
From: Jackson, Scott
Sent: Sunday, July 20, 2014 6:45 PM
To: Ilhardt, Benjamin; Wingkun, Lauren-Nicole; Ligibel, Geoffrey
Subject: Fwd: Our call last Thursday
Attachments: CMS - Automativc Assignment of Medicare Provider Number 9-6-13.pdf; ATT00001.htm

Categories: B

FYI

Begin forwarded message:

From: Michael White <phsolutions@verizon.net>
Date: July 20, 2014 at 8:28:39 PM CDT
To: "Turnbull, Andrew" <ATurnbull@HL.com>, "Jackson, Scott" <SJackson@HL.com>
Cc: "LaPallo, Francis" <FLaPallo@manatt.com>
Subject: Our call last Thursday

Andrew and Scott, thank you for our Thursday call. We found it quite informative and are crafting our response:

The transaction that we now envision doing is substantially different from a "risk" perspective, so we must perform additional diligence:

- With regard to the charitable foundations, please provide us with detail about the composition and value of assets described as "Other Current Assets" and "Restricted by Donor or Grantor." We are trying to ascertain the extent to which the debtors can repay the hospitals.
- Please provide us with copies of all evidentiary matter, including CHA schedules and communication, about the anticipated amount and timing of payments of the new provider fee program that will be effective January 1, 2014 and the associated fees and pledge amounts.
- Please advise us about the \$5.5MM "mortgage payable" on O'Connor's books. We understood that all of the real estate was pledged to Bond Holders and was otherwise "free and clear."
- We understand the nothing has been accrued for the Provider Fee receipts and expenses since December 31, 2013. Please confirm.
- Given that you will not provide any representations:
 - We would like to either perform and/or review any "paid and closed" analysis for the hospitals A/R. How should we proceed?
 - We would also like to confirm the balance sheet amounts with the accounting staff responsible for maintaining the corporate and hospital financial reports, cash account reconciliations, etc.
 - We would also like to have the same personnel in crafting a near-term cash forecast.

With regard to the bridge loan, I understood from our call that a \$125MM facility was being arranged, and that the maximum draw that would be permitted would be \$100MM. I went back to calculate the net QAF funds that the Seller would accrue for the calendar year 2014 and came up with \$88MM through December. I am relying on the revised information we received in our site visits.

- What assets will collateralize the difference and are they part of the April 2014 balance sheet?
- If my estimate is correct, it appears that the bridge loan will hit \$70MM and leave us with substantially inadequate assets to pay the estimated other costs of \$40MM. Do you agree?

I have attached a copy of a CMS policy statement that addresses treatment of the provider number. California requires the Purchaser to file an acceptance of liability for any Seller liabilities to avoid lapse of the number and the resulting gap period for which no payments will ever be made as with CMS.

With regard to the time period to get a new provider number from CMS, we understand that the Buyer will incur a delay of six to 12 months following close to receive a new provider number, and that the Buyer must continue to operate the hospitals to comply with re-survey requirements, even though they will never receive payment for care provided to Medicare and Medi-Cal patients.

Thank you for your consideration. If you have any questions, please call me.

Michael White
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