becker is a physician executive, board certified in both anesthesiology and critical care medicine, with a distinguished career leading the turnaround of both The George Washington University Hospital in Washington, DC, and more recently The Brooklyn Hospital Center in Brooklyn, New York.

Dr. Becker's clinical and academic career included positions as Director of obstetric anesthesiology and the medical/surgical intensive care unit as well as Program Director of the Fellowship in Critical Care Medicine. As a physician, Dr. Becker distinguished himself as a leader and sought after speaker in his field, as well as a physician interested in providing care to patients in need all over the world as demonstrated by his participation in medical missions throughout Africa.

In assuming executive leadership roles at The George Washington University Hospital, first as Medical Director in 1997 and then as CEO in 2004, Dr. Becker was instrumental in reversing the decline of the hospital. By rebuilding the medical staff, establishing destination clinical programs, dramatically improving operations and developing deep relationships with the community, his leadership resulted in both a stronger medical delivery system and substantially improved operating results. The hospital went from negative earnings to an operating margin of greater than 12%.

Arriving at The Brooklyn Hospital Center (TBHC) in 2008, Dr. Becker proceeded to rebuild this safety net hospital in a similar manner by strengthening the existing medical staff, improving operational efficiency, significantly raising employee engagement, developing strong relationships with organized labor, partnering with community providers and dramatically improving the reputation of the hospital to one of a destination provider of high-quality healthcare services. The financial performance of TBHC has significantly improved since Dr. Becker's arrival.

Throughout his career as a hospital executive, Dr. Becker has served on numerous charitable boards and participates philanthropically in various healthcare and educational organizations. Most recently, Dr. Becker was elected to the executive committees of the Greater New York Hospital Association (GNYHA), the Hospital Association of New York State (HANYS) and Healthfirst, a hospital-owned health insurance company and one of the largest managed Medicaid providers in New York City. On the personal side, Dr. Becker and his wife, Dr. Rachel Becker, a practicing psychiatrist, devote seemingly endless time and energy to raising their three children.

The DCHS Board of Directors will be chaired by Richard C. Wright. Richard has more than 40 years of healthcare experience. Throughout his career, Richard has brought the vision and toolkit to drive needed change and engage all stakeholders in the mission and culture of an organization.

Richard invested the majority of his career with Universal Health Services, Inc. (UHS). He was the second employee of the company and helped develop UHS into one of the largest and most respected hospital management companies in the United States. At the time of his departure from the company, UHS owned and operated 226 acute care hospitals, behavioral health facilities and ambulatory centers.

Some of his more significant accomplishments include the acquisition of the George Washington University Hospital, commonly referred to as the President's Hospital, and the acquisition of a nine county health system in Texas which was subject to a public referendum.

In addition, Richard has extensive experience in California. He led the acquisition of Lancaster Community Hospital and developed the 157 bed replacement hospital, Palmdale Regional Medical Center; led the acquisition of Corona Regional Medical Center, a 240 bed hospital located in Riverside County; and developed the strategic plan for the Southwest Healthcare System in Wildomar.

Following his career with UHS, Richard founded Allergy Services of America, LLC and Wright Transaction Advisors.

In addition to Dr. Becker's and Mr. Wright's vision and experience in developing integrated care delivery networks in the communities such as those where the Daughters' hospitals are located, we will be drawing on the deep experience of a senior California healthcare executive who will serve as a core member of our leadership group, bringing to bear decades of in-market experience in creating aligned service provision throughout complex medical systems in California. This physician executive is currently on the medical faculty at UCLA as well as corporate medical director of a major California health plan, positions that, in addition to previous positions held in and around California hospitals and healthcare, have made him deeply familiar with the challenges and opportunities facing the Daughters' hospitals. This nationally recognized expert will bring detailed local knowledge that will greatly accelerate our ability to bring our alignment and care coordination strategies to rapid fruition.

As we transform a distressed hospital system into a sustainable organization, it is important that our many partners—internal and external—understand our core values. The need to be efficient in the delivery of care will never compromise our commitment to high quality and patient dignity; nor do we bring temporary solutions to deeply complex multi-constituency situations. Always mindful of the patient's best interests, we are also sensitive to the important economic and social responsibility each hospital holds in its community. We want our hospitals to provide long-term job opportunities that support a good quality of life for staff and their families.

Our principled approach to healthcare is focused on preserving long into the future institutions that have dedicated decades to delivering local residents the care that they need. While the doctor-patient relationship is at the core of healthcare delivery, a highly-committed team of caring and compassionate staff from the communities we serve is what enables the success of each healthcare interaction and encounter. These relationships and the partnerships they engender are ultimately the foundation that supports the structural transformation needed to sustain mission-based healthcare.

We are pleased to present what we hope you agree is a thoughtful, responsible solution to the highly-complex challenge of transforming the DCHS safety net healthcare system into a sustainable organization that can continue to deliver excellent healthcare for years to come.

We understand how difficult and challenging this process must be for DCHS's Board of Directors. We have nothing but the utmost respect for the selfless service that they have given to this institution and the mixed emotions they must feel as they face the decision that is now upon them.

Dr. Becker, Mr. Wright and myself would very much like an opportunity to meet with DCHS's Board. We would have no intention of negotiating directly with them. Rather, we would like to give them the choice to learn for themselves who we are as people. We simply wish to introduce ourselves, for them to hear directly from us about our commitment to continue their work and to answer any questions that they may have about our offer.

Please feel free to reach out either directly to me or to Ron Bloom, our Investment Banker, to discuss this further.

We look forward to working closely with you as we bring this matter to a satisfactory resolution.

Sincerely,

BLUE WOLF CAPITAL FUND III, L.P.

By: Blue Wolf Capital Advisors III, L.P.
Its: General Partner

By: Blue Wolf Capital Advisors III, LLC
Its: General Partner

By:______________________________
Adam Blumenthal, Managing Partner

Appendix IV

September 10, 2014 Presentation

DISCUSSION MATERIALS

Daughters of Charity Health System

LAZARD

Core Objectives

- The Daughters of Charity Health System ("DCHS"), a vital provider of healthcare to underserved communities in Los Angeles, Santa Clara and San Mateo counties, is facing enormous financial and operational challenges

- Despite these challenges, Blue Wolf Capital Fund III, L.P. (Blue Wolf) is prepared to enter into a definitive agreement that:

  - **Maintains and continues to operate all of DCHS's acute care facilities**

  - **Preserves the important role as a provider of high-quality healthcare to underserved families that DCHS serves in the communities in which it operates**

  - **Maintains the retirement benefits earned to date for current and former DCHS employees**

  - **Offers employment to DCHS's existing workforce consistent with the need to create a sustainable enterprise**

  - **Injects substantial new capital into the system to facilitate a much needed operational revitalization**

Key Elements

- **Blue Wolf will invest and raise sufficient capital to:**
  - Fully fund turnaround
  - Invest in needed capital upgrades
  - Provide liquidity cushion for unanticipated contingencies
- **In order to ensure the success of the plan and the ability to meet the system's obligations, Blue Wolf has sought and secured the cooperation of key constituents**
  - Exclusive MOUs have been reached with a number of key stakeholders to facilitate substantial improvements to system performance
- **In addition to the financial impact of these agreements, Blue Wolf has developed a strategic action plan that will make DCHS sustainable for the long-term**
- **To date, Blue Wolf has invested substantial resources and has incorporated the expertise of numerous industry leaders to ensure the reasonableness of its assumptions and its plan**

Key Elements (cont'd)

- **Blue Wolf has attracted a world-class management team with extensive acute care and turnaround experience to lead the restructuring of DCHS**
  - Proven commitment to safety-net hospitals
  - Substantial operating and turnaround experience
- **NewFound Health Holdings will enter into a ten-year $50 million corporate sponsorship with the Daughters of Charity Foundation**
  - Payable ratably over the period of the sponsorship
  - Demonstrates long-term commitment to Daughters' core objectives

Key Elements (cont'd)

- **LABOR COST REDUCTIONS:**
  - New labor agreements to reduce fringe benefit costs and eliminate restrictive work rules to ensure maximum operational flexibility
  - Restructure non-union consistent with union elements

→ **$90MM**

- **OPERATIONAL IMPROVEMENTS:**
  - Revenue cycle management
  - Restructured payer contracts

→ **$60MM**

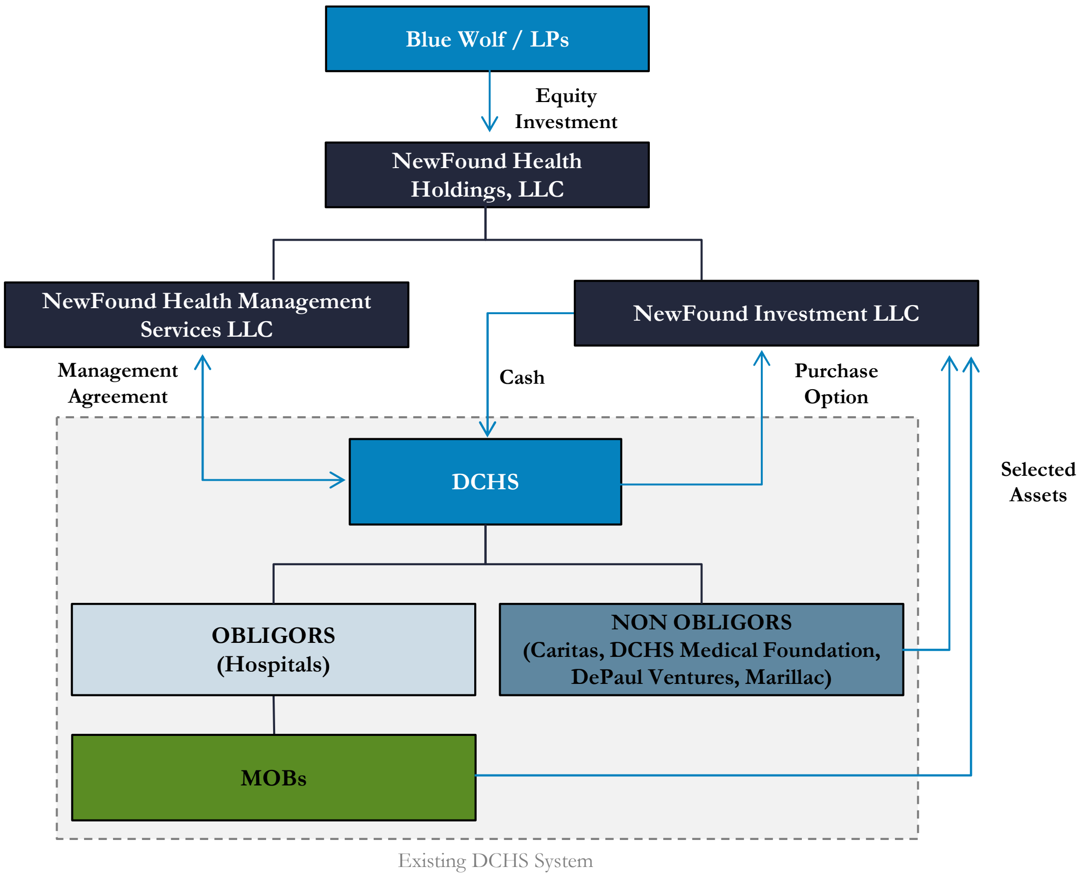
- **GROWTH INITIATIVES:**
  - Implement care coordination to reduce length of stay and readmission
  - Economic alignment with counties and medical foundation

→ **$30MM**

Transaction Structure

Blue Wolf has created the following structure, allowing for the investment of fresh capital into a not-for-profit 501(c)(3) entity, the assumption of existing tax-free bonds and the existence of a highly incentivized management company to drive operations improvements

Proposed Structure



Structure Detail

- DCHS restructures, recapitalizes, and disaffiliates
- DCHS and NF Management enter into a management agreement
- DCHS sells select assets at fair market value (primarily MOBs) to NF Investment for $100 million in proceeds
- NF Investment will receive an option to purchase DCHS at the current value of the liabilities
- NF Investment enters into a loan or sale-leaseback agreement with a real estate investor around the MOBs to fund a portion of the $100 million asset purchase from DCHS

Anticipated Sources & Uses

($ in millions)

Blue Wolf anticipates the following sources and uses to fund the transaction

Sources & Uses

DCHS / NewFound Health Transaction

Sources		Uses		
NewFound Health A/R Facility	$85	Payoff Existing Bridge Facility	$84	
ManCo Real Estate Purchase	100	Cash to Balance Sheet	210	
Excess Balance Sheet Cash	53	QAF Receivable	90	
QAF Receivable	90	**Total Liquidity**		300
DCHS Support	**65**	**Fees and Expenses**	**9**	
Total Sources	**$393**	**Total Uses**	**$393**	

Management Services Co Transaction

Sources		Uses	
Blue Wolf Equity	**$70**	Purchase of Real Estate Assets	$100
Senior Debt	**50**	Cash to Balance Sheet	11
		Fees and Expenses	**9**
Total Sources	**$120**	**Total Uses**	**$120**

Pro Forma Balance Sheet Impact of Anticipated Transactions

($ in millions)

	NewFound Co Beginning Balance (12/31/2014)	2014 Bridge Facility	DCHS Support	Management Co Real Estate Purchase	Transaction Fees	NewFound Co Ending Balance (12/31/2014 PF)
Cash	$53	$1	$65	$100	($9)	$210
QAF Receivable	90					90
Total Cash & QAF Receivable	**$143**	**$1**	**$65**	**$100**	**($9)**	**$300**
Existing Series 2005 Bonds	$289					$289
Amount Drawn on Existing 2014 Bridge Facility	84	(84)				0
New A/R Facility	0	85				85
Total Debt	**$372**	**$1**	**$0**	**$0**	**$0**	**$373**

	Management Co Beginning Balance (12/31/2014)	Blue Wolf Equity Investment	Senior Debt	Purchase of NewFound Co Real Estate	Transaction Fees	Management Co Ending Balance (12/31/2014 PF)
Total Cash	**$0**	**$70**	**$50**	**($100)**	**($9)**	**$11**
Senior Debt	$0		50			$50
Total Debt	**$0**	**$0**	**$50**	**$0**	**$0**	**$50**

	PF NF Co + Man Co Ending Balance (12/31/2014 PF)
Cash	$221
QAF Receivable	90
Total Cash & QAF Receivable	**$311**
Existing Series 2005 Bonds	$289
Amount Drawn on Existing 2014 Bridge Facility	0
New A/R Facility	85
Management Co Senior Debt	50
Total Debt	**$423**

Liquidity Roll Forward

($ in thousands)

NewFound Health & Management Company			
	6 Months Ending	FY2016	FY2017
	6/30/2015	6/30/2016	6/30/2017
Beginning Unrestricted Cash	**$221,000**	**$222,786**	**$81,186**
Steady State EBIDA	**83,273**[a]	**(55,058)**	**(55,058)**
Labor Adjustments	7,000	30,000	90,000
Revenue Enhancements	3,000	20,000	60,000
Other	3,000	10,000	30,000
Pro Forma EBIDA	**$96,273**	**$4,942**	**124,942**
Restructuring Charges	(25,000)	(25,000)	-
Interest Expense	(8,689)	(27,817)	(27,810)
Maintenance CapEx	(27,500)	(55,000)	(55,000)
Catch-Up CapEx	(25,000)	(40,000)	(15,000)
Debt Repayment	(1,005)	(2,198)	(2,221)
Working Capital Changes	(7,293)	3,472	-
Ending Unrestricted Cash	**$222,786**	**$81,186**	**$106,097**

(a) Includes $100 million of CY 2014 net QAF payments and $50 million of CY 2015 net QAF payments that are expected to be recognized during the period.

Daughters of Charity Transaction Support:

- **Purpose:**
  - Support restructuring costs
  - Allow for preservation of pension plans
  - Support continuation of indigent care
- **Amount: $65 million one-time contribution to DCHS**

Closing Contingencies

- **1) Governmental Approvals**
- **2) Holy See Approval**
- **3) Customary Conditions**
  - Material adverse change
  - Documentation

Appendix V

June 4, 2014 Proposal

BLUEWOLF

BLUE WOLF CAPITAL
ONE LIBERTY PLAZA, 52ND FLOOR
NEW YORK, NY 10006

T: 212.488.1340
F: 917.677.8233
WWW.BLUE-WOLF.COM

June 4, 2014

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

Re: Daughters of Charity Health System

Dear Mr. Turnbull:

Blue Wolf Capital Fund III, L.P. ("Blue Wolf") hereby submits this proposal to acquire the Daughters of Charity Health System ("DOCHS").

Over the last 30 days, Blue Wolf has undertaken a massive effort to understand and assess the situation facing DOCHS and to determine whether or not we could offer a constructive solution.

The conclusions we have reached are, to put it mildly, quite sobering.

DOCHS faces an acute operational and financial crisis, a crisis that imminently threatens its mission, the jobs of its employees, the health care needs of the communities in which it operates and the accrued retirement benefits that DOCHS promised to its current and former employees.

We see this as presenting DOCHS with agonizing choices. Many believe that the likely outcome will be that a number of the hospitals in the system will close, as real estate developers take advantage of DOCHS's financial distress, resulting in the elimination of critical public health infrastructure from the safety net. Others have suggested that while the system could be preserved, this can only be done by abandoning DOCHS's commitment to providing critically needed services to individuals with otherwise limited access to high quality care and by renouncing DOCHS's promise to provide a decent retirement to those who gave it a lifetime of service.

Blue Wolf, on the other hand, despite DOCHS's extraordinary challenges, is today prepared to go forward with a transaction that:

- Maintains and continues to operate all of DOCHS's acute care facilities;
- Preserves DOCHS's critical role as a provider of high-quality healthcare to the underserved families in the communities in which it operates;
- Maintains the retirement benefits earned to date for current and former DOCHS employees; and
- Injects substantial new capital into the system to facilitate an operational revitalization

By assuming the significantly underfunded DOCHS Retirement Plan (the Church Plan) and continuing to participate in the Retirement Plan for Hospital Employees (RPHE), we believe that our offer is dramatically superior both for those creditors and for the Plan Sponsors who could face substantial exposure for these obligations.

We believe that our commitment to keeping the system intact and continuing the DOCHS mission is noteworthy and significant. And we are confident that the level of support we enjoy from DOCHS's stakeholders uniquely and dramatically reduces the execution risk of our proposed restructuring and revitalization plan, as well as being consistent with the DOCHS Mission.

As detailed in the Term Sheet attached hereto as Exhibit "A" and made a part hereof, Blue Wolf's proposal is based on both a realistic assessment of DOCHS strengths and weaknesses and a unique collaboration with the system's key stakeholders.

Blue Wolf is working closely with the SEIU-UHW and UNAC, who have enthusiastically endorsed our effort. Blue Wolf has met with CNA and outlined to them the proposed transaction, and CNA has indicated to us that they are prepared to bargain in good faith with us about the proposed transaction.

Blue Wolf has met and discussed our effort with key leaders in Santa Clara, San Mateo and Los Angeles County, and we have received positive support and encouragement in all cases. We have also met with Dignity Health about a creative solution to the underfunding of the Church Plan that involves the RPFE, and they have agreed to work with us to explore this approach.

Based on the above, we are requesting that DOCHS work exclusively with Blue Wolf over the next sixty (60) days, during which time we will complete our due diligence and reach all necessary agreements with stakeholders so that we can sign a definitive agreement subject only to customary closing conditions and regulatory approvals.

Thank you for allowing us to participate in the process. Please feel free to reach out either directly to me or to our Investment Banker, Ron Bloom, to discuss this further.

We look forward to working closely with you in the period ahead as we bring this matter to a satisfactory resolution.

Sincerely,

BLUE WOLF CAPITAL FUND III, L.P.

By: Blue Wolf Capital Advisors III, L.P.
Its: General Partner

By: Blue Wolf Capital Advisors III, LLC
Its: General Partner

By: ______________________________
Adam Blumenthal, Managing Partner

AGREED AND ACCEPTED:

DAUGHTERS OF CHARITY HEALTH SYSTEM

By: ______________________________

Its: ______________________________

Date: ______________________________

DAUGHTERS OF CHARITY MINISTRY SERVICES CORPORATION

By: ______________________________

Its: ______________________________

Date: ______________________________

Exhibit "A"
CONFIDENTIAL TERM SHEET
June 4, 2014

Objectives:	The proposed series of related transactions outlined herein (collectively the "Transaction") would continue the historic mission of the Daughters of Charity Health System ("DOCHS" or the "System") and its existing sponsor, the Daughters of Charity Ministry Services Corporation (which is sponsored by the Daughters of Charity of St. Vincent DePaul Province of the West) (collectively, the "Existing Sponsor"), through a comprehensive recapitalization and restructuring. The proposed Transaction includes: ✓ the acquisition of all of the System's operations and the maintenance of the System's not for profit status; ✓ the assumption and restructuring of all of the existing collective bargaining agreements; ✓ the assumption without modification of the accrued pension benefits; and ✓ the termination of future obligations of the Existing Sponsor. In addition, the proposed Transaction: ✓ does not have material contingencies; ✓ anticipates a short diligence period; and ✓ contemplates a definitive timeline for closing. **The proposed Transaction will provide the System with access to new capital to fund the needed operational turnaround and make needed capital investments, augmentation of its existing management structures, streamlined labor agreements and lower pension costs across the System.**
Preservation of Mission:	Following closing, the System would continue to be operated consistent with the DOCHS Mission Statement of: ***Serving the sick and the poor; by providing comprehensive, excellent health care that is compassionate and attentive to the whole person: body, mind and spirit; and promoting health families, responsible stewardship of the environment and a just society through value-based relationships and community-based collaboration.***

Continuation of Values:	Following closing, the System would continue to be operated consistent with the Values of DOCHS and the Existing Sponsor: **Respect:** *Recognizing the value of DOCHS and the value of others* **Compassionate Service:** *Providing excellent care with gentleness and kindness* **Simplicity:** *Acting with integrity, clarity and honesty* **Advocacy for the Poor:** *Supporting those who lack resources for a healthy life and full human development* **Inventiveness to Infinity:** *Being continuously resourceful and creative* **The proposed Transaction would not alter, in any material respect, the System's adherence to the Ethical and Religious Directives for Catholic Health Care Services (subject to civil law requirements).**
The Proposed Transaction:	The System would enter into a Merger Agreement with an existing 501(c)(3) not for profit organization focused on healthcare, to be identified ("NewFound Health"), with NewFound Health being the surviving entity and new sponsor of the System. Following closing, the NewFound Health board of directors would assume management and oversight of the System.
Net Working Capital True-up by Existing Sponsor:	Set forth on Exhibit "A", attached hereto and made a part hereof, is a calculation of the System's consolidated adjusted net working capital as of March 31, 2014 ("Target Net Working Capital"). To the extent that the net working capital of the System as of the closing date is less than the Target Net Working Capital (the "Closing Date Net Working Capital Shortfall"), then the Existing Sponsor shall contribute cash to NewFound Health on the closing date equal to the Closing Date Net Working Capital Shortfall.
Equity Commitment:	Blue Wolf Capital Fund III, L.P. ("Blue Wolf"), through a newly formed for profit management services company ("Management Services Co"), would invest $70 million in equity in the Transaction. **All of the proceeds of this investment would be used to strengthen the System as further described below.**
Pension Obligations:	NewFound Health would assume all existing pension

	obligations to current and former employees of the System. **The Existing Sponsor would have no responsibility for the satisfaction of these obligations following closing.**
Existing Senior Debt Obligations:	Because of the non-profit status of NewFound Health, the Transaction would have no impact on the existing DOCHS bonds. **The Existing Sponsor would have no responsibility for the satisfaction of these obligations following closing.**
Definitive Agreements & Conditions to Closing:	Blue Wolf anticipates executing definitive agreements, subject to: (1) All required regulatory approvals of the Transaction (including, but not limited to, approval by the California State Attorney General of the terms of the Merger, the Management Agreement and the other material aspects of the Transaction without the imposition of materially burdensome conditions or obligations); (2) Approval of the Holy See; (3) Ratification of the restructured labor agreements; (4) Completion of the pension merger transaction described herein; (5) Completion of the real estate transaction as described herein; (6) Confirmation that the DOCHS bonds are not in default as of the closing date and that the Transaction will not cause an event of default to occur; (7) Receipt of any material third party consents necessary to avoid material contractual defaults; (8) Final approval by CMS of QAF payments; (9) Absence of a material adverse change with respect to the System; (10) The System is operated in the ordinary course of business, consistent with past practices; and (11) Representations and warranties set forth in the definitive agreements are true and correct in all material respects on the closing date.
Exclusivity:	For a period of 60 days from the acceptance of this term sheet, DOCH will negotiate exclusively with Blue Wolf with respect to the definitive agreements for the Transaction as contemplated by this term sheet. In addition, the parties would negotiate in good faith to establish milestones, which, if met, would extend exclusivity to allow the completion of due diligence, satisfaction of pre-closing conditions and approvals and definitive documentation.

Closing Date:	As soon as practicable after the conditions to closing are satisfied to the satisfaction of Blue Wolf and the System. It is anticipated that closing would occur not later than 12/31/2014.
NewFound Health Governance:	NewFound Health, a 501(c)(3) organization would be governed by an independent board of directors, the size and composition of which would be determined prior to closing in consultation with the existing NewFound Health board, the Existing Sponsor, union representatives, community leaders and the Attorney General of the State of California.
Management Services Company:	Management Services Co will be capitalized with at least $70 million in equity to be provided by Blue Wolf, and $50 million in senior debt financing to be arranged by Blue Wolf. Because Blue Wolf is investing from a committed fund with $309 million in commitments, we have ample liquidity to fund this level of equity. Management Services Co will be led by Richard Becker, MD and Richard Wright, each of whom has over twenty years of hospital management experience, and significant experience with the acquisition and successful turnaround of major urban hospitals similar to those operated by the System.
CRITICAL AGREEMENTS:	
Real Estate Acquisition by Management Service Co:	Simultaneously with the Transaction, Management Services Co or one of its affiliates, will purchase selected assets, primarily medical office buildings, from the System, at fair market value in an arm's length transaction, for a cash purchase price of $100 million. Based on preliminary appraisals by CBRE, we believe that there will be ample real estate value to support this transaction, which will provide much needed liquidity to the System. We understand that DOCHS has received an offer from a developer for the purchase of the DePaul Urgent Care Center in Santa Clara County for at least $10 million, with the proceeds to be retained by DOCHS for general corporate purposes. While we are generally supportive of this transaction, we would ask that we be allowed to assess the overall transaction for this facility prior to the asset sale.
Pension Merger:	In conjunction with the Transaction, the current Church Plan will merge with the RPHE. The System will agree to amend its current collective bargaining agreements to provide for payments to RPHE in respect of the unfunded Church Plan obligations over the ten

	years subsequent to the close of the Transaction. This transaction will improve the health of both plans. A letter to Blue Wolf from our pension consultants, Milliman, outlining this approach is attached as <u>Exhibit "B"</u> to this proposal. **Blue Wolf has discussed this transaction with one of the Trustees of the RPHE not affiliated with the System; its letter to us regarding these conversations is attached as <u>Exhibit "C"</u> to this Term Sheet.**
New Labor Agreements:	Prior to the close of the Transaction, NewFound Health will enter into new labor agreements with each of the three major unions representing DOCHS employees – SEIU-UHW, CNA, and UNAC. The terms of these agreements would include: • A mutual commitment to clinical excellence, improving health for both employees and the communities served, and a culture of continuous improvement. • Streamlining of work rules and job classifications and structures in order to allow measures of productivity, such as Employees per Adjusted Occupied Bed, to approach those at comparable hospitals. • Streamlining and reduction of benefits costs for health insurance plans and modification to the rules governing premium pay and shift differentials. • Upon the return of the System to financial health, a commitment to long-term job security and retraining opportunities for senior employees. • An uncapped annual distribution of a material portion of sustainable cash flow in the form of an annual bonus, provided that the System meet requisite levels of patient safety. • A special payment, to be distributed to a fund for the benefit of employees equal to an agreed-on percentage of Blue Wolf's capital gains on its investment, upon the ultimate realization of such gain. **Blue Wolf has discussed the proposed Transaction with SEIU-UHW, and UNAC who have enthusiastically endorsed this proposal and committed to work with Blue Wolf to effectuate all aspects of the Transaction. Blue Wolf has also discussed the proposed Transaction with CNA, who has indicated to Blue Wolf that they are prepared to bargain with Blue Wolf in good faith regarding the proposed Transaction.**
Management Agreement:	Management Services Co would enter into a management

	services agreement with NewFound Health and the System on market terms to provide management services, including the office of the Chief Executive Officer, Chief Financial Officer, Chief Informatics Officer, and Chief Medical Officer of NewFound Health. Management Services Co would also enter into an agreement with NewFound Health pursuant to which Management Services Co or one of its affiliates would have the option to acquire the System from NewFound Health for a purchase price equal to the assumed liabilities of the System then outstanding and, following such acquisition, to convert the System to a for-profit system. **We expect these terms will be substantially similar to those recently approved by the California State Attorney General on January 29, 2013 with respect to St. Rose Hospital.**
Revenue Enhancements:	Blue Wolf, working with Sellers Dorsey, has identified meaningful revenue enhancements for NewFound Health, which could be achieved at no additional cost to the State of California or to the counties of Santa Clara, San Mateo, or Los Angeles. Letters from two of the three entities evidencing their general support for Blue Wolf's proposal and their interest in working with Blue Wolf to achieve revenue from these programs is attached as <u>Exhibit "D"</u> to this term sheet. We expect to receive a similar letter from Santa Clara County in the next few days. **We have begun a process with the jurisdictions of assessing these revenue enhancements and expect to have reasonable indications from the counties and appropriate State of California regulatory agencies of their intention to support revenue enhancing opportunities for the System prior to the execution of definitive agreements.**
Confidentiality:	The parties agree that the terms of this Term Sheet shall be kept strictly confidential and shall not be disclosed other to the directors, senior management and advisors of such parties and other than as may be required by law or any governmental or regulatory body after prior notice (where legally permissible). The parties acknowledge that implementation of the Transactions shall require discussions with labor unions, governmental authorities and religious bodies and agree that such discussions shall be conducted on a coordinated fashion between the parties.
Binding Obligations:	This Term Sheet outlines the indicative terms of the proposed Transaction. The provisions of this Term Sheet under the

	headings "Exclusivity" and "Confidentiality" shall be binding obligations of the parties. No other legally binding obligations will be created on any party unless and until definitive transactions documents are executed and delivered by all parties. Apart from the binding obligations of the parties hereunder, the failure to negotiate and execute and deliver definitive transaction documents shall impose no liability on the part of any party.

Exhibit "A"
to
Confidential Term Sheet

Calculation of Net Working Capital of the System

as of March 31, 2014

NET WORKING CAPITAL

($ in Thousands)	3Q2014 3/31/2014
Cash and cash equivalents	$81,918
Patient accounts receivable, net	171,984
Due from government agencies	18,249
Interest in pooled investments - Short-Term	904
Interest in pooled investments - Long-Term	54,077
Other Current Assets	52,362
Total Current Assets	**$379,494**
Accounts payable	$52,605
Accrued Liabilties	108,327
Due to government agencies	13,789
Total Current Liabilties	**$174,721**
Net Working Capital	**$204,773**

Exhibit "B"
to
Confidential Term Sheet

Milliman Letter re: Feasibility of Merger of Church Plan into RPHE

[See Attached Feasibility Letter from Milliman]

Milliman

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USA

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Fax +1 973 278 8887

milliman.com

June 3, 2014

Mr. Ron Bloom
Lazard, Freres & Co. LLC
30 Rockefeller Plaza
New York, NY 10112

Re: Blue Wolf

Dear Ron,

This letter is intended to provide our thoughts of the proposed change in the structure of the pension plans covering the Daughters of Charity Health System ("DCHS") employees. Blue Wolf is proposing to merge the DCHS Retirement Plan into the Retirement Plan for Hospital Employees (RPHE).

We believe this merger would be an effective and sensible transaction.

When reviewing the possibility of merging the DCHS Retirement Plan into the RPHE, we considered the impact on the plan participants. Specifically, after the merger, the participants currently benefiting under the DCHS Retirement Plan would have their benefits guaranteed up to certain predetermined amounts by the Pension Benefit Guaranty Corporation (PBGC). In addition, the participants would now be part of a plan that is required to meet minimum contribution requirements as provided under the IRC. This would help to further protect the participants' benefits.

Additionally, with an increase in the number of plan participants, we would expect to have lower costs, per participant, to administer benefits. Both groups of participants could see benefits by merging the plans.

Lastly, we considered the long-term financial strength of the plan post-merger. We analyzed the projected funded status of the RPHE post-merger based on the current assets and liabilities of each plan, as well as the expected future contributions. Based on our analysis the post-merger plan will continue to have a strong funded percentage and would not be harmed by the merger.

Statements of Reliance and Limitation on Use

This letter summarizes a rough analysis of the Daughters of Charity Health System's participation in the defined benefit plans referenced above. Ultimately, the Trustees of the RPHE and the DCHS Retirement Plan would need to come to the conclusion that the merger would benefit the plan participants. There are numerous factors that could be considered when making this analysis including immediate and long term expected funded percentages. It should be expected that the Trustees will require projections and analysis from the Plans' Actuaries to assist them in their decision process.

This letter has been prepared for Blue Wolf for a specific and limited purpose. The underlying data is highly complex, and any technical analysis such as that provided herein assumes a high level of knowledge concerning DCHS operations, as well as rules and regulations applicable to defined benefit plans. Milliman's work is prepared solely for the internal business use of Blue Wolf and its advisors with respect to this project and may not be provided to third parties without our prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Our consent to release this product to any third party may be conditioned on the third party signing a release. Third party recipients of Milliman's work product should not rely upon our analysis and should instead engage their own qualified professionals for advice appropriate to their specific needs.

In preparing this letter, we relied, without audit, on information (some oral and some in writing) supplied in the data room by DHCS, as well as the Plan Actuaries of plans involved. This information includes, but is not limited to, Actuarial Valuation reports, projection reports, and Plan documents and notices. Other information was obtained from publicly available information on Form 5500 filings. We did not audit any of the information provided but reviewed it for reasonableness and internal consistency. We are satisfied it is reasonable to rely on. The results of our analysis depend on the integrity of this information. If any of this information is incomplete or inaccurate, our analysis may be different and our calculations and/or conclusions may need to be revised.

The consultants who worked on this project are actuaries. Their advice should not be construed as legal advice. We have presented our conclusions and summarize our findings based upon our current understanding of applicable law and regulations pertaining to defined benefit pension funding obligations. Legal advice should be sought to confirm that our understandings are correct before any action or inaction is considered.

The undersigned is a Consulting Actuary for Milliman, a member of the American Academy of Actuaries, and meets the Qualification Standards of the Academy to render the actuarial opinions contained herein. To the best of my knowledge and belief, this letter is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices.

Sincerely,

Victor P. Harte, E.A., M.A.A.A
Principal & Consulting Actuary

Exhibit "C"
to
Confidential Term Sheet

RPHE Trustee Letter of Support

[See Attached Letter of Support from Dignity Health]

Dignity Health.

185 Berry Street, Suite 300
San Francisco, CA 94107
direct 415.438.5500
fax 415.438.5724
dignityhealth.org

June 2, 2014

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

Re: Daughters of Charity Health System

Dear Mr. Turnbull:

Dignity Health writes this letter at the request of Blue Wolf Capital Partners, LLC (Blue Wolf).

Blue Wolf has informed Dignity Health that they are evaluating a possible transaction involving the Daughters of Charity Health System (DCHS) and that one of the elements of the transaction would involve the continuation, without benefit modification, of DCHS' single-employer defined benefit pension plan (the Church Plan), through a proposed merger (Merger) of the Church Plan into the Retirement Plan for Hospital Employees (RPHE), a multiemployer defined benefit pension plan of which DCHS is a co-sponsor. Dignity Health also is a co-sponsor of the RPHE.

Blue Wolf also has informed Dignity Health that Blue Wolf is working closely with the SEIU-UHW and that SEIU-UHW is strongly supportive of exploring a Merger in the context of Blue Wolf's effort.

As a co-sponsor of RPHE, Dignity Health is willing to discuss the RPHE, its liabilities and the effects of the Merger with Blue Wolf. Dignity Health will not engage in any discussions with Blue Wolf about a possible transaction involving the DCHS.

Please feel free to contact me if you have any questions on this matter.

Respectfully,

Rick Grossman

Rick Grossman,
Executive Vice President and General Counsel

cc: Lloyd Dean
Michael Blaszyk
Charles Francis
Darryl Robinson
Wade Rose

Exhibit "D"
to
Confidential Term Sheet

Letters of Support from Los Angeles and San Mateo Counties

[See Attached Letters of Support]

BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
866 KENNETH HAHN HALL OF ADMINISTRATION / LOS ANGELES, CALIFORNIA 90012 / (213) 974-2222

MARK RIDLEY-THOMAS
SUPERVISOR, SECOND DISTRICT

June 4, 2014

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

Re: Daughters of Charity Health System

Dear Mr. Turnbull:

This letter is on behalf of Blue Wolf Capital Partners, LLC (Blue Wolf), SEIU-UHW and UNAC/UHCP. Blue Wolf has informed me that they will be submitting an offer to take over the Daughters of Charity Health System (DCHS) with the support of the above mentioned key unions.

DCHS plays a vital role in our communities, providing critically needed health care services. In many cases, these services are provided to individuals who otherwise would have limited access to quality health care. Blue Wolf has advised me that an essential part of their approach would be to maintain the DCHS system that is in place and continue the mission which had been nobly executed.

Blue Wolf's proposal was developed with and has the support of DCHS's workforce. In addition, I have been made aware that Blue Wolf has also met and discussed their plans with the California Nurses Association.

I believe that an offer which preserves the former DCHS healthcare system as a whole and reaffirms its mission may be the only real way to insure the preservation of quality health care for all those currently served.

Please be advised that my staff has met with Blue Wolf to discuss their plans. I am highly supportive of these efforts and eager to work closely with DCHS and Blue Wolf in the period ahead to craft a solution that allows DCHS to become a long-term stable provider of quality health care in our communities.

Please feel free to contact my deputy, Yolanda Vera at (213) 974-2222, if you wish to further discuss this matter.

With hope,

Mark Ridley-Thomas

MARK RIDLEY-THOMAS
Supervisor, Second District

HealthPlan OF SAN MATEO
701 GATEWAY BLVD., SUITE 400
SO. SAN FRANCISCO, CA 94080

healthy is for everyone
www.hpsm.org

June 3, 2014

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

RE: Daughters of Charity Health System

Dear Mr. Turnbull,

I am writing on behalf of the Health Plan of San Mateo, the sole Medicaid managed care plan in San Mateo County. We have nearly 90,000 Medi-Cal members as well as 12,000 dually eligible beneficiaries eligible for both Medi-Cal and Medicare. Seton Medical Center and Seton Coastside have long been critical providers of health care for our membership. As such, we are very concerned that the Daughters of Charity Health System (DCHS) facilities remain mission driven organizations willing and able to serve San Mateo County's Medicaid population.

We are writing today at the request of Blue Wolf Capital Partners, LLC (Blue Wolf), SEIU-UHW and UNAC. Blue Wolf has informed us that they will be submitting an offer to take over the Daughters of Charity Health System (DCHS) with the support of these key unions.

As you know, DCHS plays a vital role in our communities, providing critically needed health care services, in many cases to individuals with otherwise limited access to high quality care. Blue Wolf has told us that an essential part of their approach will be to maintain the DCHS system and continue the mission which the Daughters of Charity has so nobly carried out.

We view labor's support for Blue Wolf's effort as extremely significant, as without the involvement and support of DCHS's workforce, we would be greatly concerned about whether DCHS can be successful and a good partner to our communities.

DCHS's troubled financial circumstances are well known. Many believe that a number of the hospitals in the System are at risk of closure, as real estate developers take advantage of DCHS's financial distress to remove critical public health infrastructure from the safety net. We therefore believe that an offer which preserves the System as a whole, with labor's support and a reaffirmation of DCHS's mission, is the only real way to insure the preservation of high quality health care for all those currently served.

Be advised that we have met with Blue Wolf, discussed their plans and are highly supportive of their effort. We are eager to work closely with DCHS and Blue Wolf in the period ahead to craft a solution that allows DCHS to become a long-term stable provider of high quality health care in our communities.

Please feel free to contact me at (650) 616-2145 if you wish to further discuss this matter.

Yours truly,

Maya Altman

Maya Altman
Chief Executive Officer