

DAUGHTERS OF CHARITY HEALTH SYSTEM
Summary of SGM 9/30/14 Proposal on Select Issues

| | <u>SGM Proposal</u> | <u>DCHS Input / Comments</u> |
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| Sources of Capital | <ul style="list-style-type: none"> • [REDACTED] • Sub-debt up to \$120 million (TBD Lender) • MOB sale proceeds \$60 million • [REDACTED] • Deposit \$30 million | <ul style="list-style-type: none"> • Capital sources to be sufficient to fund all closing date payments and ensure successor company has sufficient working capital for operations • Commitment letters to be binding, not subject to due diligence. |
| Deposit | <ul style="list-style-type: none"> • \$30 million funded at signing of APA and concurrent signing of binding real estate purchase contract for MOB assets | <ul style="list-style-type: none"> • \$40 million funded upon execution of the APA |
| Preliminary Closing | <ul style="list-style-type: none"> • Within 30 to 45 days of signing, sale of the MOB assets to SGM for \$60 million in proceeds (SGM's FMV of the MOB's) • DCHS may use up to \$50 million of the MOB proceeds for ordinary course operating purposes and will not further borrow on the 2014 Bridge financing. | <ul style="list-style-type: none"> • DCHS has funded financing through the 2014 Bonds (DCHS is funding cost of capital with or without availability draws). Therefore, the proposed preliminary closing / MOB sale is unnecessary for DCHS and elements thereof should be consummated with the APA closing. |
| Transaction Closing | <ul style="list-style-type: none"> • Upon closing \$40 million of MOB proceeds / deposit to be established as a reserve for future Church Plan funding ("Church Plan Reserve"). • The Church Plan will be retained by DCHS, but future contributions as necessary to meet the current Church Plan funding requirements, shall be drawn first from the Church Plan Reserve and then, if necessary, from SGM. SGM's post-Closing obligation regarding the Church Plan will be guaranteed by [REDACTED] • Initial questions – Is SGM's post- | <ul style="list-style-type: none"> • Upon closing SGM will deposit \$40 million to establish a reserve for future Church Plan funding ("Church Plan Reserve"). • The Church Plan will be retained by DCHS • Future funding requirements will be determined by Towers Watson or another nationally recognized firm, provided, however, until the Church Plan is fully funded (as determined based on conservative assumptions as agreed to and incorporated into the APA), the contributions will be equal to the greater of the current annual |

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| | <p>Closing obligation to contribute limited to \$60 million (the IHHI guarantee)? Answer: SGM’s post-closing obligation regarding the Church Plan would be restricted to \$100 million consisting of the \$40 Church Plan Reserve plus SGM’s obligation for up to an additional \$60 million, backed by [REDACTED]</p> <p>What is the mechanism to call funds from SGM / [REDACTED] Answer: DCHS would presumably call for funds based upon certification of Towers Watson subject to a reasonable verification procedure.</p> <p>Are there pre-determined actuarial assumptions for determining calls? Answer: The actuarial assumptions should be industry standard and mutually agreed upfront.</p> <p>Is there an annual maximum contribution maximum? Answer: SGM is expecting the annual maximum should not exceed \$14 million.</p> <p>Who controls disbursements from the Church Plan Reserve account? Answer: SGM would administer the \$40 million reserve fund subject to our mutually agreed contract with DCHS for funding the pension obligations. The Church Plan itself would be administered/managed by one or more professional managers mutually acceptable to DCHS and SGM.</p> <ul style="list-style-type: none"> • Balance of the transaction as currently contemplated by the APA closes | <p>funding amount and such amount necessary to incorporate incremental pension commitments as contemplated by SGM in its collective bargaining agreements (e.g., if CNA benefits are not frozen or committed contribution rates are increased).</p> <ul style="list-style-type: none"> • Funding, as necessary, shall be drawn in the following order: <ul style="list-style-type: none"> ○ first from the Church Plan Reserve, ○ second, from SGM, and ○ third, pursuant to the IHHI guarantee, provided, however, that such IHHI contributions in aggregate shall be limited to \$60 million. • Contribution obligations from SGM shall be granted a junior lien in the assets of SGM/DCHS, subject to a market subordination agreement in favor of SGM’s first lien lender • SGM’s post-closing funding obligation regarding the Church Plan shall not be limited • DCHS or its designee shall administer the Church Plan Reserve subject to the funding requirements as set forth herein • The Church Plan will be administered / managed by one or more professional managers mutually acceptable to DCHS and SGM. • Balance of the transaction as currently contemplated by the APA closes |
| Other | <ul style="list-style-type: none"> • [REDACTED] | <ul style="list-style-type: none"> • Audit received – thank you |

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| | <p>fee program (SB239). HL is in receipt of [REDACTED]</p> <ul style="list-style-type: none"> • SGM to provide comments on consulting agreement. Response: The health plan enrollment period will commence on Oct. 15. It is critical that SGM coordinate with DCHS hospitals, affiliated medical groups, ancillary providers and contracted hospitals to optimize open enrollment activity. In addition, SGM needs to coordinate with DCHS with regard to discussions with County and City officials to secure continued Measure A funding and to otherwise address issues at Seton and Coastside. Cooperation in connection with union negotiations is critical as well as establishing a program for integration of IT systems. As previously discussed, the planning and implementation of a reduction in force as early as practicable is critical. These concepts should all be addressed in a mutually acceptable consulting services agreement. The parties will also need to coordinate in connection with the Attorney General approval process. • SGM raised the HMO contracts – need to understand expectations, if any in this regard. Response: see above. | <ul style="list-style-type: none"> • DCHS will review the consulting agreement • DCHS will generally work on reasonable operating initiatives, however, DCHS will retain full discretion over the DCHS decision making process • Failure to consummate recommended actions will not be an impediment to SGM’s obligations to close the transaction. • The consequences of recommended action will in no means give rise to an MAE |