



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

Friday, June 20, 2014

In-Person Meeting | Los Altos Hills | California

MINUTES

PRESENT

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

ABSENT

Sister Betty Marie Dunkel, D.C.

GUESTS

John Chesley, Ropes & Gray
Andrew Turnbull, Houlihan Lokey
Scott Jackson, Houlihan Lokey
Cecily Dumas, Dumas & Clark

STAFF

Annie Melikian, CFO
Pascale Roy, General Counsel
Beth Nikels, VP Marketing and Communications
Fr. Gerald Coleman, VP Corporate Ethics
Nancy Carragee, VP Quality, for a portion of the meeting
Stephanie Battles, VP Human Resources, (via teleconference) for a portion of the meeting
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

The Board Chair called the meeting to order at 8:40 a.m.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

10. RESTRUCTURING UPDATE

- A. Sale Transaction Update
- B. Bridge Financing Options & Update
- C. Attorney General Approval Process
- D. Other Federal Anti-Trust Approval Process
- E. Approval of Alienation of Assets Process

A. Sale Transaction Update

Andrew Turnbull and Scott Jackson from Houlihan Lokey (HL), Cecily Dumas from Dumas & Clark and Mr. Chesley provided an update on the restructuring and sale process. Robert Issai and Annie Melikian contributed information on specific factual matters. Board members asked numerous questions during a lengthy discussion.

In summary, HL has continued the process approved by the Board following the first round of bids, the objective of which has been to develop a substantial set of second-round bids for transactions that individually or in combination address the Board’s objectives. The presentation confirmed those objectives—the continuation of health care services to the communities served by the LHMs, in the hands of capable operators, under terms that will fulfill DCHS’s obligations to retirees, associates and bondholders. The presentation summarized the key terms of the proposals received in the second round of bids and arrayed them for the Board’s evaluation by the eleven factors that have been established as review criteria. HL reported that its efforts since the May meeting have focused on the “Tier A” bidders making system proposals, which consist of CHA Hollywood Pres, Paladin, Prime and Strategic Global Management. The “Tier B” system bidders are Aeoro and Integrity. All have indicated that they would assume the health system’s existing collective bargaining agreements. The bidders in Tier A also have indicated that they would assume pension plans and associated liabilities. The primary distinction remaining between the Tier A and Tier B

bidders is that the latter have experience in management and operations but have no experience from an ownership or transaction standpoint, meaning that they are dependent on outside capital sources for funding of the capital required to fulfill those commitments.

The negotiation process is proceeding with the goal in mind of a signed APA by the end of July. All bidders understand that we are working on a bridge financing.

Labor unions were discussed next. Pascale Roy and Mr. Turnbull met with UNAC, SEIU and CNA this week to update them on the sale process.

Discussion continued about the sale process. Meeting our deadlines will be important and we will need to determine how much time we have to push for more specificity on proposals in order to meet those deadlines. The Daughters will be scheduling a call with the Sisters in the Province to update them on the sale process. They are hoping to schedule the call for July 1, 2014.

[REDACTED]

[REDACTED]

C. Attorney General Approval Process

Mr. Chesley gave an update on the Attorney General (“AG”) approval process. We are required under the non-profit corporation laws to obtain approval from the AG for a sale of the health system. By statute the AG must act within 105 days and has 13 factors to review in coming to their decision. This will be a public process, so information will be available both at the AG’s office and Mr. Chesley suggested that we post this information on our website as well. He informed the Board that there will be public hearings, likely in all of the counties where we have LHMs.

Our application for AG approval, signed by the DCHS Board Chair, can be filed as soon as we have a signed APA. The identity of the buyer is an important part of the process to the AG. The AG wants to ensure that services will be preserved for a period of time after the sale is complete. The AG will also provide a “deal breaker” letter at some point during their review process to give DCHS and the buyer an opportunity to review the list of proposed conditions on the approval.

Mr. Chesley, Mr. Turnbull and a team from DCHS met with Deputy Attorney General Wendi Horwitz and several of her colleagues in the AG's office on June 17. Ms. Horwitz is responsible for the review of hospital transaction consent applications by the AG's office. The urgency of our situation was communicated as well as our desire to avoid a bankruptcy filing. At the meeting, HL described the process of seeking proposals. Ms. Horwitz noted that the AG will be concerned with pensions, jobs and access to Medi-Cal/Medicare services, among other factors.

D. Other Federal Pre-Merger Notification Process

Mr. Chesley presented information to the Board about the federal pre-merger notification process, which applies to transactions involving changes of control and transfers of assets. We and the buyer will have to file Hart-Scott-Rodino filings with the Federal Trade Commission ("FTC") so that they can review to see if the sale will harm competition. The FTC has 30 days to review and either issue a second request for information or make a decision. If a second request for information is sent, the AG will halt their process.

E. Approval of Alienation of Assets Process

Mr. Issai presented information about the Alienation of Assets process. We would be alienating a business, not buildings. We need to get a valuation letter from either Kaufman Hall or HL. Mr. Issai, Sr. Marjory Ann, Sr. Marion and Fr. Coleman are making a trip to Rome to meet with those involved in the Alienation approval to let them know who we are, why we have to sell the health system and explain what they can expect in our request package. Information has already been sent to Paris and we are also working with local Bishops.

11. OTHER BUSINESS

There being no further business before the Board, the meeting was adjourned at 12:21 p.m.

NEXT MEETING

The Board Chair announced that the next meeting of the DCHS Board of Directors is scheduled for August 1, 2014.

Sister Janet Barrett, D.C., Secretary

Samantha Schumacher, Recording Secretary

Date

Date

SJB/ss



DAUGHTERS OF CHARITY HEALTH SYSTEM

EXECUTIVE SESSION

OF THE BOARD OF DIRECTORS

August 1, 2014

Executive Summary

Description: **6C. Transaction Process Update/Preliminary LHM Board Materials**

Action Requested: *For Information Only*

Presented By: Andrew Turnbull, Scott Jackson, Houlihan Lokey

The following presentation is designed to update the Board on the transaction process thus far and to be used as a draft of LHM Board education materials to be presented at the August 2014 LHM board meetings.

We look forward to discussing this information with you at the August 1, 2014 Board meeting.

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
Total Revenue	1,324	1,274	1,343	1,269	1,369
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)
Total Expenses	(1,292)	(1,252)	(1,347)	(1,346)	(1,472)
Investment Income	40	2	16	17	11
EBIDA	73	23	11	(60)	(92)
EBIDA Margin	6.9%	2.4%	1.1%	-6.1%	-9.1%
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)
Net Cash Flow	\$ 16	\$ (53)	\$ (4)	\$ (22)	\$ (137)

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
Total	133	72

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>				
Catholic	8	Dignity Health Providence / Molina			
Not-For-Profit / Government	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
For Profit Strategic	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
Private Equity / Management Team	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
SNF / REIT / MOB / Other	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
TOTAL	11	14	4	29

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
<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 nd 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	Dignity	Providence / Molina	Cedars-Sinai	Le Summit / JPH Consulting	Prospect Medical	Good Samaritan (LA)	County of Santa Clara	HCA	Plymouth / PS TWO	Cardiovascular Care	El Camino	Brius	Plum
	FP	Catholic	Catholic	NFP	FP	FP	NFP	NFP	FP	PE	FP	NFP	FP	FP
Acq. Assets														
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 nd 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.

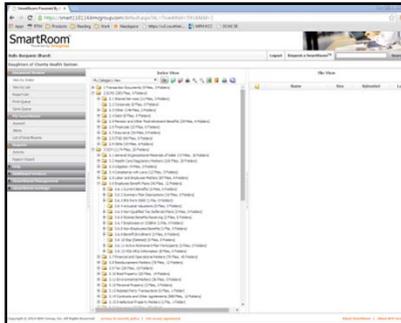
For informational LHM board meetings buyer names will be redacted

- 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										✓

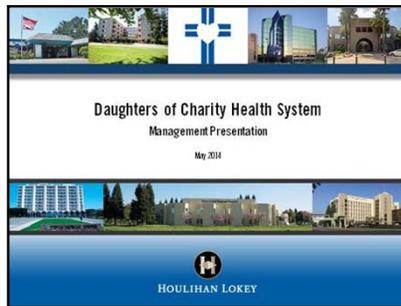
- Each of these parties have been advised that DCHS is currently pursuing a full System transaction

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



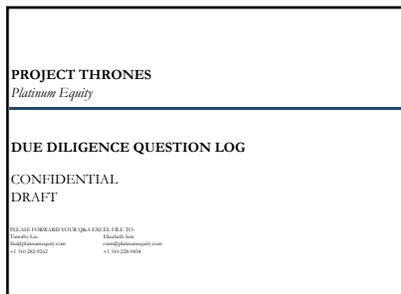
Data Room

- 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
Catholic	0	2	2
Not-For-Profit / Government	0	2	2
For Profit Strategic	4	2	6
Private Equity / Mgmt. Team	4	1	5
TOTAL	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
Acq. Assets								
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 ⁽¹⁾	\$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
Acq. Assets							
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 ⁽¹⁾	\$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 <i>All LHM</i> s	Example B <i>All LHM</i> s	Retained	Buyer A <i>SVMC, SMC/CC</i>	Buyer B <i>SFMC</i>	Buyer C <i>OCH, SLRH</i>	Total
Cash	Base Cash Consideration ⁽¹⁾	\$ 275	\$ 542		\$ 130	\$ 135	\$ 150	\$ 415
	Less: Employee Liability Deduction	-	-		(21)	(17)	-	(38)
	Less: Holdback / Indemnity Escrow	-	(100)		-	-	<i>TBD</i>	<i>TBD</i>
	Total Cash Consideration	275	442		109	118	150	377
Assumed Liabilities	Senior Bridge Loan ⁽²⁾	-	-		-	-	-	-
	Series 2005 Bonds, net ⁽³⁾	-	-		-	-	-	-
	Mortgages / Capital Leases	5	5		-	-	-	-
	Pension - RPHE	49	49		-	-	-	-
	Pension - Church	229	229		-	-	-	-
	Other Current Liabilities ⁽⁴⁾	161	102		21	17	-	38
Total Assumed Liabilities	444	385		21	17	-	38	
Estimated Bid Value		719	827		130	135	150	415
Retained Assets	Cash & Equivalents ⁽²⁾	55	-	55	-	-	-	55
	Accounts Receivable	-	-	9	48	56	40	154 ⁽⁵⁾
	Provider Fee Receivable, net	-	-	-	-	95 ⁽⁶⁾	14	109
	Total Retained Asset Value	55	-	64	48	151	55	318
Estimated Distributable Value		774	827	\$ 64	\$ 178	\$ 286	\$ 205	733
Less: Assumed Liabilities		(444)	(385)					(38)
Est. Distributable Cash Value		\$ 330	\$ 442					\$ 695
Secured Claims	Senior Bridge Loan ⁽²⁾	Est. Claim \$ 75	Recovery \$ 75 99%	Recovery \$ 75 100%				Recovery \$ 75 100%
	Series 2005 Bonds, net ⁽³⁾	258	255 99%	258 100%				258 100%
	Mortgages / Capital Leases	5	<i>Assumed</i> 100%	<i>Assumed</i> 100%				5 100%
	Total	338	330	333				338
	Priority Claims	Employee Related ⁽⁴⁾	59	<i>Assumed</i> 100%	59 100%			
Illust. Transaction Fees / Other		25	- 0%	25 100%				30 100%
Total		84	-	84				51
Unsecured Claims	Pension - RPHE (Withdrawal)	214	<i>Assumed</i> 100%	<i>Assumed</i> 100%				204 95%
	OPEB	5	<i>Assumed</i> 100%	<i>Assumed</i> 100%				4 95%
	General Unsecured ⁽⁴⁾	102	<i>Assumed</i> 100%	<i>Assumed</i> 100%				97 95%
	Contract Damage Claims	<i>TBD</i>	<i>TBD</i>	<i>TBD</i>				<i>TBD</i>
	Contingent CMS Claims	<i>TBD</i>	<i>TBD</i>	<i>TBD</i>				<i>TBD</i>
	Total (Pre-Church Plan)	320	-	-				305
Pension - Church Plan		<i>Assumed</i> 100%	<i>Assumed</i> 100%				- 0%	
Residual Value		\$ -	\$ 25					\$ -

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
Paladin Healthcare <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"> ■ Owns and operates four hospitals in Los Angeles (Avanti Hospitals) ■ Partnering with MidCap (Apollo) to finance the transaction (has other financing parties interested) ■ 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) ■ Issues list submitted June 24 then discussed; APA being revised to reflect discussions ■ Modest outstanding diligence
Prime Healthcare <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"> ■ Owns and operates 26 acute care hospitals (14 in California) through a for-profit entity and a not-for-profit foundation ■ Has met with system leadership and local management and toured facilities ■ Transaction contemplates a member substitution and for-profit conversion (ex-SVMC) ■ Issues list submitted July 13 and discussed July 15; documentation turned twice ■ No major outstanding diligence requests
Strategic Global Management <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"> ■ Owns, operates and / or affiliated with seven hospitals in SoCal (Victor Valley, Hemet Valley, Menifee Valley and Integrated Healthcare Holdings (four)) ■ Partnering with MidCap (Apollo) to provide financing and with Rendina for a sale-leaseback transaction on the medical office buildings ■ Has met with management and toured facilities; additional meetings with other team members occurred on July 16-25 ■ Revised APA reflecting issues list discussion was provided July 20 ■ Recently submitted new diligence requests and is scheduled to review audit work papers on July 28

Note: Reflects recent discussions with potential buyers

Discuss inclusion of page at informational LHM board meetings

Buyer	LHMs	Commentary
Aeoro / Platinum <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"> Does not own / operate hospitals (former Prime, Stanford, Tenet & WPAHS executives with “turnaround” experience) although pursuing a number of hospital acquisitions Partnered with Platinum as a capital provider, who has only recently engaged and begun to perform diligence Platinum toured facilities and met with management in mid-July Aeoro previously submitted an APA, but a revised version reflecting Platinum’s approval was received on July 22 Platinum has submitted extensive new diligence requests and is scheduled to review audit work papers on July 30
CHA Hollywood Presbyterian <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"> Owns one hospital in California (Hollywood Presbyterian) and is affiliated with CHA Health System in South Korea Has met with management and performed facility tours Issues list provided in late June; however CHA legal team has not responded on ability / willingness to discuss Has submitted extensive diligence requests, some of which remain outstanding – financial diligence is being put on hold until progress is made on legal / documents
Integrity / LEPL <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"> Does not own any hospitals, but management team has significant California hospital operating experience (former Dignity, CHW & Kindred executives) Partnering with Indian private equity fund (LEPL Projects Ltd) to fund transaction Integrity performed management presentations / facility tours in late June; LEPL is scheduled for visits July 28-29 APA issues list provided on July 10 and discussed July 15; awaiting response / feedback before APA is turned Modest diligence requests outstanding

Note: Reflects recent discussions with potential buyers

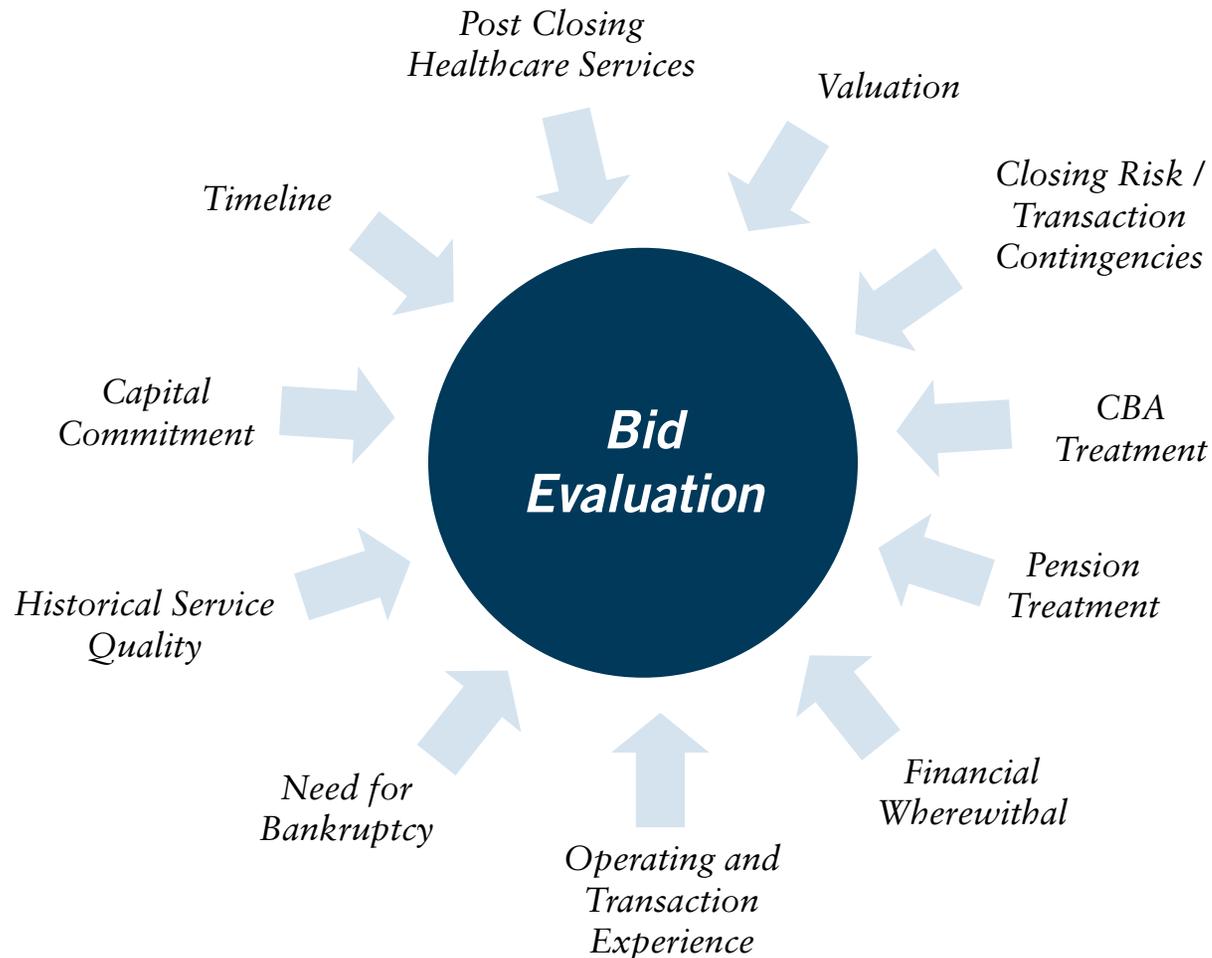
Discuss inclusion of page at informational LHM board meetings

Buyer	LHMs	Commentary
Blue Wolf <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"> ■ Has recently re-engaged in process after delaying progress due to the unwillingness of DCHS to meet exclusivity demands ■ Participated in management presentation / facility tours in late May, with a leadership meeting conducted on July 23 ■ Awaiting revised offer / first turn of the APA ■ Material diligence requirements remaining
Plymouth Holdings <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"> ■ Does not currently own or operate any acute care hospitals (used to own Alvarado Hospital) ■ Previously bid on individual LHMs (OCH and SLRH); revised its bid to a full system offer in late June ■ Engaged in bid clarification discussion and negotiation regarding bid concerns (in particular, does not want to assume / repay bridge loan) ■ Material diligence requirements remaining

Note: Reflects recent discussions with potential buyers

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

DRAFT

Confidential

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
Cash Inflows:													
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
Cash Outflows:													
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)
Change in Liquid Cash (Prior to Series 2014 Draws)	(56)	(26)	(10)	(14)	(15)	(8)	(2)	(28)	(12)	35	(11)	(7)	(153)
Projected 2014 Draws	-	37	10	14	15	8	2	14	-	-	-	-	100
Net Change in Liquid Cash	(56)	11	0	0	0	0	0	(14)	(12)	35	(11)	(7)	(53)
Ending Liquid Cash	\$ 44	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 55	\$ 41	\$ 29	\$ 64	\$ 54	\$ 47	\$ 47
Series 2014 Balance													
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

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

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



DAUGHTERS OF CHARITY HEALTH SYSTEM
EXECUTIVE SESSION
OF THE BOARD OF DIRECTORS
August 1, 2014

Executive Summary

Description: **6D. DCHS Corporate Approvals Plan**

Action Requested: *For Information Only*

Presented By: John Chesley, Ropes and Gray

Corporate Approvals Plan

The following outlines the corporate approvals required for a sale of the Local Health Ministries (LHMs) and related entities and it recommends a sequence for obtaining the required approvals.

The corporate approvals required depend on the way in which the transaction is carried out – by membership transfer, sale of assets, conversion of corporate status from nonprofit to business corporation format, or a combination of those methods. For that reason, the approvals plan contemplates board action at all relevant levels. Daughters of Charity Ministry Services Corporation (DOCMSC) and Daughters of Charity Health System (DCHS) board approvals are required regardless of the way in which the transaction is carried out. The following also plans for LHM, DCHS Medical Foundation (DCHS MF) and Caritas Business Services board approvals.

The fundamental principle underlying the process of corporate education thus far at the Local Health Ministry board level is that the LHMs are components of a unified health system through which the mission of the Daughters of Charity of St. Vincent de Paul, Province of the West (the “Province”) is carried out. All of the LHMS and DCHS are also joined together by shared liabilities to associates and creditors. Those shared liabilities make it imperative that a single solution be found; otherwise, great loss of value is likely to occur. The DCHS board has the

unique duty and ability to evaluate and select a system solution. In turn, each LHM as a part of the unified health care system has the duty to fulfill its corporate purpose of supporting DCHS and its other affiliates in furtherance of the mission of the Province.

1. Schedule

Step	Primary purpose of action	Governing body involved	Scheduled or Proposed Date
1	Presentation of Tier 1 proposals; board decision whether to close the process	DCHS board	August 1 (regular meeting)
2	Education of LHMs: presentation of finalists	LHM and DCHS Medical Foundation boards	Regularly scheduled board meeting dates: SMC– August 5 8:30 a.m. OCH – August 6 8:00 a.m. SLRH – August 7 12:00 p.m. SFMC – August 12 9:00 a.m. SVMC – August 13 8:30 a.m. DCHSMF – August 7 9:00 a.m.
The following portion of the schedule is tentative and subject to the status of negotiations with potential buyers.			
3	Selection of finalist and approval to proceed to signed Asset Purchase Agreement (APA)	DCHS board	August 22 (special meeting)
4	Presentation of finalist to LHM boards for concurrence; approval of related actions (asset sales, conversions of corporate status etc.)	LHM and DCHS Medical Foundation boards	August 26 (southern CA LHMs) and August 27 (northern CA LHMs and DCHS Medical Foundation)
5	Final approval by DOCMSC as Corporate Member of DCHS	DOCMSC board	August 28

2. Additional notes:

- If control of the philanthropic foundations will be transferred as part of the transaction, board action by the LHMs to amend foundation bylaws etc. to change membership will be required. These approvals would be obtained at Step 4.
- At Step 3, the DCHS board would also approve the submission of the application for AG consent and other implementation steps.

- Using these steps, we will seek all necessary corporate approvals needed to close, but additional approvals may be required after the APA is signed. The resolutions will give management the broadest discretion allowed by the approving boards to take needed actions to close the transaction.