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

*Friday, April 25, 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 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*

**ABSENT**

Sister Betty Marie Dunkel, D.C.

**GUESTS**

Mark Bane, Ropes & Gray (via teleconference), for a portion of the meeting  
Andrew Turnbull, Houlihan Lokey, for a portion of the meeting  
Scott Jackson, Houlihan Lokey, for a portion of the meeting  
Geoff Ligibel, Houlihan Lokey (via teleconference), for a portion of the meeting  
Cecily Dumas, Dumas & Clark  
Joe DeTrane, Grant Thornton, for a portion of the meeting  
Qi Wen Liang, Grant Thornton, for a portion of the meeting  
Joe Pirnik, Ernst & Young, for a portion of the meeting

**STAFF**

Mike Stuart, CFO  
Pascale Roy, General Counsel  
Annie Melikian, VP Operational Finance  
Beth Nikels, VP Marketing and Communications  
Nancy Carragee, VP Quality, for a portion of the meeting  
Samantha Schumacher, *Recorder*

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**1. CALL TO ORDER**

The Board Chair called the meeting to order at 8:35 a.m.

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**6. RESTRUCTURING UPDATE**

Andrew Turnbull, Scott Jackson and Geoff Ligibel from Houlihan Lokey (HL) provided an update on the restructuring and sale process.

The Board was presented with a revised report on the bids received. It was reported that two new System bids were received, five bidders have revised their bids subsequent to the prior month’s submission, four other bidders modified their bids, and five bidders are likely to withdraw. El Camino is interested in the Medical Foundation only. The next step with HCA is to get their leadership team out from Nashville, but they are not available for this visit until the end of May.

Mr. Jackson gave a brief overview of the process thus far. Management presentations at LHMs started last week. The teams presenting consist of the senior diligence teams from buyers and senior Management from the LHMs. The online data room has been made available to interested parties on a confidential basis. Parties are only allowed access to the documents related to the particular LHMs that they are interested in purchasing.

The Board engaged in more detailed discussion about two particular potential purchasers; Blue Wolf Capital (“Blue Wolf”) and Prime Healthcare (“Prime”). Blue Wolf has aligned itself with SEIU. The HL team is familiar with Blue Wolf and has worked on other unrelated deals with them. One of the outstanding issues with Blue Wolf is that the NDA signed by all bidders prevents potential purchasers from communicating directly with other parties, other than through HL. It is expected that modification of these terms would be made available to bidders who advance significantly in the diligence process. As a potential bidder, Blue Wolf has demanded, as a prerequisite to participating in due diligence, unrestricted access to speak with our labor unions and others without the presence of a DCHS representative. DCHS has insisted that a DCHS observer be involved in any such communications. Thus far, Blue Wolf has not accepted this proposal and SEIU has expressed their displeasure at DCHS’s approach.

After full discussion it was agreed that DCHS will not grant Blue Wolf’s request to modify the NDA as it would be a modification to the process and it is integral that the process be kept uniform for all potential bidders. Moreover, if special rights are granted to a single bidder, it could compromise the ability to obtain Attorney General approval since it could be perceived as creating an unlevel playing field.

The discussion turned to Prime. Mr. Issai and members of the Management Team met with Prime earlier in the month. Prime is a potential system purchaser but have also submitted bids for individual LHMs. Topics discussed in the meeting with prime were Prime's organization and their successes. Prime is considering making a bid that would simply be taking over the entire system's balance sheet. This would result in a purchase of the balance sheet rather than a member substitution. Prime is looking to have DCHS become a for-profit entity now as it would give them a tax benefit to convert to a not-for-profit at a later date. It is understood that Lex Reddy, Prime's CEO, is hoping to implement an initial public offering in the near future, and for that purpose needs to grow Prime's overall aggregate revenue. The acquisition of DCHS would be Prime's largest transaction to date.

Fr. Coleman asked if Mr. Reddy was more self-centered in his interest rather than being concerned for DCHS, as a system. It was observed that Prime has been able to find a way to make money in the past, while still keeping hospitals in their communities.

Prime's diligence needs are fairly limited and Prime would like to move fairly quickly. It would, however, be unwise to pre-empt other purchase options that have identified. Prime has indicated that it has a relationship with C.N.A. and that C.N.A. is supportive of this potential transaction. Prime would also step into, and become a member of, the multi-employer plan if Prime closed this transaction. None of their current 25 hospitals have a defined benefit plan. As for the Church Plan, Prime could make an election to convert to a single employer plan covered under ERISA.

The current draft of the Asset Purchase Agreement ("APA") provided by Prime does not assume any of the current Collective Bargaining Agreements ("CBAs"). Prime would like to reach new agreements with the unions.

It was discussed that DCHS needs to focus on advancing the process to encourage bidders' diligence and begin to draft agreements. We will continue to work with Prime on diligence and a draft agreement and keep the Attorney General apprised of the challenges faced in this process.

The Board asked what Catholic purchaser options have been presented. There have been none for the system as a whole. Dignity has put in a bid for SFMC. Dignity is scheduled for a site visit next week and has made good diligence requests. Providence has also put in a bid for SFMC and has been asked to increase its bid in order to stay competitive. Providence wants to stay involved in the process but needs to do some additional work before amending its bid.

The Board then discussed perception of Prime compared to the reality of Prime's position. The best indicator of future behavior is past behavior. As references, information has been provided by three of the four Sisters from other Catholic hospitals Prime has worked with in the past. Prime has a long run of positive results. It was reported that Prime's quality of care community impact, services and payor mix compare relatively well in the industry. There was also discussion of continuing DCHS's Catholicity and acquiring companies following the ERDs. Prime has discussed bringing on employees to assist, as well as having Sisters continue to work in the facilities.

Mike Stuart then led a follow up to the discussion regarding financing alternatives. The bondholder representative has spoken with three of the major bondholders. Two of the bondholders have expressed interest in providing additional tax-exempt financing. They asked for a letter of credit from the Daughters of Charity Foundation, and were advised that such a letter of credit would not be provided. It was agreed that parallel paths with other financing options will be pursued. Other parties would not be able to provide tax-exempt financing.

Mr. Turnbull, Mr. Jackson, Mr. Ligibel, Mr. Francis and Mark Bane left the meeting at this time.

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