

For Discussion with the DCHS System Board

Draft materials for the informational LHM Board  
meetings scheduled for early August 2014

# Daughters of Charity Health System

## LHM Board Presentation – M&A Transaction Process

MERGERS & ACQUISITIONS  
CAPITAL MARKETS  
FINANCIAL RESTRUCTURING  
FINANCIAL ADVISORY SERVICES

HL.com

July 25, 2014

*DRAFT*  
*Confidential*

- Situation Overview
- Sale Process
  - Initial Marketing
  - Round 1 Bids
  - Due Diligence
  - Round 2 Bids
  - Current Bidder Status
- Sale Transaction
  - Bid Evaluation
  - Next Steps

**Situation Overview**

- Diminishing liquidity has made it necessary for the Daughters of Charity Health System (“DCHS” or the “System”) to execute a comprehensive transaction solution as soon as possible
- The trajectory of the System’s cash flow is unsustainable

## Historical and Projected Financial Performance (\$ millions)

	FY Ended June 30, 2011A	FY Ended June 30, 2012A	FY Ended June 30, 2013A	FY Ended June 30, 2014E	FY Ended June 30, 2015P
Net Patient Revenue	\$ 1,054	\$ 988	\$ 1,002	\$ 985	\$ 1,009
Supplemental Funding (a)	195	191	229	137	245
Other Revenue (b)	76	95	112	146	115
<b>Total Revenue</b>	<b>1,324</b>	<b>1,274</b>	<b>1,343</b>	<b>1,269</b>	<b>1,369</b>
Operating Expenses (excl. D&A and Interest)	(1,205)	(1,168)	(1,245)	(1,310)	(1,362)
Provider Tax and CHFT Payments	(87)	(84)	(103)	(36)	(110)
<b>Total Expenses</b>	<b>(1,292)</b>	<b>(1,252)</b>	<b>(1,347)</b>	<b>(1,346)</b>	<b>(1,472)</b>
Investment Income	40	2	16	17	11
<b>EBIDA</b>	<b>73</b>	<b>23</b>	<b>11</b>	<b>(60)</b>	<b>(92)</b>
<b>EBIDA Margin</b>	<b>6.9%</b>	<b>2.4%</b>	<b>1.1%</b>	<b>-6.1%</b>	<b>-9.1%</b>
Pension Plan Incremental Contributions (c)	9	9	(1)	(4)	(10)
Capital Expenditures, Net	(36)	(49)	(55)	(34)	(33)
Change in Assets and Liabilities / Other	8	(1)	79	113	19
Debt Service (d)	(36)	(36)	(39)	(36)	(21)
<b>Net Cash Flow</b>	<b>\$ 16</b>	<b>\$ (53)</b>	<b>\$ (4)</b>	<b>\$ (22)</b>	<b>\$ (137)</b>

Notes:

- Based on model used to develop cash flow projections as of June 16, 2014
- FY2014E contains actual results for the nine-months ended March 31, 2014
- (a) Includes provider fee, SB855, SB1255, SB1732 and certain other prior years reimbursement receipts from Medicare and Medi-Cal
- (b) Excludes \$130 million contribution from the Daughters of Charity Foundation that retired the Series 2008A Bonds in October 2013
- (c) FY2011-13, presented as pension benefit expense less Church Plan and Postretirement Healthcare Plan contributions
- (d) Excludes redemption of Series 2008A Bonds (\$144 million) in October 2013

- The System has significant long-term obligations

## Summary of Outstanding Obligations (\$ millions)

Obligation	As of July 1, 2014	Approx. Annual Cash Funding
Series 2005A Tax-Exempt Bonds	\$ 256	\$ 13
Series 2005G Tax-Exempt Bonds	17	1
Series 2005H Tax-Exempt Bonds	12	1
Total Series 2005 Bonds	284	
Debt Service Reserve Funds (a)	(27)	
Total Net Series 2005 Bonds	258	
Series 2014 Tax-Exempt Bonds (b)	0	
Other Long-Term Debt	6	
Total Long-Term Debt	264	
<u>Unfunded Retirement Plan Liabilities</u>		
Church Plan (c)	229	12
RPHE (d)	49	14
Postretirement Healthcare Plan (c)	5	
Total Unfunded Retirement Plan Liabilities	283	
Total Long-Term Obligations	\$ 546	

Notes:

- Balance represents debt service reserve funds of approximately \$27 million and excludes principal account funds
- Facility size of up to \$125 million; interest rate of 6.0% (tax-exempt and paid monthly)
- GAAP balance sheet liability per audited FY2013 report; represents the difference between the present value of future retirement obligations and the market value of contributed retirement assets
- \$49 million represents DCHS' share of actuarial unfunded pension liability as of December 31, 2012. The actuarially determined withdrawal liability estimate for the RPHE as of December 31, 2013 is approximately \$201 million.

**Sale Process**

- The sale process commenced in early February 2014

Number of Potential Buyers		
	Contacted	Confidentiality Agreements Executed
Catholic	8	2
Not-for-Profit / Government	19	11
For Profit Strategic	34	18
Private Equity / Management Team	21	12
SNF / REIT / MOB / Other	51	29
<b>Total</b>	<b>133</b>	<b>72</b>

Notes:

SNF – Skilled Nursing; REIT – Real Estate Investment Trust; MOB – Medical Office Building

- The following table identifies the 72 parties that executed a confidentiality agreement and received confidential information

## Summary of Parties Executing Confidentiality Agreements

	<u>Number Contacted</u>				
<b>Catholic</b>	8	Dignity Health Providence / Molina			
<b>Not-For-Profit / Government</b>	19	Cedars-Sinai CHOMP El Camino	Good Samaritan Hospital Kaiser Permanente RCB Equities #1	San Mateo County Santa Clara County Scripps Health	Stanford Medicine UCLA Health
<b>For Profit Strategic</b>	34	AHMC Healthcare Alecto Healthcare Services Cardiovascular Care Group Central Valley Specialty Hospital CHA Hollywood Presbyterian	HCA Healthcare Iasis Healthcare JPH Consulting LHP Hospital Group LifePoint Hospitals	MEDPrime LLC Paladin / Avanti Hospitals Prime Healthcare Services Prospect Medical Holdings RollinsNelson	Select HealthCare Solutions Strategic Global Management Universal Health Services
<b>Private Equity / Management Team</b>	21	Aeoro Blue Wolf Capital Partners Bridgewater/Ares/Westridge	Cerberus Capital Management Integrity Healthcare KKR	LEPL Projects, Ltd. Lightstone Group Madison Dearborn	Pinnacle Healthcare Platinum Equity PS Two / Pejman Salimpour
<b>SNF / REIT / MOB / Other</b>	51	American Healthcare Investors American Realty Capital Arba Group Ardmore Medical Group AVIV REIT Beverly Cardiology Group Brius Healthcare Covenant Care	CrossHarbor Capital Partners Dr. Khoury Eduro Healthcare EmpRes Ensign G&L Realty G.H. Palmer Associates Health Care REIT	Kindred Life Generations / Generations Marquis Senior Care Meridian Meridian / JCH Consulting NorthStar Realty Finance Physicians Realty Trust Plum Healthcare	Prestige Care, Inc. Rockpoint Group / Watt Companies Seavest Healthcare Properties SnF Management Ventas

- After execution of Confidentiality Agreements, buyers were provided the Confidential Information Memorandum (the “CIM”), a 294-page document covering the core elements of the Daughters of Charity Health System.
- First round bids were due on March 18, 2014
  - Bids consisted of non-binding indications of interest based on the CIM and conversations with Houlihan Lokey

First Round Bid Summary				
	Full System Bids	Individual LHM / Regional Bids	Medical Office Building Bids	Total
Catholic	0	2	0	2
Not-For-Profit / Government	1	4	0	5
For Profit Strategic	5	5	0	10
Private Equity / Mgmt. Team	5	1	0	6
SNF / REIT / MOB / Other	0	2	4	6
<b>TOTAL</b>	<b>11</b>	<b>14</b>	<b>4</b>	<b>29</b>

Note: Real estate only bids are not included in the summary above

## First Round Bid Summary (\$ millions)

### SYSTEM BUYERS (11)

Type	Aeoro	Alecto	Bridgewater / Ares / Westridge	CHA Hollywood Presbyterian	Integrity Healthcare / LEPL	Lightstone / Warwick Investors	Paladin	Pinnacle	Prime Healthcare	RCB Equities #1	Strategic Global Management
	PE	FP	PE	FP	PE	PE	FP	PE	FP	NFP	FP
<u>Acq. Assets</u>											
LHMs	All	All	All	All	All	All	All	All	All	All	All
MOBs	All	All	All	All	All	All	All	No	All	All	All
DCHS MF	Yes	Yes	No	Possibly	Yes	Yes	Yes	Yes	Yes	Yes	Yes
CBS	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
A/R	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Price	\$325-\$400 + A/R	\$185	\$150	\$388-\$468	\$350-\$400	\$450-\$500	\$546	\$623	\$500-\$630	\$818	\$500
CBAs Assumed	Possibly	Modify	No	TBD	Yes	Possibly	Yes	Modify	Possibly	Yes	Yes
Pension	Possibly	No	No	No	Possibly	Possibly	Yes	No	Possibly	Yes	Up to \$250
Avail. Capital	Low	Low	Med	High	Low	Med	Med	Low	High	Low	Med
Other	- Holdback						- Financing conting.			- Will undertake subseq. restructuring	
Continuing to 2 <sup>nd</sup> Round	Yes	Yes		Yes	Yes		Yes		Yes		Yes

For informational LHM board meetings buyer names will be redacted

## First Round Bid Summary (\$ millions)

### LHM BUYERS (14)

Type	AHMC FP	Dignity Catholic	Providence / Molina Catholic	Cedars-Sinai NFP	Le Summit / JPH Consulting FP	Prospect Medical FP	Good Samaritan (LA) NFP	County of Santa Clara NFP	HCA FP	Plymouth / PS TWO PE	Cardiovascular Care FP	El Camino NFP	Brius FP	Plum FP
<b>Acq. Assets</b>														
LHMs	SFMC, SVMC	SFMC	SFMC	SFMC, SVMC	SFMC, SVMC	SFMC, SVMC	SVMC (ops)	OCH, SLRH	OCH, SLRH	OCH, SLRH	SLRH	DCHS MF	SMCC	SMCC
MOBs	Yes	Yes	TBD	TBD	Yes	Yes	No	Yes	TBD	TBD	TBD	No	No	TBD
DCHS MF	No	No	No	TBD	No	SoCal	No	No	TBD	TBD	No	Yes	No	TBD
CBS	No	No	No	No	No	No	No	Yes	No	TBD	No	No	No	TBD
A/R	No	Yes	Yes	TBD	No	Yes	No	No	TBD	No	No	No	No	TBD
Price	\$220 + A/R	\$200	\$81	TBD	\$100 + A/R	\$270-\$300	\$0	\$150 + A/R	\$200	\$100 + A/R	\$27 + A/R	\$25 + A/R	\$5 + A/R	\$4
CBA's Assumed	Yes	Modify	TBD	TBD	TBD	Yes	No	No	No	TBD	No	No	TBD	TBD
Pension	No	No	TBD	TBD	TBD	No	No	No	No	TBD	No	No	TBD	No
Avail. Capital	Med	High	High	High	Low	High	Low	Med	High	High	Med	Med	High	High
Other							Business Transfer		Exclusivity		Financing contingency Exclusivity			
Continuing to 2 <sup>nd</sup> Round	Yes	Yes	Yes		Yes	Yes		Yes		Yes				

- Each of these parties have been advised that DCHS is currently pursuing a full System transaction

Note: Real Estate only and Medical Office Building bids are not included in the summary above.

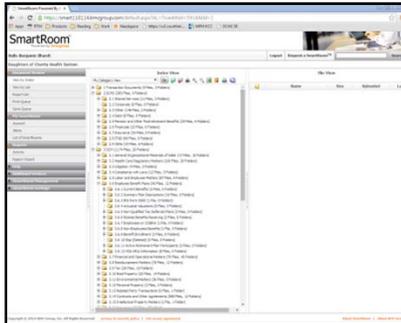
For informational LHM board meetings buyer names will be redacted

- Several real estate-related parties expressed interest in various components of DCHS' Medical Office Building portfolio:

Bidder	Purchase Price (\$mm)	SMC			OCH				SLRH	SFMC	SVMC
		Serramonte	SMOC #1	SMOC #2	OCH	Clarmar	Barclay	Health Center One JV	Morgan Hill	Maywood	Real Estate
Meridian Property Company	\$51.5	✓	✓	✓	✓	✓	✓	✓	✓		
Seavest Healthcare Properties	\$20.9	✓	✓	✓							
Ardmore Medical Group <i>(current tenant)</i>	\$0.8									✓	
Dr. Sam Khoury <i>(current tenant)</i>	\$4.0	✓									
Beverly Cardiology Group	\$85.0										✓

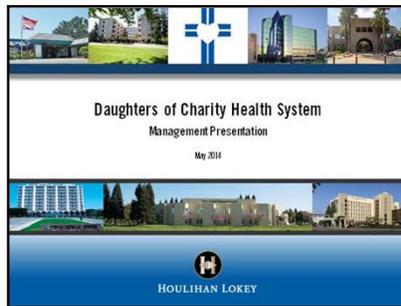
- Each of these parties have been advised that DCHS is currently pursuing a full System transaction

- After receipt of the first round bids, buyers continuing in the process were provided with detailed due diligence information



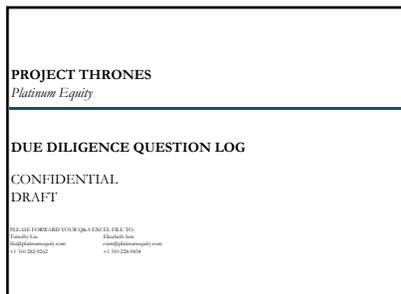
### Data Room

- A confidential and secure internet-based electronic database currently comprised of ~4,700 documents / ~65,000 pages
- Accessible to buyers and their advisors / consultants
- Permits activity tracking by Houlihan Lokey



### Management Presentations / Facility Visits

- Management Presentation was developed and presented by LHM leadership
- Conducted 63 facility visits for buyers, advisors and investment partners to date \*



### Information Requests

- Buyers have asked diligence questions and provided various requests for information not currently available in the data room
- Hundreds of requests / questions have been submitted for new data or clarification on existing data
- Once information is made available, with only a few exceptions for competitive or sensitive reasons, it is posted to the data room and made available to the requesting party and all other potential buyers

\* Excludes MOB-related visits

- Based on the due diligence provided, buyers were asked to submit revised proposals
- Second round bids were due on May 21, 2014
  - Buyers were requested to submit a marked purchase agreement (to the standard form DCHS made available)
    - Some bidders who were relatively new to the process only submitted the equivalent of an indication of interest

Second Round Bid Summary			
	Full System Bids	Individual LHM / Regional Bids	Total
<b>Catholic</b>	0	2	2
<b>Not-For-Profit / Government</b>	0	2	2
<b>For Profit Strategic</b>	4	2	6
<b>Private Equity / Mgmt. Team</b>	4	1	5
<b>TOTAL</b>	8	7	15

Note: Second round bids were not solicited from parties interested only in Medical Office Buildings, Seton Medical Center Coastside or real estate transactions

# Summary of Second Round Bids – System

## Potential System Buyers (\$ millions)

	<i>Acero / Platinum</i>	<i>Blue Wolf</i>	<i>CHA Hollywood</i>	<i>Integrity Healthcare / LEPL</i>	<i>Paladin</i>	<i>Plymouth</i>	<i>Prime</i>	<i>Strategic Global Mgmt.</i>
Type	PE	PE	FP	PE	FP	PE	FP	FP
<b>Acq. Assets</b>								
LHMs	All	All	All	All	All	All	All	All
MOBs	All	[All]	[All]	All	All	All	All	All
Med Foundation	[Yes]	[Yes]	[Yes]	Yes	Yes	[Yes]	Yes	Yes
CBS	Yes	[Yes]	[Yes]	Yes	Yes	[Yes]	Yes	Yes
A/R	Yes	[Yes]	Yes	Yes	Yes	No	Yes	Yes
Cash	No	[Yes]	Yes	No	No	No	Yes	Yes
Est. Distr. Value <sup>(1)</sup>	\$774	\$702	\$802	\$834	\$710	\$795	\$802	\$886
Remit Prov. Fee	No	No	Yes	Yes	No	[Yes]	No	No
CBA's	Assume	Modify	Assume	Assume	Assume	TBD	Modify	Assume
Pension	Assume	Assume	Assume	Assume	Assume	No	Assume	Assume
Bankruptcy	-	-	-	-	-	-	-	-
Other Comments	- Potential price inc. of \$50 in return for indem.	- Requires third party donation of capital	- \$200 val. improvement overnight	- \$18 holdback	- OpCo / PropCo structure - OpCo to be an ESOP	-	-	- \$100 holdback

Note: Reflects subsequent discussions with potential buyers, and may not match terms in original or latest APA / offer package; items in brackets are implied from offer package, but are not specifically / definitively addressed in either the cover letter or APA

(1) Cash consideration, value of assumed liabilities and value of retained assets

For informational LHM board meetings buyer names will be redacted

# Summary of Second Round Bids – LHM

## Potential LHM Buyers (\$ millions)

	AHMC	Dignity	Providence	Alecto	JPH Consulting	Kaiser Permanente	County of Santa Clara
Type	FP	Catholic	Catholic	FP	FP	NFP	NFP
<b>Acq. Assets</b>							
LHMs	SFMC	SFMC	SFMC	SVMC, SMC, SMCC	SVMC	SVMC	OCH, SLRH
MOBs	Yes	[Yes]	Yes	Yes	[Yes]	[Yes]	Yes
Med Foundation	[No]	No	[No]	No	[No]	No	No
CBS	[No]	No	[No]	No	[No]	No	Yes
A/R	No	Yes	No	No	Yes	No	No
Cash	No	No	No	No	No	No	No
Est. Distr. Value <sup>(1)</sup>	\$286	\$238	\$215	\$178	\$55	\$87	\$205
Remit Prov. Fee	28% for 3 yrs	[Yes]	Yes	No	Yes	[Yes]	Yes
CBAs	Yes	Modify	No	Modify	Yes	TBD	No
Pension	No	No	No	No	No	No	No
Bankruptcy	-	Yes	Yes	-	-	-	Yes
Other Comments	- TBD holdback	- \$15 holdback -\$5 break-up fee	-	- Req. \$15 / yr Meas. A pmts.	-	-	-

Note: Reflects subsequent discussions with potential buyers, and may not match terms in original or latest APA / offer package; items in brackets are implied from offer package, but are not specifically / definitively addressed in either cover letter or APA

(1) Cash consideration, value of assumed liabilities and value of retained assets

For informational LHM board meetings buyer names will be redacted

# Illustrative Recovery Analysis

Sources & Uses (\$ millions)		Example System Bids		Illustrative Aggregate LHM Bid				
		Example A All LHMs	Example B All LHMs	Retained	Buyer A SVMC, SMC/CC	Buyer B SFMC	Buyer C OCH, SLRH	Total
<b>Cash</b>	Base Cash Consideration <sup>(1)</sup>	\$ 275	\$ 542		\$ 130	\$ 135	\$ 150	\$ 415
	Less: Employee Liability Deduction	-	-		(21)	(17)	-	(38)
	Less: Holdback / Indemnity Escrow	-	(100)		-	-	TBD	TBD
	Total Cash Consideration	275	442		109	118	150	377
<b>Assumed Liabilities</b>	Senior Bridge Loan <sup>(2)</sup>	-	-		-	-	-	-
	Series 2005 Bonds, net <sup>(3)</sup>	-	-		-	-	-	-
	Mortgages / Capital Leases	5	5		-	-	-	-
	Pension - RPHE	49	49		-	-	-	-
	Pension - Church	229	229		-	-	-	-
	Other Current Liabilities <sup>(4)</sup>	161	102		21	17	-	38
Total Assumed Liabilities	444	385		21	17	-	38	
<b>Estimated Bid Value</b>		<b>719</b>	<b>827</b>		<b>130</b>	<b>135</b>	<b>150</b>	<b>415</b>
<b>Retained Assets</b>	Cash & Equivalents <sup>(2)</sup>	55	-	55	-	-	-	55
	Accounts Receivable	-	-	9	48	56	40	154 <sup>(5)</sup>
	Provider Fee Receivable, net	-	-	-	-	95 <sup>(6)</sup>	14	109
	Total Retained Asset Value	55	-	64	48	151	55	318
<b>Estimated Distributable Value</b>		<b>774</b>	<b>827</b>	<b>\$ 64</b>	<b>\$ 178</b>	<b>\$ 286</b>	<b>\$ 205</b>	<b>733</b>
Less: Assumed Liabilities		(444)	(385)					(38)
<b>Est. Distributable Cash Value</b>		<b>\$ 330</b>	<b>\$ 442</b>					<b>\$ 695</b>
<b>Secured Claims</b>	Senior Bridge Loan <sup>(2)</sup>	Est. Claim \$ 75	Recovery \$ 75 99%	Recovery \$ 75 100%				Recovery \$ 75 100%
	Series 2005 Bonds, net <sup>(3)</sup>	258	255 99%	258 100%				258 100%
	Mortgages / Capital Leases	5	Assumed 100%	Assumed 100%				5 100%
	Total	338	330	333				338
	<b>Priority Claims</b>	Employee Related <sup>(4)</sup>	59	Assumed 100%	59 100%			
Illust. Transaction Fees / Other		25	- 0%	25 100%				30 100%
Total		84	-	84				51
<b>Unsecured Claims</b>	Pension - RPHE (Withdrawal)	214	Assumed 100%	Assumed 100%				204 95%
	OPEB	5	Assumed 100%	Assumed 100%				4 95%
	General Unsecured <sup>(4)</sup>	102	Assumed 100%	Assumed 100%				97 95%
	Contract Damage Claims	TBD	TBD	TBD				TBD
	Contingent CMS Claims	TBD	TBD	TBD				TBD
	Total (Pre-Church Plan)	320	-	-				305
Pension - Church Plan		Assumed 100%	Assumed 100%				- 0%	
<b>Residual Value</b>		<b>\$ -</b>	<b>\$ 25</b>					<b>\$ -</b>

Note: Assumes Dec. 31 closing; reflects most recent discussions with potential buyers, and may not match terms in latest offer package / APAs

- (1) Excludes impact of any NWC / similar adjustment
- (2) Projected cash balance and bridge facility draw as of 12/31/2014 necessary to maintain a \$55 million cash balance
- (3) Projected principal balance of \$284 million as of 12/31/2014, net of \$27 million in debt service reserve funds
- (4) Assumed to incl. employee-related (\$59 million), AP (\$53 million) and other accrued liab. (\$49 million), as applicable, all as of 3/31/14
- (5) Projected accounts receivable as of 12/31/14
- (6) Portion of liabilities assumed by buyers, remainder paid with cash proceeds
- (7) Includes remission of 27.5% of all amounts received under Provider Fee / Medical DSH Program (SB 855 an SB 1255) for a period of three years from post-closing to DCHS

■ Below is an overview of the current status of the full system bidders:

Buyer / Status	LHMs	Commentary
<b>Paladin Healthcare</b>  <i>APA Received:</i> ✓ <i>Issue List Provided:</i> ✓ <i>APA Turn Provided:</i> ✓ <i>Diligence Status:</i> ●	Full System	<ul style="list-style-type: none"> <li>■ Owns and operates four hospitals in Los Angeles (Avanti Hospitals)</li> <li>■ Partnering with MidCap (Apollo) to finance the transaction (has other financing parties interested)</li> <li>■ Contemplates creation of an employee stock ownership plan (“ESOP”) to own the hospital operations (“OpCo”) along with creation of “PropCo” (will own all real estate and equipment and operate a “ManagementCo” to provide management and other shared service functions)</li> <li>■ Issues list submitted June 24 then discussed; APA being revised to reflect discussions</li> <li>■ Modest outstanding diligence</li> </ul>
<b>Prime Healthcare</b>  <i>APA Received:</i> ✓ <i>Issue List Provided:</i> ✓ <i>APA Turn Provided:</i> ✓ <i>Diligence Status:</i> ●	Full System	<ul style="list-style-type: none"> <li>■ Owns and operates 26 acute care hospitals (14 in California) through a for-profit entity and a not-for-profit foundation</li> <li>■ Has met with system leadership and local management and toured facilities</li> <li>■ Transaction contemplates a member substitution and for-profit conversion (ex-SVMC)</li> <li>■ Issues list submitted July 13 and discussed July 15; documentation turned twice</li> <li>■ No major outstanding diligence requests</li> </ul>
<b>Strategic Global Management</b>  <i>APA Received:</i> ✓ <i>Issue List Provided:</i> ✓ <i>APA Turn Provided:</i> ✓ <i>Diligence Status:</i> ●	Full System	<ul style="list-style-type: none"> <li>■ Owns, operates and / or affiliated with seven hospitals in SoCal (Victor Valley, Hemet Valley, Menifee Valley and Integrated Healthcare Holdings (four))</li> <li>■ Partnering with MidCap (Apollo) to provide financing and with Rendina for a sale-leaseback transaction on the medical office buildings</li> <li>■ Has met with management and toured facilities; additional meetings with other team members occurred on July 16-25</li> <li>■ Revised APA reflecting issues list discussion was provided July 20</li> <li>■ Recently submitted new diligence requests and is scheduled to review audit work papers on July 28</li> </ul>

Note: Reflects recent discussions with potential buyers

*Discuss inclusion of page at informational LHM board meetings*

Buyer	LHMs	Commentary
<p><b>Aeoro / Platinum</b></p> <p>APA Received: ✓ Issue List Provided: ✓ APA Turn Provided: ○ Diligence Status: ●</p>	<p>Full System</p>	<ul style="list-style-type: none"> <li>Does not own / operate hospitals (former Prime, Stanford, Tenet &amp; WPAHS executives with “turnaround” experience) although pursuing a number of hospital acquisitions</li> <li>Partnered with Platinum as a capital provider, who has only recently engaged and begun to perform diligence</li> <li>Platinum toured facilities and met with management in mid-July</li> <li>Aeoro previously submitted an APA, but a revised version reflecting Platinum’s approval was received on July 22</li> <li>Platinum has submitted extensive new diligence requests and is scheduled to review audit work papers on July 30</li> </ul>
<p><b>CHA Hollywood Presbyterian</b></p> <p>APA Received: ✓ Issue List Provided: ✓ APA Turn Provided: ○ Diligence Status: ●</p>	<p>Full System</p>	<ul style="list-style-type: none"> <li>Owns one hospital in California (Hollywood Presbyterian) and is affiliated with CHA Health System in South Korea</li> <li>Has met with management and performed facility tours</li> <li>Issues list provided in late June; however CHA legal team has not responded on ability / willingness to discuss</li> <li>Has submitted extensive diligence requests, some of which remain outstanding – financial diligence is being put on hold until progress is made on legal / documents</li> </ul>
<p><b>Integrity / LEPL</b></p> <p>APA Received: ✓ Issue List Provided: ✓ APA Turn Provided: ○ Diligence Status: ●</p>	<p>Full System</p>	<ul style="list-style-type: none"> <li>Does not own any hospitals, but management team has significant California hospital operating experience (former Dignity, CHW &amp; Kindred executives)</li> <li>Partnering with Indian private equity fund (LEPL Projects Ltd) to fund transaction</li> <li>Integrity performed management presentations / facility tours in late June; LEPL is scheduled for visits July 28-29</li> <li>APA issues list provided on July 10 and discussed July 15; awaiting response / feedback before APA is turned</li> <li>Modest diligence requests outstanding</li> </ul>

Note: Reflects recent discussions with potential buyers

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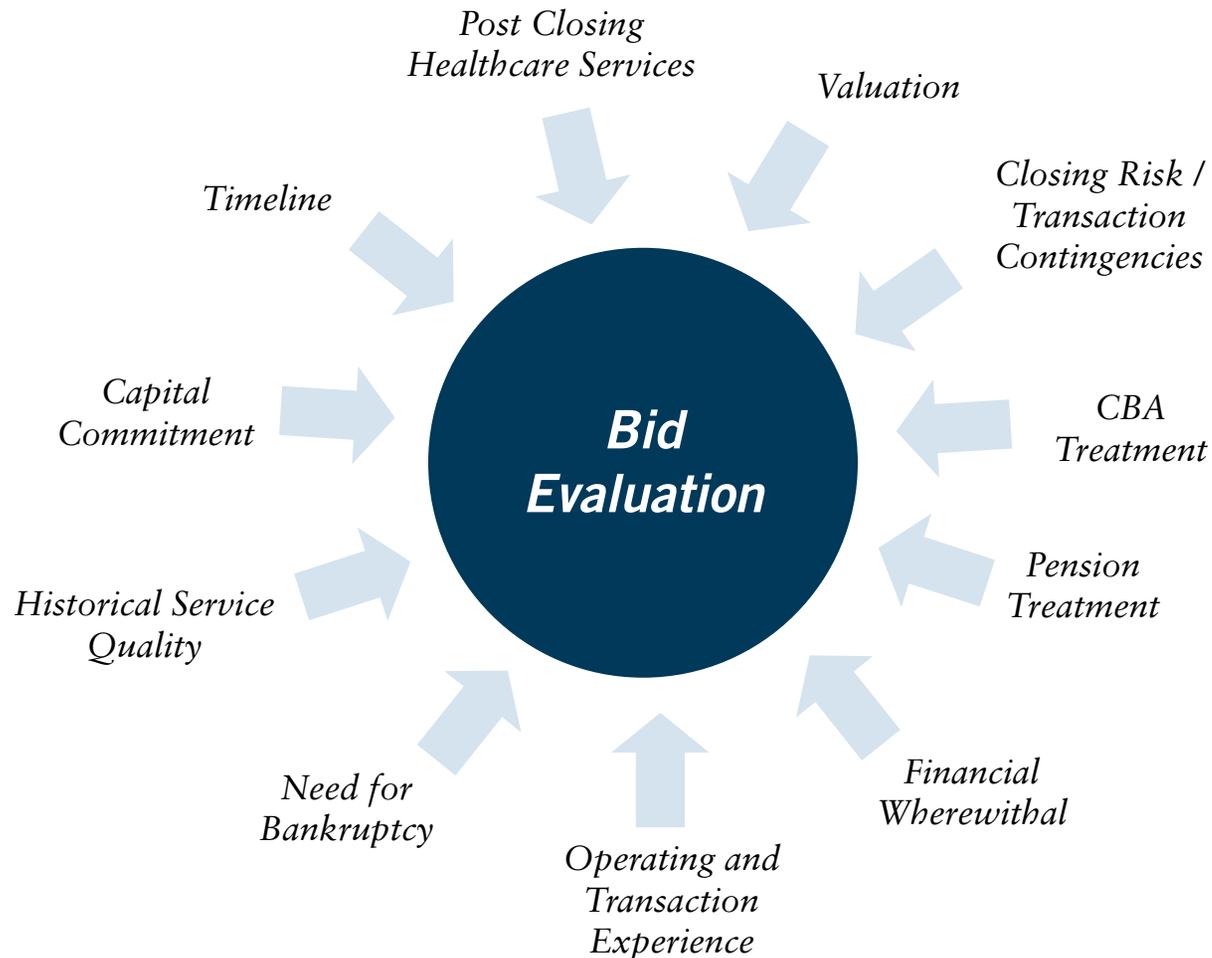
Buyer	LHMs	Commentary
<b>Blue Wolf</b>  <i>APA Received:</i> <i>Issue List Provided:</i> <i>APA Turn Provided:</i> <i>Diligence Status:</i>	Full System  ●	<ul style="list-style-type: none"> <li>■ Has recently re-engaged in process after delaying progress due to the unwillingness of DCHS to meet exclusivity demands</li> <li>■ Participated in management presentation / facility tours in late May, with a leadership meeting conducted on July 23</li> <li>■ Awaiting revised offer / first turn of the APA</li> <li>■ Material diligence requirements remaining</li> </ul>
<b>Plymouth Holdings</b>  <i>APA Received:</i> <i>Issue List Provided:</i> <i>APA Turn Provided:</i> <i>Diligence Status:</i>	Full System  ✓  ●	<ul style="list-style-type: none"> <li>■ Does not currently own or operate any acute care hospitals (used to own Alvarado Hospital)</li> <li>■ Previously bid on individual LHMs (OCH and SLRH); revised its bid to a full system offer in late June</li> <li>■ Engaged in bid clarification discussion and negotiation regarding bid concerns (in particular, does not want to assume / repay bridge loan)</li> <li>■ Material diligence requirements remaining</li> </ul>

Note: Reflects recent discussions with potential buyers

*Discuss inclusion of page at informational LHM board meetings*

**Sale Transaction**

- As a result of the second round bid submissions, DCHS has been focusing on System buyers
  - Completion of due diligence
  - Negotiation of definitive binding transaction documentation
- The following factors are being considered in DCHS' evaluation of bids:

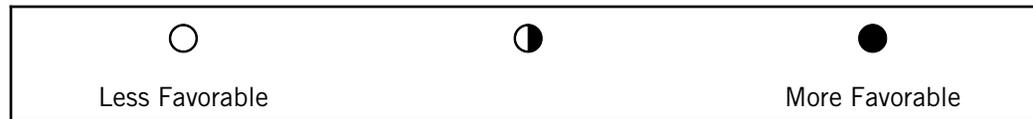


## Projected Cash Flows & Series 2014 Bond Draws (\$ millions)

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	12 Month Total
Beginning Liquid Cash	\$ 100	\$ 44	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 41	\$ 29	\$ 64	\$ 54	\$ 100
<b>Cash Inflows:</b>													
Patient Revenue	83	83	83	86	84	86	86	78	86	84	86	84	1,012
Provider Fee, Suppl. Pmts., Meas. A	9	1	1	4	9	11	18	(3)	12	60	12	20	156
Other Operating and Non-Op. Items	10	11	19	15	9	13	15	11	9	9	9	9	140
Total Inflows (Prior to Series 2014 Draws)	102	96	103	105	102	110	119	86	108	153	108	113	1,307
<b>Cash Outflows:</b>													
Salaries, Wages and Benefits	(71)	(74)	(68)	(69)	(69)	(69)	(70)	(68)	(70)	(68)	(70)	(72)	(836)
Other Payables	(62)	(41)	(40)	(46)	(43)	(44)	(46)	(41)	(45)	(45)	(44)	(43)	(539)
Debt Service	(2)	(2)	(3)	(2)	(2)	(2)	(2)	(3)	(2)	(2)	(2)	(2)	(28)
Mellon Bank Reserve	(20)	-	-	-	-	-	-	-	-	-	-	-	(20)
All Other	(3)	(4)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(37)
Total Outflows	(158)	(121)	(113)	(120)	(117)	(118)	(121)	(115)	(120)	(118)	(119)	(120)	(1,460)
<b>Change in Liquid Cash (Prior to Series 2014 Draws)</b>	<b>(56)</b>	<b>(26)</b>	<b>(10)</b>	<b>(14)</b>	<b>(15)</b>	<b>(8)</b>	<b>(2)</b>	<b>(28)</b>	<b>(12)</b>	<b>35</b>	<b>(11)</b>	<b>(7)</b>	<b>(153)</b>
Projected 2014 Draws	-	37	10	14	15	8	2	14	-	-	-	-	100
<b>Net Change in Liquid Cash</b>	<b>(56)</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(14)</b>	<b>(12)</b>	<b>35</b>	<b>(11)</b>	<b>(7)</b>	<b>(53)</b>
Ending Liquid Cash	\$ 44	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 41	\$ 29	\$ 64	\$ 54	\$ 47	\$ 47
<b>Series 2014 Balance</b>													
Beginning Balance	\$ -	\$ -	\$ 37	\$ 47	\$ 61	\$ 76	\$ 84	\$ 86	\$ 100	\$ 100	\$ 100	\$ 100	\$ -
Projected Draws	-	37	10	14	15	8	2	14	-	-	-	-	100
Ending Balance	\$ -	\$ 37	\$ 47	\$ 61	\$ 76	\$ 84	\$ 86	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100

# Qualitative Comparison of System Bids

	Tier	Bid Valuation	CBA Treatment	Treatment of Pensions	Available Capital	Timing of APA Execution	Closing Risk
Prime Healthcare	A	●	●	●	●	●	○
Strategic Global Mgmt.	A	●	●	●	◐	●	●
Paladin Healthcare	A	●	●	◐	◐	●	◐
Aero / Platinum	B	●	●	◐	●	◐	●
Integrity / LEPL	B	●	●	◐	◐	◐	●
CHA Hollywood Pres.	B -	◐	●	●	●	○	●
Plymouth Holdings	C	○	○	◐	◐	○	●
Blue Wolf	C	○	◐	●	●	◐	◐



- The relative rankings above are preliminary and based on the current status of negotiations with the buyers. It is probable that these will change as additional diligence and negotiations are completed.

Process Event	Description
<p><b>Definitive Document Negotiations</b></p>	<ul style="list-style-type: none"> <li>■ Continue negotiations with leading system buyers to establish the economic and structural terms of the definitive transaction documentation                             <ul style="list-style-type: none"> <li>● Guidance to be provided to buyers to improve the terms of their bid</li> <li>● Resolution of material transaction elements: charitable foundations, medical foundation, union contracts, post execution consulting / management, pension plan conversions, member substitutions, etc.</li> <li>● Completion of disclosure schedules</li> <li>● APAs cannot be executed until diligence is complete and “discretionary” contingencies are removed</li> </ul> </li> </ul>
<p><b>Required Diligence</b></p>	<ul style="list-style-type: none"> <li>■ Several key areas of buyer due diligence remain in-process that will be required for only certain buyers to review before they will be willing to execute a binding agreement, including, but not limited to:                             <ul style="list-style-type: none"> <li>● Summary of on and off-balance sheet assets / liabilities</li> <li>● FY2015 monthly liquidity budget (to understand projected cash and 2014 Bond debt at close)</li> <li>● Discussions with unions</li> <li>● Discussion with San Mateo County Board of Supervisors in relation to Measure A funding</li> <li>● Phase I environmental reports</li> <li>● ALTA Surveys / Title</li> </ul> </li> </ul>

Process Event	Description
<p><b>Regulatory Approvals</b></p>	<ul style="list-style-type: none"> <li>■ Upon execution of definitive documents, DCHS and the buyer(s) will pursue all necessary approvals on a concurrent basis, including:                             <ul style="list-style-type: none"> <li>● Alienation / Vatican Approval</li> <li>● California Attorney General</li> <li>● Federal Trade Commission (Hart-Scott-Rodino / Anti-Trust)</li> <li>● California Department of Health</li> </ul> </li> </ul>
<p><b>2014 Bond Sale Transaction Milestones (Outside Dates)</b></p>	<ul style="list-style-type: none"> <li>■ <u>October 31, 2014</u> – Executed APA sufficient to satisfy requirements of the 2014 Bonds</li> <li>■ <u>15 days post-execution of the APA</u> – All necessary regulatory filings made by DCHS and buyers</li> <li>■ <u>March 31, 2015</u> – All necessary regulatory approvals received (other than DPH)</li> <li>■ <u>45 days post-regulatory approval</u> – Consummation of transaction</li> </ul>