



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

Friday, May 30, 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 Betty Marie Dunkel, D.C.
Sister Judith Lynn Gardenhire, D.C.
Sister Christina Maggi, D.C.
William Del Biaggio
S. Daniel Higgins, M.D.
Robert Issai, President & CEO, *Ex-Officio Voting Member*

GUESTS

Mark Bane, Ropes & Gray (via teleconference), for a portion of the meeting
John Chesley, Ropes & Gray (via teleconference), for a portion of the meeting
Andrew Turnbull, Houlihan Lokey, for a portion of the meeting
Geoff Ligibel, Houlihan Lokey, for a portion of the meeting
Cecily Dumas, Dumas & Clark

STAFF

Mike Stuart, CFO
Pascale Roy, General Counsel
Annie Melikian, VP Operational Finance
Beth Nikels, VP Marketing and Communications
Fr. Gerald Coleman, VP Corporate Ethics
Nancy Carragee, VP Quality, for a portion of the meeting
Robert Cook, VP Risk Management, for a portion of the meeting
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

The Board Chair called the meeting to order at 9:43 a.m.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

7. RESTRUCTURING UPDATE

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

The process is moving along very well. We received good results from the second round of bids. We will focus our efforts on the Tier A system bidders and encourage the LHM bidders to either become system bidders or fall off of the list. There does not appear to be any combination of the proposals in hand to purchase individual LHMs that will provide an adequate solution for our situation. HL reported that Blue Wolf, an interested party with ties to SEIU that was discussed at the last Board meeting, is now actively working on submitting a bid.

HL briefed the Board on its investigation of the financial strength of the various potential buyers, in order to identify buyers that may present a risk of inability to close if they must

secure funds to complete a transaction from third parties. HL indicated that several potential buyers are ventures of individuals who have substantial experience as hospital executives that are teaming up with financing sources that they have not worked with before, a combination that presents execution risk. Others come with sufficient internal resources that their ability to close is less conditioned on ability to obtain financing or to create a collaboration with financing sources.

The requirement of approval from the Attorney General to close a transaction was also discussed. We are working on getting as much guidance and support as we can from the Attorney General's office. Conway Collis and John Chesley have been working on keeping the Attorney General's office informed of where we are in the sale process. The Board asked a number of questions about the criteria applied by the Attorney General's office in its review, the time frames, and the history of various potential purchasers in transactions that have come before the Attorney General's office for review in the past.

Bidders' due diligence will be an important part of the process. There was a question about timeline and where we are now. It was indicated that we anticipate being able to close a transaction in 2014. In order to achieve this deadline we would need a signed Asset Purchase Agreement ("APA") by August. Robert Issai wants to be able to submit an APA for approval at the August 1 Board meeting. Discussion followed regarding matters that impact that goal. .

Labor unions were discussed next. DCHS will need to enter into effect bargaining with the unions representing associates regarding waiver of severance, pending grievances, PTO, Warn notices and other employer obligations, even if the purchaser assumes all of the CBAs. A discussion followed regarding whether effect bargaining should be started in the near term since all CBAs are in effect and there is no strike right. The Board discussed the impact of labor relations on the sale process with advice from Pascale Roy, General Counsel regarding negotiation duties and approaches to meeting DCHS's obligations.

Some of the purchasers have expressed that they would like to keep the names of the facilities intact after the transaction because of the benefits of name recognition in the communities that the LHMs serve. The Board discussed not being able to control compliance with the ERDs and other elements of Catholic health care ethics in the hospital setting after the transaction. Board members expressed concern that allowing the names to remain in use after the transaction is complete may risk of association of the name with morally impermissible activities of successor operators. The Board discussed a proposal that buyers be permitted to use the existing names of the LHMs if the names were combined with the buyer's corporate name in such a way that would make clear to the community the new ownership of the hospitals and that the hospitals are no longer Catholic in identity. It was agreed that the Board would continue to explore options. John Chesley advised the Board that the Attorney General by statute is not able to approve a transaction where the seller conditions the sale on a limitation of medical services provided by the buyer.

Mark Bane left the meeting at this time.