



**DAUGHTERS OF CHARITY HEALTH SYSTEM
BOARD OF DIRECTORS MEETING**

Friday, November 22, 2013

DCHS System Office Board Room | Los Altos Hills | California

MINUTES

PRESENT

Sister Marjory Ann Baez, D.C., *Board Chair*
Sister Marion Bill, D.C., *Board Vice-chair*
Sister Betty Marie Dunkel, D.C.
Sister Judith Lynn Gardenhire, D.C.
Sister Christina Maggi, D.C.
Sister Janet Barrett, D.C., *Secretary*
William Del Biaggio
S. Daniel Higgins, M.D.
Robert Issai, President & CEO, *Ex-Officio Voting Member*

GUEST

Jim Blake, Kaufman Hall
Mark Bane, Ropes & Gray

STAFF

Mike Stuart, CFO
John Chesley, Interim General Counsel (*Partner, Ropes & Gray*)
Pascale Roy, Senior Counsel, Labor/Employment
Annie Melikian, VP Operational Finance
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

The Board Chair called the meeting to order at 8:20 a.m.

2. OPENING PRAYER

Sister Marion Bill offered the Opening Prayer / Reflection.

3. CONSENT AGENDA

- A. September 27, 2013 DCHS Board Meeting Minutes
- B. Hospital/Physician Leases
 - i. O'Connor Hospital
- C. System Office Financials (Quarter ended 09/30/13)
- D. Quarterly Investment Summary Report (Quarter ended 09/30/13)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

9. DCBS STRATEGIC DIRECTION

Mr. Issai led a lengthy and detailed discussion regarding the strategic decisions that the Board will be asked to make regarding the operational and financial direction of the System and LHMs. Mr. Issai noted the very serious and consequential nature of these decisions. Mr. Issai suggested that the Board be afforded an opportunity to contemplate the information being provided and consider the options available. There was agreement that discussions will begin at today's meeting, but decisions will be rendered at the next scheduled Board meeting in December.

Mark Bane of Ropes & Gray presented the Board with a detailed presentation regarding the fiduciary duties of Board members, and the variances in such duties dependent upon whether the entity is a for-profit or not-for-profit organization, as well as whether the entity is solvent or insolvent. Mr. Bane recommended that Board decisions at this time be considered with the assumption that DCBS is currently insolvent. Mr. Bane also suggested that the Board undertake an increased pace of review by increasing the frequency of its meetings and the extent of consultation with outside professionals with specific expertise in identifying and exploring options in a distressed environment.

Annie Melikian reported on the System's cash position. Ms. Melikian reported that the cash position has dropped 16 days from June through the end of September. The current cash position includes the old Provider Fee, the new three-year program as well as ongoing approval of Measure A funds, 2008A Bond redemption and the distribution of funds from the Premier IPO. Once CMS approves the Provider Fee payments they quickly get the payment schedule out. It is hoped that approval will be granted no later than June 2014, at which time additional payments will be provided on a regular schedule.

Mike Stuart delivered a presentation regarding outstanding bond debt. Mr. Stuart reported that the bond debt currently stands at \$290 million, and is secured by a pledge of all revenues as well as by mortgaged assets. The Board conducted an extensive discussion regarding the interplay between the rights of the secured bondholders and the ability to sell assets.

Mr. Stuart next discussed the pension obligations to the Retirement Plan for Healthcare Employees (RPHE). He explained that there are two plans; the multi-employer plan (RPHE) in northern California and a single employer plan in southern California. RPHE was inherited from the earlier split from Catholic Healthcare West. This liability is not reflected on the balance sheet, but expenses are incurred. CNA is the only union with employees continuing to incur benefits. All other benefits to participants are frozen. It is projected that

there would be a withdrawal liability of approximately \$214 million should contributions to RPHE be discontinued.

The Church Plan has a variable interest rate. It is currently underfunded by approximately \$223 million. Mr. Chesley noted that there is a contractual commitment under unions' contracts to continue funding the Church Plan. Once assets are transferred to the plan they are beyond the reach of creditors.

The Board was advised of the "absolute priority rule" which provides for a hierarchy in the repayment of obligations.

Ms. Roy and Mr. Chesley made a presentation regarding Successorship rules under the Collective Bargaining Agreements (CBAs) with five unions. Change of control cannot be effectuated without approval of the unions. If the CBAs are violated, the unions might be entitled to enjoin and sue for damages. The Board explored further the CBAs and their entitlements and consequences.

The Board then received a presentation regarding intercompany receivables. It was reported to the Board that the net amount owed to SFMC is \$53.6 million. St. Vincent Medical Center (SVMC) owes \$22 million of that amount, Saint Louise Regional Hospital (SLRH) owes \$24 million and Seton Medical Center (SMC) owes \$9 million.

The Board then explored the impact that the Medical Foundation might have on the sale process. The Board was advised that there currently exploration of a joint venture in the Santa Clara market to continue the 40+ physician requirement to be able to use the license in southern California. An extensive Board discussion ensued.

Jim Blake of Kaufman Hall gave the Board a detailed update on the partnership process for the Santa Clara market, as well as the San Mateo market. The Board discussed various expressions of interest and factors to be considered.

Mr. Bane gave the Board an extensive overview of restructuring options, both outside bankruptcy and in using the bankruptcy process. Mr. Bane gave a detailed overview of the chapter 11 process, and noted that not-for-profit entities are not subject to involuntary bankruptcy filings.

The Board explored many of the points raised, as well as the objectives of the Board in choosing between and pursuing options.

ACTION: A motion was made, seconded and carried authorizing Robert Issai to begin the buyer solicitation process for St. Vincent Medical Center in parallel with UCLA/Ascension negotiations.

10. OTHER BUSINESS

It was discussed and agreed to increase the frequency of Board meetings or calls to no less than once a month.

There being no further business before the Board, the meeting was adjourned at 3:45 p.m.

NEXT MEETING

The Board Chair announced that the next meeting of the DCHS Board of Directors is scheduled for December 17, 2013.

Sister Janet Barrett, D.C., Secretary

Samantha Schumacher, Recording Secretary

Date

Date

SJB/sss



**DAUGHTERS OF CHARITY HEALTH SYSTEM
BOARD OF DIRECTORS MEETING
EXECUTIVE SESSION**

Tuesday, December 17, 2013

DCHS System Office Board Room | Los Altos Hills | California

MINUTES

PRESENT

Sister Marjory Ann Baez, D.C., *Board Chair*
Sister Marion Bill, D.C., *Board Vice-chair*
Sister Betty Marie Dunkel, D.C.
Sister Judith Lynn Gardenhire, D.C.
Sister Christina Maggi, D.C.
Sister Janet Barrett, D.C., *Secretary*
William Del Biaggio
S. Daniel Higgins, M.D.
Robert Issai, President & CEO, *Ex-Officio Voting Member*

GUESTS

John Chesley, Ropes & Gray
Mark Bane, Ropes & Gray
Andrew Turnbull, HoulihanLokey
Scott Jackson, HoulihanLokey
Mark Francis, HoulihanLokey
Geoff Ligibel, HoulihanLokey
Steve Hollis, Kaufman Hall

STAFF

Mike Stuart, CFO
Pascale Roy, General Counsel
Annie Melikian, VP Operational Finance
Beth Nikels, VP Communications
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

The Board Chair called the meeting to order at 8:05a.m.

2. OPENING PRAYER

Sister Marion Bill offered the Opening Prayer / Reflection.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4. ASSESSMENT OF STRATEGIC DIRECTION

Robert Issai made a presentation regarding the financial advisory firm [REDACTED]
[REDACTED]

Mark Bane of Ropes & Gray advised that the fiduciary duties of board members of distressed companies impose a duty to ensure the availability of expertise to advise the board in areas of concern beyond the board members' conventional familiarity. The Board should, therefore, consider whether either HL or KH could fill in the gap of expertise that the Board does not have, as in the area of managing alternatives of entities in financial distress. The Board inquired whether the Board risked a compromise of its credibility if it ever declines to follow the recommendations of experts retained by the Board. The Board was advised that outside advisors are retained to undertake certain functions, such as marketing efforts and court appearances, as well as to provide the Board members with information and insight. Making the ultimate assessments, applying business judgment and rendering final decisions remain the role of the Board. Therefore, as long as the Board adheres to its duties of loyalty and care, the Board is not only entitled, but is in fact obligated, to merely consider the advice of its retained advisors, but make its own decisions.

[REDACTED]

The Board was advised that the marketing of the LHMs will be challenging. The needs and demands of the labor unions will need to be addressed, as will the withdrawal liability with RPHE. It will be necessary for multiple tracks to be pursued simultaneously. At this juncture, the affiliation with Ascension Health remains in place.

Representatives from HL presented information about their firm as well as potential scenarios and strategies that could be explored. They noted that the RPHE liability does not currently appear on the balance sheet, which is consistent with GAAP guidelines for multi-

employer defined benefit pension plans, despite being a contractual obligation. HL has worked extensively with the Pension Benefit Guarantee Corporation (“PBGC”) in numerous matters, and hopes to gain PBGC support for a transaction, if necessary. HL also noted a very recent federal court decision finding that Dignity Health’s church plan did not qualify as a church plan because it was not actually sponsored by a church.

HL suggested that neither the status quo nor standalone reorganizations appear to be viable alternatives. Staged exploration of realistic LHM alternatives must, therefore, be explored. From a process perspective, all the dimensions of the System must be tied together in order to ensure the viability of any available options in light of the repeated overlapping of obligations and balance sheet considerations, a solution must be pursued for the system as a whole. Control of the sales and marketing environment is critical to avoid potential buyers expecting that they may benefit from delay and the possibility of future lower bids. Creating competition helps to maximize value, and the pairing of LHMs may also provide better opportunities.

HL entertained questions regarding the reputations of some of the potential buyers.

In response to an inquiry by Sr. Judith Lynn, HL reported that the marketing process is already developing interest in northern California, but efforts must begin quickly regarding southern California. In any event, it will likely not be sooner than the middle of February before sufficient facts are compiled to allow for a fulsome decision regarding the details of the best global path to pursue. The hope is to effectuate the necessary transactions while avoiding bankruptcy filings, but bankruptcy filings may ultimately prove to be necessary as an implementation tool.

HL projected that it is likely that the results of all efforts will be insufficient to satisfy all outstanding obligations. Identifying all alternatives is important to assess what approach is likely to maximize recoveries. It should be recognized that sales of entire systems are very often more appealing than collective sales of individual facilities.

The Board recognized that the Daughters of Charity have an institutional duty to obtain approvals from Paris and then Rome prior to final execution of any sales transactions.

Representatives from HoulihanLokey left the meeting.

Discussion continued about whether HL or KH is most qualified in assisting the Board in the restructuring activities being undertaken.

The bishops in all of DCHS’ markets have been approached and informed that there will be changes with the health system and that some of the LHMs may not continue to be operated under Catholic auspices. The Board was advised that Archbishop Gomez and Sr. Angela reported that they have some sources of capital in southern California and would like St. Francis Medical Center (SFMC) and St. Vincent Medical Center (SVMC) to remain Catholic.

5. STRATEGIC DIRECTION

Steve Hollis from KH reviewed the proposals received for O’Connor Hospital (OCH) and Saint Louise Regional Hospital (SLRH). Five unsolicited proposals have been received for the acquisition of the operating assets of OCH and SLRH, combined.

All five purchasers are ready to move forward and negotiate an Asset Purchase Agreement (APA). One is also ready to talk to labor unions and about the Medical Foundation.

Multiple offers have also been received for Seton Medical Center (SMC) and Seton Medical Center Coastside (SMCC). There is one potential proposal forthcoming that was not reflected in the materials presented to the Board. None of the offers are contingent on Measure A funds being available.

John Chesley presented resolutions to be approved by the board, attached hereto as **Exhibit B**.

ACTION: A motion was made, seconded and carried approving resolutions attached hereto as **Exhibit B**.

REDACTED

[REDACTED]

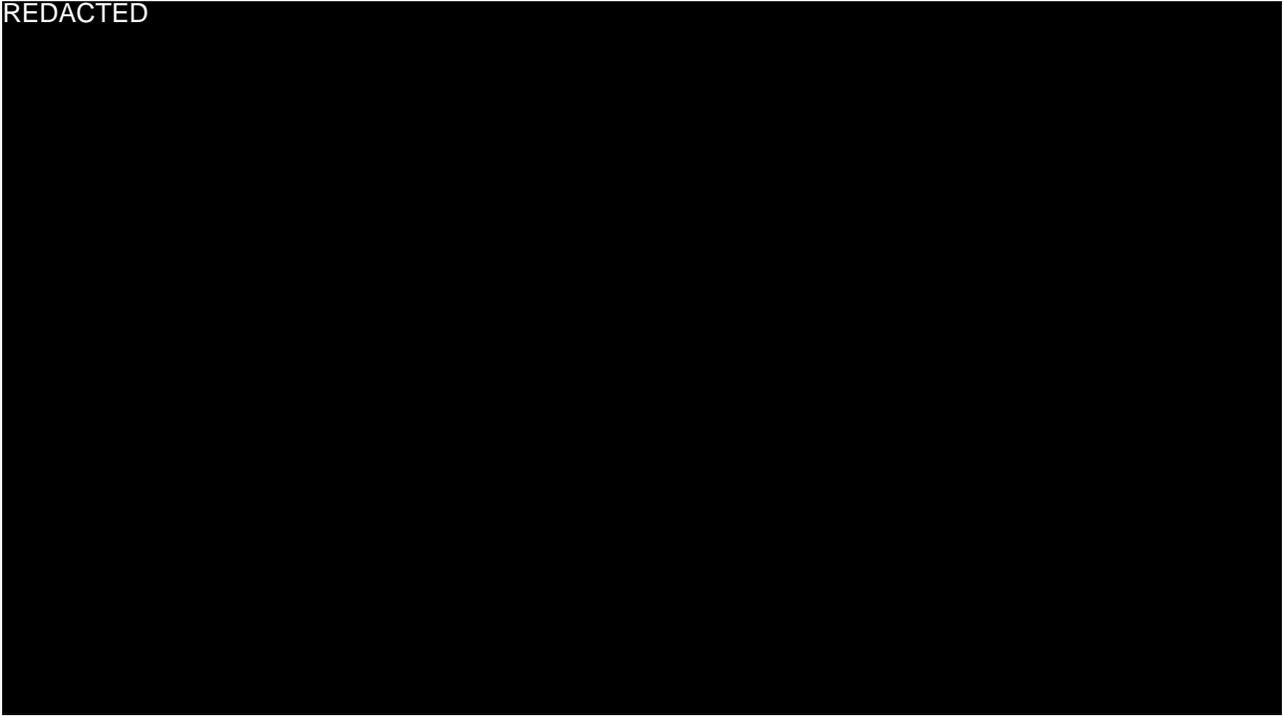
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

REDACTED



NEXT MEETING

The Board Chair announced that the next meeting of the DCHS Board of Directors is scheduled telephonically for December 23, 2013.

Sister Janet Barrett, D.C., Secretary

Samantha Schumacher, Recording
Secretary

Date

Date

SJB/sss

EXHIBIT B

RESOLUTIONS OF THE BOARD OF DIRECTORS OF DAUGHTERS OF CHARITY HEALTH SYSTEM

1. With respect to Indications of Interest in hand:

To authorize management of DCHS to negotiate non-binding, non-exclusive letters of intent for the purchase of assets of O'Connor Hospital, Saint Louise Regional Hospital and Seton Medical Center (including its Coastside division) with each entity that has submitted an indication of interest (i.e. HCA, the County of Santa Clara, Pinnacle, Alecto, Prime and Molina Healthcare). Such negotiations may commence immediately.

2. New Solicitations of Interest:

To authorize management of DCHS to initiate simultaneous solicitations of interest from nonprofit, public and for-profit parties to acquire St. Vincent Medical Center and St. Francis Medical Center individually and the Health System in its entirety. Such solicitations may commence as soon as the advisors contemplated by the next resolution have been engaged.

3. Financial Advisor:

To authorize the President and CEO to obtain proposals from Kaufman Hall and HoulihanLokey (i) to provide transactional services for the disposition of the Health System's southern California local health ministries and the Health System in its entirety and (ii) to serve as financial advisor for restructuring matters, with the intention that this board will hold a special meeting by conference call to select an advisor for each role after considering the recommendations of management.



**DAUGHTERS OF CHARITY HEALTH SYSTEM
BOARD OF DIRECTORS MEETING
EXECUTIVE SESSION**

Tuesday, December 24, 2013

Telephonic Meeting | Los Altos Hills | California

MINUTES

PRESENT

Sister Marjory Ann Baez, D.C., *Board Chair*
Sister Marion Bill, D.C., *Board Vice-chair*
Sister Betty Marie Dunkel, D.C.
Sister Judith Lynn Gardenhire, D.C.
Sister Christina Maggi, D.C.
Sister Janet Barrett, D.C., *Secretary*
William Del Biaggio
S. Daniel Higgins, M.D.
Robert Issai, President & CEO, *Ex-Officio Voting Member*

GUESTS

Mark Bane, Ropes & Gray

STAFF

Mike Stuart, CFO
Pascale Roy, General Counsel
Annie Melikian, VP Operational Finance
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

The Board Chair called the meeting to order at 10:03a.m.

2. OPENING PRAYER

Sister Marion Bill offered the Opening Prayer / Reflection.

3. DISCUSSION OF FINANCIAL ADVISOR PROPOSALS

Discussion was held about the proposals submitted by the two financial advisory firms, HoulihanLokey (HL) and Kaufman Hall (KH).

The Board was advised that selecting a financial advisory firm is a business decision, influenced by certain legal considerations. The Board should select a firm that adequately supplements the Board's expertise in the areas of greatest import confronting the Board, but in which Board members have lesser backgrounds and experience. In the current situation, the Board recognized three key areas of focus: (1) Assistance with the disposition of assets; (2) Assistance with negotiating creditor settlements; and (3) Insolvency/bankruptcy strategies. The Board undertook which of the proposed firms was best equipped in experience and manpower to address these areas, and consider whether disparity in fee costs were sufficient factors in a selection. The Board was advised that a selection should not be made on the basis of cost alone.

The Board also recognized the importance of selecting a firm that evidences sensitivity to the unique goals and values of the System and the LHMs. In response to inquiry, counsel noted that if the ultimate selection of a purchaser or purchasers is made in the context of bankruptcy cases, approval of the selections must be granted by the bankruptcy court, thereby alleviating any risk of the Board's selection creating exposure to attack and liability. If, by contrast, the selection is made without the need for bankruptcy court approval, Board decisions are more vulnerable to attack.

The Board discussed the two proposals extensively. Considerations of the adequacy of manpower, expertise and fees were explored. Sensitivity to cultural concerns was also addressed.

The Board considered whether having both firms assume distinct roles would increase the ultimate fees. It was explained that even if both firms would earn a fee, the total of the fees would be about the same as if only one firm worked on all the transactions.

The Board also expressed a concern that the individuals presented as leading the team within the firm make an actual commitment to play an active and involved role, and imposed that requirement as a criteria of any retention. After concluding a full and extensive discussion:

ACTION: A motion was made, seconded and carried approving the selection of HoulihanLokey as financial advisor directing management to address entertaining Catholic solutions and to include staffing in the contract.

4. OTHER BUSINESS

It was confirmed on December 23 that SEIU and Alecto are working together. Additionally, SEIU membership somehow thought that we were dismantling the health system. SEIU stated the source of the rumor as being an specific executive of SMC who allegedly told the local SMC SEIU representative and that SEIU representative subsequently told the SEIU representative from O'Connor Hospital. Mr. Issai said he would talk with Joanne Allen to deal with the inappropriate actions of own of her direct reports after January 15, 2014. Ms. Roy also reported that she should be able to control the leak at meetings with other unions.

Mr. Issai was directed by the Board to continue to adhere to the communication plan. Mr. Issai stated the deadline for Molina to present their offer for SMC/SMCC is being extended to December 31. There will be a call with management after Christmas to strategize.

There being no further business before the Board, the meeting was adjourned at 11:07a.m.

NEXT MEETING

The Board Chair announced that the next meeting of the DCHS Board of Directors is scheduled for January 31, 2014.

Sister Janet Barrett, D.C., Secretary

Samantha Schumacher, Recording Secretary

Date

Date

SJB/sss



DAUGHTERS OF CHARITY HEALTH SYSTEM
BOARD OF DIRECTORS MEETING
January 31, 2014
Executive Summary

Description: **7. Restructuring Update - Marketing Process Initiatives**

Action Requested: *For Information Only*

Presented By: **Houlihan Lokey Capital, Inc.**
Andrew Turnbull, Managing Director
Scott Jackson, Director
Geoff Ligibel, Director

PROCESS OVERVIEW

Since the Daughters of Charity Health System (DCHS) Board of Directors' decision at the December 17, 2013 board meeting to commence the process to seek a buyer (referred to here as the "marketing" process) for all LHMs in DCHS (referred to here as "System"), management and the System's advisors have worked on a variety of initiatives, including those set forth below.

- Crafting and delivering the messaging and communication plans regarding the Board's decision and the process going forward
- Meetings have been conducted with the union leadership to discuss the sale decision and the anticipated process
 - o We expect that similar meetings will occur on a periodic basis to keep union leadership informed to assist in maintaining control of the messaging throughout our health system and LHMs, and to enhance the relationships in anticipation of future discussions that buyers may want to have regarding the collective bargaining agreements
- On January 23rd, DCHS leadership participated in a conference call with holders of the Series 2005 bonds, bond trustee counsel (Mintz Levin), and although unannounced, presumably representatives from Wells Fargo (the bond trustee) to discuss the Board's decision and the marketing process.

- Preparation of a draft confidential information memorandum (“CIM”) that will cover all of the System’s operations.
 - o This presentation format document will be used as the primary marketing material in the initial stage of the marketing process (similar to the memorandums prepared by Kaufman Hall for the Northern California LHMs).
- As a result of the public disclosure, DCHS and its advisors have received a variety of inbound calls from parties expressing interest in the System as well as individual LHMs
 - o Houlihan Lokey is returning such calls to assure parties that we will respond to them shortly once we have completed our preparations for the marketing process
- Preparation is underway on a form asset purchase agreement (“APA”) that will be distributed to buyers.
 - o Northern California buyers will likely receive the APA in the next couple of weeks
 - o Southern California and System buyers will receive the APA after the submission of Indications of Interest and the System’s consideration of such
- A form confidentiality agreement has been developed relating to the marketing process that will be distributed to new parties and preferably to replace / supplement the agreements that were previously executed with contacted parties (including terms unique to the sale versus partnership process)
- In addition to conducting additional financial and operational due diligence of the System, the Houlihan Lokey team has been visiting the LHMs to familiarize ourselves with the local leadership, facilities and opportunities
- The Kaufman Hall team has been working with HCA and the County of Santa Clara regarding their interest in O’Connor Hospital and Saint Louise Regional Hospital and the System’s decision regarding the overall marketing process. To date, the parties have expressed continuing interest in the LHMs, in the case of HCA perhaps with a broader interest in the System. The terms of HCA’s process are still being determined regarding the commencement of their second round of due diligence, union meetings, etc.
- Prime Healthcare and Alecto have both indicated that they remain interested in the Northern California LHMs on which they previously submitted IOIs in addition to their interest in evaluating the marketing materials on the entire System. Houlihan Lokey has contacted both groups in this regard.

PROJECTED TIMELINE

Based on the work completed to date, below is a preliminary summary transaction timeline (with increasing generality as we make progress because we expect the process to adapt based on feedback, interest, etc.).

January 2014 (Late) / February 2014 (Early)	Complete internal diligence and finalize the CIM
February 2014 (Early)	Commence discussions with potential buyers regarding their interest in some or all of the LHMs

March 2014 (Early)	Target receipt of non-binding indications of interest from potential buyers for: Full System; Regions/Groups of LHMs; Individual LHMs
March 2014	Identify the field of potential buyers for further due diligence and resolution of contingencies (TBD based on indications received) to move forward and complete diligence / address transaction contingencies
Spring 2014	Potential buyer(s) to complete due diligence in anticipation of finalizing a binding APA
Late Spring / Early Summer 2014	Target execution of a binding APA with final buyer(s)
Summer / Early Fall 2014	Target closing transaction(s), subject to regulatory approval and implementation methodology