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May 5, 2010

David G. Spackman
Division of Public Charities
Office of the Attorney General
One Ashburton Place
Boston, MA 02108

Dear Mr. Spackman:

This firm represents Caritas Christi, and its affiliated entities (collectively, "Caritas"), in connection with the proposed transfer of substantially all of the assets of Caritas to Steward Health Care System LLC ("Steward"), an affiliate of Cerberus Capital Management, L.P. ("Cerberus"). This letter is our notice pursuant to the provisions of Section 8A(d) of Chapter 180 of the Massachusetts General Laws ("Section 8A(d)").[1]

For the reasons set forth below, the proposed transaction (the "Transaction"), which is the culmination of Caritas' intensive, multi-year review and evaluation process, is in the public interest and consistent with the laws governing Massachusetts charities as required by Section 8A(d).

I. Introduction

The Transaction, which is summarized in more detail in Exhibit A, will enable Caritas to fulfill obligations incurred in the past, meet its ongoing commitments to the communities it serves, and carry forward its vision of providing lower-cost, high-quality, community-based health care.

The Transaction will provide for the continuation of Caritas' historical practice of funding nearly $60 million per year in community benefits, charity care, mission-related activities, and other community-based services and programs. It will also provide the means to fully fund massively underfunded pension plans and thereby protect the interests of approximately 13,000 Caritas pensioners—a population who, with an average age of nearly 60, would be devastated by any potential default of the existing, uninsured plans.

In addition, the Transaction will result in the repayment of nearly all of Caritas' outstanding debt—a debt that, between principal and interest, consumes over $40 million of Caritas' annual cash flow. This repayment will result in a virtually debt-free system. This will not only free up

[1] While Section 8A(d), by its terms, applies only to the six acute care hospitals within the Caritas system, this notice describes the proposed transaction in its entirety.

additional resources that can be used to enhance Caritas' ability to provide state-of-the-art community-based health care but will also enhance job security and the workplace environment for a workforce of over 12,000 employees.

The Transaction will also give the Caritas system the ability to fund capital projects and make other key expenditures to grow and improve the system. In all, over $400 million will be spent or committed to be spent within four years of closing the Transaction on projects that will enhance the system's ability to achieve the Caritas mission of providing lower-cost, high-quality, community-based health care (the "$400 Million Commitment"). As more specifically described in Exhibit B, included as part of the $400 Million Commitment is an immediate investment of over $110 million in facility improvements that will allow the Caritas system to provide state-of-the-art facilities to some of the poorest communities in Massachusetts. These facility improvement projects, which are being coordinated with the Building Trades Union and the Area Trades Council, have the additional benefit of bringing an estimated 3,000 to 4,000 new jobs to the Massachusetts economy.

The $400 Million Commitment will also fund the infrastructure investment needed for Steward to implement Caritas' plan to create a regional Accountable Care Organization ("ACO"). This regional ACO will be able to meet the challenges of continued quality improvement while embracing payment reform. In particular, the $400 Million Commitment will enable the Caritas system to invest in information technology, care management, disease management, and systems integration, all of which are needed to transform the delivery of health care (i.e., to create an ACO). As a result of "medical loss ratio" requirements under the recently-enacted federal health care reform law (which limit insurers' overhead charges), the responsibility for providing these services will be shifted to health care provider systems, not health insurers. In addition to these infrastructure investments, the $400 Million Commitment will be used to fund additional facility improvements and the growth of the ACO. This growth is necessary to achieve economies of scale and other efficiencies required for effective cost control.

II. Events Leading Up To the Transaction.

A. Events Prior to 2008 Governance Reforms.

Caritas has struggled financially since its formation as a hospital system in 1985. These struggles have caused Caritas to be significantly, and increasingly, capital constrained. By fiscal year 2006, Caritas faced a significant shortfall in funding its pension plans and in updating facilities that were significantly older than those of its competitors. Based upon industry norms, Caritas faced a $360 million to $550 million capital shortfall in facilities alone. In addition, it was going through a painful and public change in senior leadership that shook the confidence of medical staff, employees and patients.

In the face of these challenges, in 2006 the Roman Catholic Archdiocese of Boston ("RCAB"), on behalf of Caritas (which at the time was wholly controlled by RCAB), engaged Navigant Consulting ("Navigant") to review Caritas' strategic options. In its report (a copy of which is

attached as Exhibit C), Navigant outlined four strategic options for Caritas: (1) remaining independent, but with restructured governance in which the Caritas Board of Governors is "fully empowered" to run the system; (2) affiliating with a national Catholic system; (3) affiliating with a local, non-profit health care system; and (4) sale to a for-profit system. The report concluded that Option 2 (affiliating with a national Catholic system) was the best option, followed very closely by Option 4 (sale to a for-profit system). The other two options were far less desirable in Navigant's opinion, because, for reasons discussed below, neither would be likely to meet Caritas' growing capital needs, which at that time, prior to the market collapse, were serious but less pressing than they would later become.

In response to the conclusions in the Navigant report, RCAB, on behalf of Caritas, pursued an affiliation with a national Catholic system. Requests for Proposals ("RFPs") were sent out and, in December 2006, initial responses to the RFPs were received from Catholic Health East ("CHE"), Ascension Health ("Ascension"), and Catholic Health Initiatives ("CHI").

RCAB and Caritas focused primarily on Ascension and CHI. On January 23, 2007, RCAB made a decision to pursue an affiliation with Ascension. After being selected, Ascension conducted intensive due diligence. In parallel with the due diligence, the parties exchanged drafts of a Change of Sponsorship Agreement in an effort to reach agreement upon the terms of a transaction under which Caritas would join Ascension. By the summer of 2007, negotiations with Ascension had stalled, primarily because Ascension was concerned about Caritas' continuing financial deterioration. In these negotiations, Ascension, similar to other non-profit systems, was clear that capital for Caritas would come in the form of better access to the debt markets on the basis of Ascension's strong credit rating, but that Ascension would not make a direct capital infusion into Caritas. Ascension could only make such a capital infusion by drawing substantial capital resources away from its existing health ministries, which is inconsistent with its operating model.

In response to a request from the Attorney General, on September 17, 2007 RCAB sent a letter to Ascension asking Ascension to resume negotiations. In October 2007, Ascension respectfully declined to pursue a potential affiliation transaction with Caritas. Ultimately, the parties agreed that Caritas' joining Ascension was not in their mutual best interest. This conclusion was based, in large part, on the determination that Ascension could not provide the immediate access to capital that Caritas needed to meet its significant capital needs (i.e., under-funded pension plans and aging facilities) within the framework of its operating model.

In November 2007, CHI, after preliminary due diligence, also declined to pursue an affiliation with Caritas. Its reasons were similar to those of Ascension.

Caritas, Ascension and Vanguard Health Systems ("Vanguard") subsequently discussed the possibility of a joint Vanguard/Ascension acquisition of Caritas. These discussions did not lead to a mutually-acceptable deal, but did lead to the Vanguard discussions summarized below. Ascension also offered Caritas a credit facility, which Caritas was unable to avail itself of due to deteriorating market conditions. Caritas is grateful for the time and attention that Ascension's

senior management and board devoted to trying to structure an arrangement that could meet Caritas' pressing capital needs.

Despite their diligent and good faith efforts, RCAB and Caritas were unable to complete a transaction under which Caritas would join a national Catholic system. In the immediate aftermath of these efforts, the Attorney General engaged Health Strategies & Solutions, Inc. ("HSS") to review Caritas' financial condition. HSS issued a report on March 6, 2008 (a copy of which is attached as Exhibit D). Among other findings, the report concluded that Caritas had, as a result of its "negligible operating margin," been forced to "delay or forego capital and reinvestment initiatives." That is, capital constraints remained a major challenge to Caritas surviving, much less thriving, as an independent system. Moreover, the capital deficit was accumulating each year, as necessary capital expenditures were delayed or foregone.

After consulting with its regulatory and political advisors, Caritas concluded that it did not have a viable non-Catholic, non-profit alternative. There are few multi-state non-profit systems and none likely to have an interest in the competitive eastern Massachusetts market. The only local non-profit system that might have the capital resources to meet Caritas' needs is Partners HealthCare System, which is the largest system in the Commonwealth. Caritas is the second largest system in the Commonwealth, and Caritas was advised that a combination of the two largest systems, both concentrated in eastern Massachusetts, would likely raise insurmountable antitrust issues.

Without a viable non-profit alternative to consider, the HSS report focused on the changes that Caritas would need to make to improve its chances of survival as a stand-alone system. HSS concluded that the governance of Caritas should be fundamentally restructured so that the Caritas Board of Governors would be vested with significant independence and authority. According to the report, such restructuring was necessary if the Caritas Board of Governors was to attract and retain strong board members and high-quality executive leadership – both of which were crucial for its future.

B. Caritas Governance Reforms.

Subsequent to the HSS report, and pursuant to the terms of a Governance Agreement entered into between RCAB and the Attorney General of the Commonwealth (a copy of which is attached as Exhibit E), Caritas and RCAB implemented governance reforms designed to create a substantially independent Board of Governors that could attract strong board members who could, in turn, recruit and retain high-quality executive leadership. Those governance reforms are reflected in the Eighth Amended and Restated Bylaws of Caritas Christi, which were adopted on May 22, 2008 (a copy of which are included in Exhibit E).

At the same time, Caritas recruited Ralph de la Torre, M.D. as the new Chief Executive Officer of Caritas. During this time a new Caritas Board of Governors Executive Committee (the "Executive Committee") was put in place by James Karam, Chairman of the Board of Governors. The Executive Committee and Dr. de la Torre established clear priorities for Caritas.

First, Caritas' needed to put in place its new management team, which was accomplished by the fourth quarter of fiscal year 2008. Caritas' second priority was to restructure its operations. At that time, Caritas was projecting a $50 million total loss, and a $20 million operating loss, for fiscal year 2008 and a declining cash position that threatened Caritas with insolvency. The third priority was to address Caritas' growing capital shortfall by finding a capital partner.

C. Consideration of a Sale to a For-Profit Entity

With the new governance reforms in place, Dr. de la Torre and the newly-empowered Board of Governors began to examine the capital problem. In particular, they began to consider the other desirable option originally outlined in the 2006 Navigant report – sale to a for-profit hospital system.

In August 2008, Caritas had informal discussions with Vanguard, the only for-profit hospital company in Massachusetts of any significant size, and, as noted above, with Ascension and Vanguard. Caritas also had conversations with Essent Healthcare, the only other for-profit hospital system in the Commonwealth. While those discussions were informative and helpful, they were tabled for a short time to enable the management team to focus on re-engineering Caritas' operations. During the first quarter of 2009, the Caritas management team led a complete operational re-engineering designed to add $45 million to the bottom line. This consisted of not only a complete system re-organization, but also the development of rapid benchmarking and metric-driven feedback to ensure ongoing operational improvements.

In October 2008, in the midst of the sharp economic downturn and market collapse, Dr. de la Torre and the management team described to the Board of Governors Caritas' critical and worsening capital and pension under-funding problems. The pension plans' underfunding, in particular, was worse than had been previously understood. This, coupled with two more years of deteriorating facilities and eroding cash reserves (due to worsening operating margins and investment losses), put the system in an even more precarious financial position. On October 23, 2008, these issues were discussed at length at an all-day Board of Governors meeting. At that meeting, Cain Brothers, an investment bank specializing in health care, was asked to evaluate Caritas' ability to access needed capital through traditional non-profit borrowing. Cain Brothers reported that this option was not viable because of Caritas' substantial capital needs and weakened financial condition. Based upon Navigant's report and Cain Brothers' analysis, the Board of Governors decided to pursue talks with Vanguard, an established operator of hospitals in the Commonwealth. Prior to pursuing such discussions, the Board of Governors asked Navigant to examine Caritas' pension and capital issues again. With no viable non-profit options, the Caritas Board of Governors wanted to confirm, or modify if possible, the previous opinions from Navigant, HSS, Cain Brothers, and the management team that continuing as a stand-alone system was not a reasonable option for Caritas. In the meantime, Caritas was forced to operate under a complete capital freeze, which also meant that there would be no additional funding of the pension plans. In particular, Navigant was asked to evaluate Caritas' ability to survive without a capital partner. By this time, Caritas' operational turn-around plan was also

underway, which allowed Caritas to turn its primary strategic focus to its growing capital problem.

In a report dated February 9, 2009 (a copy of which is attached as Exhibit F), Navigant concluded that there was no reasonable way for Caritas, as an independent system, to meet its pension and debt obligations and survive. The most aggressive, and generally unrealistic, scenario analyzed by Navigant (i.e., a sustained operating margin of 4%, no investment of capital, and no investment in physicians) still led to a breach, in less than two and a half years, of its loan document covenant to maintain at least $130,000,000 in cash on hand. Under other scenarios, Navigant projected that Caritas could breach this covenant in as little as five months. For a system the size of Caritas, in addition to the adverse consequences of breaching its loan covenants, having only $130,000,000 in cash on hand, approximately 35 days worth, represented a threat to its survival. Due to its operational turn-around plan, Caritas' financial conditions has since significantly improved, but Caritas still has no realistic prospect of generating margins sufficient to fully fund its pension plans and capital shortfall. To provide perspective, Caritas' 2009 operations, which yielded the highest quality of earnings in system history, would have fallen between Navigant's scenario 1 and scenario 2 (i.e., less than 30 days of cash on hand within one year). Moreover, without the capital investment necessary to meet its financial and infrastructure needs, Caritas' turn-around is probably not sustainable. Based on this information, on September 8, 2009, the Caritas Board of Governors and RCAB approved entering into negotiations with Vanguard. After several months of discussion, on November 4, 2009 Caritas and Vanguard signed a Letter of Intent (the "LOI"). However, after several weeks of negotiations between Vanguard and Caritas, the parties were unable to reach agreement on material terms.

Unable to resolve outstanding issues with Vanguard, in December 2009 the Executive Committee voted to terminate the LOI (by mutual agreement with Vanguard) and to explore other opportunities. The Committee authorized the engagement of Cain Brothers to facilitate such exploration. However, Caritas and Vanguard, in an amicable parting, agreed to consider resuming negotiations if Caritas did not pursue other opportunities.

Cain Brothers, management, and members of the Board of Governors, at this point, further refined their vision for what would constitute an ideal structure. Based on these discussions, Cain Brothers and management recommended directly approaching private equity firms with a vision and business plan that would not only make the case for needed capital but would also allow "Caritas to be Caritas." In particular, the Board of Governors authorized Cain Brothers to seek private equity firms with an interest in hospital systems, the funds required to make and stand by a significant, long-term investment in a system, and the willingness to embrace Caritas' vision and mission (i.e., would not be looking to incorporate Caritas into an existing hospital operating company with its own culture and business philosophy). Cain Brothers identified five private equity firms meeting these criteria. Three firms expressed interest. Each began initial due diligence in January 2010. After the initial due diligence, the Caritas Executive Committee voted to negotiate with Cerberus on an exclusive basis. Cerberus was chosen because of its commitment to the Caritas vision and mission, its diligent approach to the evaluation process,

and its willingness to commit to ambitious deadlines for the Transaction. Caritas also determined that it was not in a position to engage in accelerated due diligence with more than one party without adversely affecting management's focus on continuing to improve Caritas' operations. In February 2010, Cerberus offered, and Caritas signed, a letter of intent addressing all key issues identified by the Caritas Board of Governors. As noted above, the Transaction resulting from Caritas' negotiations with Cerberus is described in Exhibit A.

III. Steward Board and Management Team

Cerberus' role will be as a shareholder of Steward. As such, Cerberus will not be responsible for day-to-day management or operations of Steward. Instead, Cerberus' responsibility as a shareholder will be to appoint a committed, well-qualified board of directors to provide appropriate oversight of Steward and its management team. Set forth on Exhibit G is a list of seven of the individuals who will be appointed to serve on the Board of Directors of Steward at the time of the closing of the Transaction, along with a brief description of their respective qualifications and relevant experience. (Steward anticipates appointing two additional board members.) In order to maintain a "local voice" and provide a level of continuity in governance, only days before this filing, Steward asked two of Caritas' current board members to serve on the Steward board. Each individual agreed to serve on the Steward board. Furthermore, Steward intends to preserve the composition and responsibilities of the local hospital boards. Cerberus made its decision to invest in the Caritas system based, in part, on its confidence in the abilities of the existing Caritas management team. The team's experience, and success, in providing community-based health care and meeting the challenges posed by a rapidly changing health care system despite severe resource constraints is well documented. Therefore, the current management team responsible for operating the Caritas hospitals will not change as a result of the Transaction. Through its investment in Steward, Cerberus is not merely purchasing the assets of Caritas; it is embracing Caritas' policies, vision, and value system. Consistent with these considerations, Steward will be a Massachusetts health care system with its headquarters in the greater Boston area.

IV. Fair Market Value Compensation

Under Section 8A(d), Steward must pay "fair value" for the assets and operations of Caritas. To confirm its compliance with this standard, the Caritas Board of Governors sought a fairness opinion from Navigant Capital Advisors. The opinion concluded that the purchase consideration in under the Transaction "is fair from a financial point of view." (The Navigant Capital Advisors fairness opinion is attached as Exhibit H.)

V. No Conflicts of Interest

No officer, Governor, employee, or other individual associated with Caritas, or any family member of such an individual, will receive any financial benefit for completing the Transaction. While the Caritas management team will be employed by, and be the management team of, Steward, no member of the Caritas management team will be compensated, in any way, based on

having caused the Transaction to occur, or otherwise rewarded for any pre-closing activity in furtherance of the Transaction. Furthermore, no member of the Caritas management team will receive an increase in his or her salary as a result of the Transaction. Moreover, any incentive compensation (e.g., equity options) granted to members of the management team by Steward will be designed so as to reward individuals based on gains and improvements occurring after the Transaction. Because of Cerberus' desire to invest in an operating company, a condition to Cerberus' obligation to close the Transaction is that Steward shall have entered into post-Transaction employment contracts with Caritas' current Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. However, negotiations with respect to these employment contracts have not yet begun. Similarly, with respect to the two current members of the Caritas Board of Governors who have agreed to serve on the Steward board after the closing, any compensation for such board service will be in accordance with Steward's policies and procedures with respect to the compensation of board members generally. To date, there has been no conversations regarding compensation for board service with such Governors. As is the case with the Caritas management team, none of the Caritas Governors will receive any sort of compensation for having caused the Transaction to occur, or for any other pre-Transaction activity. The members of the Caritas Board of Governors, other than Dr. de la Torre, serve without compensation.

VI. Preservation of Catholic Identity

Steward has entered into a Stewardship Agreement with RCAB. The Stewardship Agreement requires that the six Caritas hospitals continue to be operated in accordance with Catholic teachings. To help achieve this result, RCAB will provide continuing oversight and guidance to the hospitals with respect to Catholic teachings.

In particular, the Stewardship Agreement requires that the hospitals be operated in accordance with the Ethical and Religious Directives for Catholic Health Care Services (the "Directives"). (A copy of the current Directives is available at http://www.usccb.org/bishops/directives.shtml) The Directives are promulgated by the National Conference of Catholic Bishops. Their stated purpose is to "to reaffirm the ethical standards of behavior in health care that flow from the Church's teaching about the dignity of the human person and to provide authoritative guidance on certain moral issues that face Catholic health care today." (See Preamble to Directives.) The majority of the Directives contain affirmative obligations regarding the social and pastoral responsibilities of a Catholic hospital. For example, a Catholic hospital is required, under the Directives, to "distinguish itself by service to and advocacy for those people whose social condition puts them at the margins of our society and makes them particularly vulnerable to discrimination," including the poor, the uninsured and the underinsured. (See Directives, Number 3.) The Directives also require a Catholic health care facility to "treat its employees respectfully and justly. This responsibility includes: equal employment opportunities for anyone qualified for the task, irrespective of a person's race, sex, age, national origin, or disability; a workplace that promotes employee participation; a work environment that ensures employee safety and well-being; just compensation and benefits; and recognition of the rights of employees to organize and bargain collectively without prejudice to the common good." (See Directives,

Number 7.) While these aspects of the Directives are less often the subject of public attention, they are obligations of equal importance to those that are more frequently commented upon, and, under the Stewardship Agreement, Steward will have an obligation to ensure that the hospitals comply with them.

The interpretation of the Directives, as they apply to Steward under the Stewardship Agreement, will be made by RCAB in its sole discretion. RCAB's interpretation of the Directives will not be subject to review or approval in the courts or by any other civil law authority. Steward is permitted to terminate the Stewardship Agreement if compliance with the Directives would be unlawful or materially burdensome to Steward or any of the hospitals. Steward could therefore terminate the agreement if it felt that compliance with the Directives would jeopardize the welfare of the patients and employees of the hospitals, or the communities in which they operate. Whether compliance with the Directives would be materially burdensome to Steward or any of the hospitals is determined in the sole discretion of Steward. If Steward terminates the Stewardship Agreement because compliance with the Directives would be materially burdensome, Steward would have an obligation to pay $25 million to a Massachusetts public charity designated by RCAB that is subject to the jurisdiction of the Massachusetts Attorney General. In addition, RCAB has the right to terminate the Stewardship Agreement if, in its sole discretion, one or more of the hospitals is being operated in a manner inconsistent with the Directives. Upon such a termination, unless such termination relates to non-compliance with the Directives based on legal requirements to which Steward is subject, Steward would be obligated to pay $25 million to a Massachusetts public charity designated by RCAB that is subject to the jurisdiction of the Massachusetts Attorney General.

In addition to the obligation to comply with the Directives, the Stewardship Agreement requires the Caritas hospitals to continue to provide community benefit programs and services designed to improve access to health care in their respective communities and to improve the health status of the elderly, poor, immigrant, and other at-risk populations in such communities. Such programs and services must include the provision of free care, mission and pastoral care services, and community benefit programs consistent with those in place prior to the Transaction.

VII. Public Interest

For the reasons set forth below, the Transaction is in the public interest, in accordance with the standards set forth in Section 8A(d).

A. A High-Quality, Lower-Cost, Community-Based Provider

As discussed above, a primary public interest served by the Transaction is that it will provide the resources necessary to transform a crucially important, but financially challenged, system into a financially-sustainable, lower-cost, high-quality, community-based provider of hospital and other health care services in the Commonwealth. This will be of enormous benefit to the Commonwealth, the more than 12,000 Caritas employees, and the more than three million people who reside in the communities Caritas serves.

As set forth in the February 9, 2009 Navigant report (which is attached as Exhibit F), without the investment in the Caritas system that results from this Transaction, it is unlikely that Caritas would survive as a system. The future of Carney Hospital is perhaps the best, but not only, example of this reality. In its 2006 report (a copy of which is attached as Exhibit C), Navigant concluded that Caritas should "cease acute operations [at Carney] and transition to an alternative use or consider divestiture." The 2008 HSS report reached a similar conclusion. Despite this discouraging prognosis, offered by two independent, qualified firms, the Transaction guarantees that Carney, along with each of the Caritas hospitals, will continue to operate as a general acute care hospital for at least three years. Moreover, it is Steward's intent to expand operations at all six hospitals. This is exemplified by the $400 Million Commitment, which includes the large, immediate capital investments being made in each hospital. As can be seen in the recently-enacted federal health reform legislation, the previously-enacted Massachusetts reform legislation, and the efforts of local health insurers to develop innovative provider contracts, the best hope for controlling health care costs (while improving the quality of care) is the development of ACOs and other integrated delivery systems that can coordinate health care services across the entire continuum of care. Such coordination holds the strong promise of reducing costs (by eliminating duplicative and/or unnecessary services) and improving outcomes (by providing a platform for clinicians to work as a team, as opposed to a collection of disjointed, independent professionals). Although Caritas has begun efforts to improve its coordination of care (and ultimately reduce the rate of growth in health care costs) through the implementation of a variety of initiatives, it has been constrained in its ability to achieve this goal by the difficulty it has faced in accessing capital. As a result of this Transaction, Caritas will be able to fully implement its key initiatives which include: (i) electronic medical record systems for its 1,200 physicians; (ii) advanced clinical and physician order entry systems at all Caritas hospitals; (iii) a community-based regional health information organization; (iv) a fully-integrated patient portal; (v) enhancement of its case and care management programs; and (vi) disease prevention programs. These initiatives, which are estimated to cost nearly $100 million, will greatly benefit that Caritas system's patients as well as improve Caritas' ability to partner with insurers to slow the growth in health care costs. In addition, the investments specifically in electronic medical records and physician order entry systems will allow the Caritas hospitals and affiliated physicians to avoid potential penalties under the American Recovery and Reinvestment Act of 2009 related to failure to achieve "meaningful use" of such systems.

As an integrated, financially-sound, system, Caritas will also be better positioned to expand cost control initiatives in community-based settings. Steward will carefully consider opportunities for growth in the local market. If such growth will allow the system to achieve economies of scale and other efficiencies in furtherance of its goal of providing lower-cost, high quality community-based health care services, Steward may add to its system. Moreover, the Caritas system may be the only option for some critical community-based hospitals to survive. The survival of these hospitals will maintain competition in certain markets within the Commonwealth and continue to make available high-quality, lower-cost care directly in local communities.

Caritas' commitment to remaining a lower-cost, high-quality, community-based provider is at the heart of Steward's strategic plan. Massachusetts is blessed with sophisticated academic

medical centers that provide the best research, teaching, and high-end specialty care available. The Caritas systems does not want, and is not able, to directly compete with such institutions. Rather, it is the system's goal to provide high-quality, lower-cost care in a community setting, as a complement to the highly-specialized care offered by Boston's academic medical centers. The system's ability to do this is based in part on a cost structure that is, and will remain, much lower than those of Boston's great teaching hospitals, which must fund teaching and research as well as patient care. (Attached as Exhibit I is the Attorney General's Preliminary Report: "Investigation of Health Care Cost Trends and Cost Drivers Pursuant to G.L. c. 118G, § 6½(b)" dated January 29, 2010.)

B. Creation of New Jobs

In addition to the benefits described above, the Transaction will directly generate significant, immediate economic activity in the Commonwealth. The immediate investments required by the Transaction will create new jobs, many of them in areas with the highest unemployment in the Commonwealth. (It is worth noting that unemployment has a direct, adverse effect on public health and that the Transaction, by creating new jobs and preserving existing jobs, can be expected to contribute to improved public health in communities that have been hard hit by the recession.) As noted above, in the near term, the Transaction is projected to create an estimated 3,000 to 4,000 new jobs in the Massachusetts economy, the majority of which will be created in communities that have a disproportionate share of the Commonwealth's economically-disadvantaged residents. All Caritas construction jobs will be coordinated through labor unions, with preference given to local subcontractors.

C. Preservation of Existing Jobs

In addition to creating new jobs, the Transaction provides economic stability for one of the largest employers in the Commonwealth. As a result, over 12,000 employees who were considered to be at high risk only 18 months ago will now be part of a financially stable health care system.

D. Protection of Pension Beneficiaries

Caritas' pension plans, structured as non-electing (i.e., not subject to federal regulation) Church plans, have been frozen (i.e., no further contributions from any beneficiaries) for some time. The largest plan is a multi-employer plan managed by the Archdiocese Pension Benefit Trust. As noted above, in the aggregate these plans cover nearly 13,000 beneficiaries with an average age of almost 60. Because these are non-electing Church plans, they are not insured by the federal government. The underfunding of these frozen, mature plans is currently estimated to be as much as $225 million, an amount well beyond Caritas' present or likely future ability to fund. However, the Transaction will provide the means to fully fund the pension plans' deficit and, ultimately, further protect the interests of Caritas' 13,000 beneficiaries by qualifying their plans for federal insurance, so the beneficiaries do not have to fear for their future. Without the

Transaction, the overwhelming majority of beneficiaries would be at risk of losing their pension benefits. This would be devastating for these beneficiaries and their families.

E. New Tax Revenues/Preservation of Community Benefits

Steward will be subject to federal, state, and local taxes. As a result, the Transaction will generate significant new tax revenue for the Commonwealth and its local jurisdictions. Total state and local tax payments made by Steward could be as much as $100 million over the next four to five years. The new tax revenues resulting from the Transaction will be in addition to the current and ongoing commitments to provide community benefits and charity care described above. Therefore, the Transaction will provide much needed revenue to some of Massachusetts' most financially-challenged communities while continuing Caritas' commitment to charity care, mission, and community benefits.

* * *

For the reasons set forth above, the Transaction is in the public interest, consistent with the laws governing Massachusetts charities, and otherwise complies with the requirements set forth in Section 8A(d). Moreover, it presents an unprecedented opportunity to improve the quality and control the cost of health care services for the benefit of Caritas' patients, physicians and employees, as well as the Commonwealth as a whole.

Please let us know if you have any questions or require any additional information.

Sincerely,

Christopher M. Jedrey

CMJ/jad