DAUGHTERS OF CHARITY HEALTH SYSTEM

BOARD OF DIRECTORS MEETING

Friday, October 3, 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. (via teleconference)
Sister Judith Lynn Gardenhire, D.C.
Sister Christina Maggi, D.C.
William Del Biaggio
S. Daniel Higgins, M.D. (via teleconference)
Robert Issai, President& CEO

GUESTS

John Chesley, Ropes & Gray
Andrew Turnbull, Houlihan Lokey
Scott Jackson, Houlihan Lokey
Cecily Dumas, Dumas & Clark
Steve Balalian, Consultant to DCHS
Conway Collis, GRACE

STAFF

Annie Melikian, CFO
Fr. Gerald Coleman, DCHS Corporate Ethicist
Beth Nikels, VP Marketing and Communications
Samantha Schumacher, *Recorder*

1. CALL TO ORDER

A quorum being present, the Board Chair called the meeting to order at 8:15 a.m.

2. **DISCERNMENT PROCESS, PART 1**

Fr. Gerald Coleman provided a background on the Vincentian Discernment Process. This process is based in prayer and our decision relies on God's guidance.

Sr. Marjory Ann Baez said that our ministry with the sick started almost 400 years ago and was the first ministry of the Daughters of Charity. It started in France and then moved to the United States. The first US hospital of the Daughters of Charity was founded in St. Louis, Missouri in 1828 and in 1858 in California. The Daughters of Charity have a wonderful history of healthcare ministry and today we are called to make a difficult decision, to ensure this care into the future. We must make the best decision for the ministry God has entrusted to us. We cannot continue to sponsor acute healthcare.

Fr. Coleman talked about St. Matthias, who was called the thirteenth apostle, who became an apostle after Judas committed suicide. He read from Acts 1:15-16, 20b and 21-26. Drawing from the words of St. Vincent, Fr. Coleman framed discernment as a combination of God's guidance, prayer and our actions. There was a discussion about what discernment is. Each person was then offered the opportunity to share their thoughts on how God has entered into their considerations throughout this process.

After participants shared their thoughts, everyone was invited to share what stood out to them or struck them about what was shared. Fr. Coleman then led the group in the Prayer of St. Francis.

3. [redacted]

[redacted]

Sam Singer of Singer and Associates, a Public Relations firm, entered the meeting at this time. Mr. Singer and his firm have been hired by DCHS to assist with public relations and communication surrounding the sale.

4. COMPARISONS OF THE PROPOSALS

Andrew Turnbull and Scott Jackson from Houlihan Lokey ("HL") presented a summary of bids. They discussed the process, gave an update on bids, highlighted elements that had changed since a summary was provided to the Board on September 29, focused on the key elements of each bid and addressed the positives and negatives of each bidder's proposal.

Before receiving the presentation of the proposals, the Board reviewed the primary objectives that it had articulated for the process in December 2013. Board members and the advisors then discussed the risks and benefits of deferring or making the selection now and agreed that the objectives take priority, yet the Board must act with due regard for the limitations of time available to reach closure.

5. BIDDERS TRANSACTION SUMMARIES

HL then summarized each bid in alphabetical order by bidder's name.

Blue Wolf Capital Partners ("Blue Wolf") is proposing a board substitution, disaffiliation of DCHS and its subsidiaries from the Daughters of Charity and continuation of operations under a new sponsor. Initially the new sponsor would need to be a Catholic Church-affiliated organization in order to allow the DCHS entities to continue their tax-exempt status, which requires Catholic sponsorship, while DCHS and its subsidiaries apply for IRS approval of stand-alone tax-exempt status. IRS approval could take a year to 15 months to obtain. Blue Wolf does not intend to refinance the 2005 Bonds so DCHS must maintain the tax-exempt status of DCHS and the hospital corporations in order for the bonds to remain outstanding without default. If Blue Wolf does not have a Catholic sponsor or stand-alone tax-exemptions for DCHS and its subsidiaries by closing, we could not close the transaction.

Blue Wolf does not propose an acquisition of assets and liabilities. Instead, it proposes that DCHS will remain as it is, with a new board identified by Blue Wolf that would put the Health System under management of a newly-formed Blue Wolf management company. The management company would charge DCHS $24 million a year in management fees payable by DCHS and its hospitals for three senior executives. HL has requested that Blue Wolf provide details of the services and personnel to be provided by the Blue Wolf management company but Blue Wolf has not provided further information. Under Blue Wolf's proposal, at closing the LHMs' medical office buildings ("MOBs") would be sold to a second Blue Wolf affiliate for approximately $100 million. Sale of the MOBs would require release of the MOBs by the master trustee of DCHS's bonds. The sale proceeds would be used to supplement the cash on hand at closing to fund Health System expenses gong forward while the Blue Wolf management company executes a turn-around plan. Blue Wolf has declined to share the turn-around plan with DCHS or its advisors for evaluation of its feasibility. If the proceeds of the MOB sale, plus Quality Assurance Fees due in 2015 plus the Health System's cash on hand at closing are not sufficient to meet Blue Wolf's target for cash on hand at closing, Blue Wolf's final agreement requires the Daughters of Charity to contribute

the balance. Blue Wolf initially stated that it would need a contribution from the Daughters of Charity of $60 million. HL's calculation showed that Blue Wolf had overlooked several significant cash costs that would reduce cash at closing so that the actual amount needed would likely be in the range of over $100 million, which HL brought to Blue Wolf's attention. After the proposal deadline, Blue Wolf reduced the estimate to $0, but did not revise its proposed agreement to eliminate the requirement of a contribution from the Daughters of Charity if Blue Wolf's estimate was not correct. As a result, the Board should anticipate that a cash contribution from the Daughters of Charity would be required at closing of the change of control proposed by Blue Wolf, and that the amount would likely increase by at least $10 million per month of delay in closing. For that reason, the lack of a clear solution to Blue Wolf's need for ongoing tax-exemption of the Health System, other than waiting for the IRS to issue tax exemptions, creates a material financial exposure in this offer.

With respect to the retirement plans, Blue Wolf has explored a merger of the RPHE with the Church Plan. The funding of both plans would continue to be provided by the Health System from operations. The Health System would be the same as it is now, without the MOBs, would have Provider Fee receivables and cash on the balance sheet. It would be funding approximately $2 million per month in management fees and the Unions would have to agree to concessions.

Blue Wolf originally proposed to make a contribution to the Daughters of Charity of $4.5 million per year for ten years. Once the working capital need estimate was dropped to $0, that annual contribution was removed from their offer without comment.

Under the Blue Wolf proposal, DCHS would repay the current bridge financing of $125 million with rolling 365-day loans, with those loans being replaced each year. The Series 2005 Bonds would be left outstanding, to be repaid from operations.

Members of the Board raised a number of questions, including whether Blue Wolf provided its turn-around plan for review or other information about how it intended to meet the challenges of Obamacare and structural problems with operations, such as high expenses and declining volume and adverse payor mix, what strength of balance sheet and experience do they bring and what organizational strength they bring to withstand turmoil during a turnaround. Blue Wolf has provided evidence of that it has commitments from UHW and UNAC for cost-saving concessions but terms have not been presented or approved. Blue Wolf's financing is contingent on union ratification of amended collective bargaining agreements before closing.

The Board then discussed a key element for Blue Wolf in its proposal: that, for the next ten years, the Blue Wolf investment entity would have the option to buy the assets of DCHS and its affiliates for the amount of their liabilities, thus converting DCHS into a for-profit for a price that would not necessarily be the fair market value of the Health System at the time. Blue Wolf, as a private equity fund, has emphasized that it is not interested in a long-term management services contract as its source of return on investment, but rather would look to a purchase transaction in the future at a favorable price. Conversely, if the turn-around is not successful, Blue Wolf can walk away completely and the Health System would be in the same if not worse situation than it is in now.

HL noted that Blue Wolf rejected DHCS's requirement that all bidders must agree to fund a deposit for the transaction. Without loss of a deposit as a deterrent, Blue Wolf could walk

away without any financial risk beyond transaction costs if it is unable to find a sponsor prior to closing.

In the discussion following, various points of view were expressed that the Blue Wolf offer, at its essence, is that they are confident in their ability to take our assets and manage them better than we can, that what Blue Wolf has offered, in the form of a management agreement, is not what we asked for when we solicited bids to purchase our health system and that while Blue Wolf would have strength in getting government concessions on a variety of levels, it has not offered a deposit, it is not a purchase of the Health System, and therefore it is not really an offer.

The Board Chair then called for a 10 minute break at this time.

After the Board reconvened, discussion turned to the question of the reasons that Blue Wolf would think its proposal is attractive to the DCHS Board. Mr. Turnbull surmised that Blue Wolf expected to be the only alternative at the end of the process and that DCHS would not have a choice. Their representatives indeed stated that all other alternatives would be like us "chasing angels" and would fall away, and then Blue Wolf would be able to come in and purchase the Health System at a cheaper price. Discussion of the Blue Wolf offer's terms then concluded.

The next potential purchaser discussed was Prime Healthcare ("Prime"). Prime's offer is structured as a member substitution and conversion of the DCHS entities to for-profit status for the majority of DCHS entities, with the nonprofit fund-raising foundations, DCHS Medical Foundation and St. Vincent Medical Center moving under the control of Prime's tax-exempt, nonprofit affiliate, Prime Healthcare Foundation. We had asked that the non-profit entity be joint and severally responsible for the pensions as the control group.

Prime and Prime Healthcare Foundation have committed to assume the pension liabilities of the Health System and to convert the Church Plan into an ERISA Plan and maintain it in accordance with ERISA requirements. The controlled group of Prime entities would thus backstop the pension liabilities of the Health System.

Prime agreed to a $40 million deposit which Prime will fund through letters of credit from Wells Fargo and City National Bank. If DCHS is unable to obtain regulatory approval for the transaction, it would retain $5 million of the $40 million deposit. The Board then discussed several aspects of the nonprofit component of Prime's structure, the sources of Prime's funding and regulatory approval challenges.

The offer of Prospect Medical Holdings ("Prospect") was discussed next. Prospect participated at the beginning of the process, dropped out during the second round and then came back in during the final round of bidding. Prospect is proposing an asset purchase and assumption of liabilities excluding the Church Plan. Prospect has agreed to provide capital or funds of $67 million at closing for DCHS to continue to sponsor the Church Plan so that the Plan would have assets equal to its liabilities on a go-forward basis. Prospect would also need modifications to the Collective Bargaining Agreements ("CBAs") to remove the obligation to fund the Plan, as well as to close the deal. Prospect has not provided commitments for the financing that it will need yet. Immediately prior to the meeting, Prospect advised HL that if we can solve the issue of the Church Plan that Prospect should be able to get commitment letters within 1-2 weeks. The HL team has been chasing them for information for a number of weeks and it feels like we are dragging them to the transaction. We don't have their financials and have very limited information from them. They don't

show behavior of a buyer who wants to double in size, which this transaction would allow them to do. We could work out the requirements to make the Church Plan work but we need to make sure the funding is adequate to limit the exposure to DOC.

Strategic Global Management's ("SGM") proposal was discussed next. SGM are also proposing an asset purchase to acquire all assets with the same carve-outs as Prospect. SGM would assume all liabilities except the Church Plan, which would be retained as a liability of DCHS. SGM proposes to provide DCHS with a commitment to fund the Church Plan with a $14 million annual contribution. That amount is based on a Towers Watson actuarial calculation. SGM proposes to secure its obligation to contribute $14 million annually to the Church Plan with a second priority lien and a guaranty from Integrated Healthcare Holdings of $60 million. They are also working with a well-known lender to obtain a commitment of a $220 million credit facility. SGM would sell the MOBs for $91 million and also raise $100 million in equity. SGM has also agreed to a $40 million deposit at signing.

The Board then entered into a discussion of the importance of choosing a proposal that does not leave the Health System financially strapped. SGM has not given the level of assurances recommended by HL that SGM will be able to fund the transaction at closing. SGM's proposal also would also require that DCHS retain funding and benefits administration responsibilities for the Church Plan. Union consent would be required to implement the Church Plan proposal. Our other option would be to cash out pensions, sunset the plan and reduce the liability. If the AG does not approve this deal, DCHS would retain $5 million of the deposit amount.

Dr. Higgins left the meeting at 11:00am.

HL then addressed three elements to consider when evaluating the bids: The valuation of the bid, the certainty of closing, and long-term viability of the successor's operations.

Blue Wolf offers a reasonable valuation. However, the mutual fund that is the majority bondholder of the 2005 Bonds and the sole bondholder of the 2014 Bonds objects to Blue Wolf as a purchaser and would challenge a Blue Wolf transaction. It could also could stop funding cash needs from the remaining proceeds of the 2014 Bonds, which are essential for ongoing operations past end of year. Blue Wolf thinks that the 2014 Bondholder would not actually stop funding cash draws and that DCHS should take that risk.

Prime offers a strong valuation, is the bidder with the most experience with turnarounds of financially distressed hospitals and it has the strongest balance sheet of the bidders to support ongoing operations and assumed liabilities, including the full-system assumption of the pension plans. However, it presents a risk of failed closing due to potential difficulty in obtaining regulatory approvals.

Prospect offers a strong valuation, but uncertainty relating to the funding of the Church Plan and a present absence of financing commitments. SGM presents a similar profile.

All potential purchasers have known about the deadlines presented and Prospect and SGM still have not been able to meet those deadlines with firm financing commitments and resolution of treatment of the Church Plan. The Board expressed reservations because of these unresolved issues with those offers, probed why SGM and Prospect have not met the timeframe for final firm offers on these points, noted that Blue Wolf's offer remains itself subject to financing contingencies and lack of a solution to the need for tax exemption and commented that they had hoped to have a choice that did not pose a regulatory approval

hurdle or inadequate wherewithal to support a turn-around. The Board then requested Mr. Collis's comments regarding the approach to the Attorney General's office given these constraints. The Board raised questions about employee retention, discussed the likelihood that any new operator would need to address operating costs with reductions, considered the history of bidders with respect to closure of acquired hospitals, further discussed the political pressure being brought to bear on the Attorney General, confirmed the amount of the deposit that could be retained if regulatory approval is not given, and acknowledged that at least two and possibly all four options before the Board carry a risk of a major battle.

[redacted]

6. BIDDERS OPERATIONAL QUALITY SUMMARY

Kathy Brown, Interim Vice President of Quality, introduced herself and gave background on her experience. She presented a chart comparing quality indicators of DCHS, Prime, SGM and Prospect. The categories compared were: Size/beds; Patient Safety; Evidenced Based Care; Readmission Rate; Mortality Rate; Patient Satisfaction; and Recommendation to Others. Ms. Brown provided brief explanations of each category, which were familiar to the Board members because of the Board's routine briefings on quality measures.

The summary sorted the performance based on the overall percentage of hospitals with at least one of these categories above the national average. One hundred percent of DCHS hospitals have at least one score above the national average. Prime's hospitals in California had 93% of those hospitals with at least one category above the national average. SGM had 43% and Prospect had 75%. The sample size for Prospect was only four hospitals. Because Blue Wolf is not an operator and its management company has not been formed, no scores were available for comparison of quality measures.

7. [redacted]

8. DCHS FINANCIAL & CASH FLOW STATUS REPORT

Annie Melikian, Chief Financial Officer, presented the System Overview and Cash Flow Status Report for Fiscal Year 2014.DCHS recorded a loss of from operations of $146 million for the fiscal year ended June 30, 2014.The Health System's consolidated outstanding obligations are approximately $960 million, an amount that does not include the 2014 Bonds.

To date, DCHS has drawn down $18 million on the 2014 Bonds and expects to draw down an additional $20 million soon. Days cash on hand as of June 30, 2014 was 31 days.

Ms. Melikian also spoke about DCHS's revenue structure. Approximately 73% of DCHS revenue is from government sources. The national average is 57%. A shift of 5% from government sources to commercial payors would increase annual revenue by $47 million. Ms. Melikian reported that we have also brought down our payables and our projected monthly cash includes Provider Fee due in December.

Discussion turned to timing of closing of the sale of the System. Mr. Chesley said that if we file with the AG's office in October, we would have 3½ months for that review/approval process and then likely 45-60 days after that for closing in late April or May 2015. Discussion followed, in which the Board was advised that if the AG's office did not approve the transaction DCHS would likely need to file for bankruptcy. Between signing and closing, DCHS will need to implement cost containment measures to slow cash burn.

9. COMMUNICATIONS PROCESS SUMMARY

Beth Nikels, Vice President Marketing and Communications, presented the draft of the communications timeline to the Board for information purposes. The Board is familiar with this format, as we have used it for past announcements. The team worked diligently to identify all items and constituents we need to communicate about and to. There will be talking points and Q&A along with a press release distributed when appropriate.

Mr. Singer left the meeting at this time.

10. [redacted]

11. DISCUSSION, QUESTIONS, FIVE MINUTES REFLECTION TIME, BREAK

The presentation and discussion period having concluded, Fr. Coleman and Sr. Marjory Ann invited the meeting participants to take five minutes of silent prayer/reflection time.

The Board dismissed the remaining advisors and staff, took a lunch break at 12:20pm and reconvened at 12:50pm. Dr. Higgins rejoined the meeting via teleconference at this time.

12. CLOSED SESSION - DISCERNMENT PROCESS PART 2

Fr. Coleman led the board in the next part of the discernment process. The Board discussed the presentations and discussions. Fr. Coleman posed three questions to consider in making our decision: (1) What option promotes the most good? (2) Have we carefully attended to Gospel values, the DCHS Mission (which was then read aloud) and Core Vincentian Values (which was then read aloud)? (3) Do we feel ready to make a final decision?

There was extensive discussion of which option would promote the most good. The Board focused on Vincentian values as most pivotal to the decision of the Board members. The

Board also referred to the bid evaluation criteria and discussed whether they remain the right criteria by which to make our decision.

The eleven criteria used to evaluate the bids were:

1. Post Closing Healthcare Services continuing
2. Valuation
3. Closing Risk/Transaction Contingencies
4. CBA Treatment
5. Pension Treatment
6. Financial Wherewithal
7. Operating and Transaction Experience
8. Need for Bankruptcy
9. Historical Service Quality
10. Capital Commitment
11. Timeline

The Board evaluated each bid based on these eleven criteria.

Blue Wolf

1. Post Closing Healthcare Services – AG will mandate continuation of essential services
2. Valuation – low
3. Closing Risk – high, many contingencies
4. CBA Treatment – MOUs with SEIU & UNAC, assume C.N.A. but would remain liability of DCHS under new control post-closing
5. Pension Treatment – negative, Church Plan would not be secured by any organizational strength beyond the current Health System
6. Financial Wherewithal – negative, and have not committed to a deposit
7. Operating and Transaction Experience – No real structure, they have two individuals with experience but the organization does not have operating experience
8. Need for Bankruptcy – no need, positive
9. Historical Service Quality – unknown
10. Capital Commitment – negative, limited, low amount, would be leveraging our assets to have capital to work with
11. Timeline – negative; not really a new operator, only a management change

Prospect Medical

1. Post Closing Healthcare Services – AG will mandate continuation of essential services
2. Valuation – negative, funding not confirmed, no finalized financing plan
3. Closing Risk – high, don't know how SEIU will react, too many high risk contingencies
4. CBA Treatment – Closing contingency, unions would have to agree on pension treatment
5. Pension Treatment –Church Plan would not be secured beyond funding offered
6. Financial Wherewithal – have not provided any committed funding source for the transaction
7. Operating and Transaction Experience – lowest quality and patient experience scores. Limited transactional experience, limited overall experience
8. Need for Bankruptcy – no need, positive
9. Historical Service Quality – limited statistics and information available. Lower scores than other bidders
10. Capital Commitment – no committed funding

11. Timeline – unacceptable, 1-2 weeks still, unknown when they would be able to close, have been unable to meet deadlines thus far

Strategic Global Management

1. Post Closing Healthcare Services – AG will mandate continuation of essential services
2. Valuation – negative, funding not confirmed, no finalized financing plan
3. Closing Risk – moderate, many contingencies, funding not confirmed, leave the Church Plan with DCHS with uncertain funding
4. CBA Treatment – all assumed
5. Pension Treatment – no Church Plan, no negotiation
6. Financial Wherewithal – no secured funding
7. Operating and Transaction Experience – both good but limited experience with a transaction of this size
8. Need for Bankruptcy – no need, positive
9. Historical Service Quality – lowest quality scores
10. Capital Commitment – no funding in place, unable to determine whether it will materialize given the information we have
11. Timeline – questionable, funding not confirmed

Prime Healthcare

1. Post Closing Healthcare Services – AG will mandate continuation of essential services, best performance record in California hospitals, supersedes other bidders
2. Valuation – concrete, assumption of all assets and all known and unknown liabilities.
3. Closing Risk – very high, not due to financial deficiencies, due to labor opposition. No closing contingencies
4. CBA Treatment – assume but will try to negotiate after closing. Have reached out to SEIU to negotiate with no success
5. Pension Treatment – all guaranteed by full system balance sheet
6. Financial Wherewithal – strongest of all options
7. Operating and Transaction Experience – significant operating and transaction experience in California
8. Need for Bankruptcy – no need, positive
9. Historical Service Quality – highest of all bidders in the quality indicators
10. Capital Commitment – extensive
11. Timeline – best option to us in our financial condition

The Board then turned to the question of how this decision fits with the Daughters of Charity's mission. The Board engaged in a frank discussion of the reality of the situation: financial circumstances mandate a decision now. We have lived the Vincentian Values in our oversight of the Health System but the eventual bidder/purchaser will not be held to the same Vincentian Values. The poor will be cared for but not the same way that DCHS has cared for them. Healthcare will be continuing in the communities we have served, though there will not be an institutional commitment like we have to the healing ministry of Jesus. Our associates who live our mission and who continue to work in these hospitals will continue our mission but it will not continue from an institutional perspective.

Healthcare is a social good. We are helping to secure the continuation of that social good. We have done the best we can for our associates.

The Board then considered the question of what option promotes the most good. Taking care of all of our liabilities, satisfying promises made to our bondholders and to our pension

beneficiaries. We have gone through a very extensive process and asked a lot of questions and really thought this out well.

Last, the Board reflected on the question of whether its members have taken the Gospel values and Vincentian values to heart in making this decision.

Sr. Marion reminded the Board that everyone in this meeting must keep strict confidentiality.

A resolution was placed before the Board. Mr. Chesley returned to the closed session to answer questions regarding the resolution.

ACTION: A motion was made, seconded and unanimously approved to select the offer of Prime Healthcare and to approve the resolutions presented to the Board attached hereto as **Exhibit** A with changes to clarify references to the sole member of this Corporation as the parent of the health system.

13. CONSENT AGENDA

A. DCHS Board Meeting Minutes
   i. August 29, 2014

ACTION: A motion was made, seconded and carried approving the August 29, 2014 Board minutes as presented.

DCHS Staff was notified of this Board approval on October 3, 2014.

Bill Del Biaggio left the meeting at 2:00pm.

14. OTHER BUSINESS

There being no further business before the Board, after a concluding prayer, the meeting was adjourned at 2:07 p.m.

NEXT MEETING

The Board Chair announced that the next meeting of the DCHS Board of Directors will be on October 24, 2014.

Sister Janet Barrett, D.C.
Sister Janet Barrett, D.C., Secretary

12-9-14
Date

Samantha Schumacher
Samantha Schumacher, Recording Secretary

December 9, 2014
Date

SJB/sss

EXHIBIT A

DAUGHTERS OF CHARITY HEALTH SYSTEM

Resolutions of the Board of Directors

October 3, 2014

WHEREAS, Daughters of Charity Ministry Services Corporation, a nonprofit religious corporation (the "Corporation"), is the parent of a nonprofit health care system (the "Health System") sponsored by the Daughters of Charity of St. Vincent de Paul, Province of the West (the "Province");

WHEREAS, as the parent of the Health System, this Corporation oversees, coordinates and supports the local health ministries sponsored by the Province, which include the following (i) the nonprofit religious corporations St. Francis Medical Center, St. Vincent Medical Center, Saint Louise Regional Hospital, O'Connor Hospital and Seton Medical Center (collectively, the "LHMs"), and (ii) the related entities that support those sponsored ministries: DCHS Medical Foundation, Caritas Business Services, De Paul Ventures, LLC, and Marillac Insurance Company, Ltd., St. Francis Medical Center Foundation, St. Vincent Foundation, Saint Louise Regional Hospital Foundation, O'Connor Hospital Foundation and Seton Medical Center Foundation (collectively with the LHMs, the "Affiliates");

WHEREAS, the Province has determined, after careful study and reflection, that continuing sponsorship of the Health System is not tenable;

WHEREAS, the Board of Directors of the Corporation (the "Board") has accordingly determined that it is in the best interest of the Corporation and its Affiliates to seek a transfer of control of the Health System with the following objectives: (1) to preserve health care services in the communities served by each of the LHMs; and (2) to fulfill the Health System's commitments to its stakeholders, including its associates, bondholders and retirees;

WHEREAS, the Board has engaged in an extensive process over the past year to find options that meet these objectives to the greatest extent possible, and the Board has overseen its financial advisors' efforts through regular reports, comparisons of proposals received at each stage, and evaluation of individual and full Health System solutions;

WHEREAS, the LHMs are linked by major joint liabilities, including obligations to bondholders, retirees, associates under collective bargaining agreements and parties to system-wide contracts (the "Health System's shared obligations"), necessitating a single approach under this Board's supervision to the development and selection of proposals;

WHEREAS, in order to evaluate proposals from potential transaction parties, the Board established the following criteria: the ability to sustain post-closing health care services; a fair valuation; the ability to close a transaction; treatment of collective bargaining agreement obligations; treatment of pension obligations, especially those under the defined benefit church plan; the financial wherewithal of the prospective buyer; the operating and transactional experience of the prospective buyer; whether the buyer seeks to close a transaction under bankruptcy court supervision; the historical service quality of health care provided by potential buyer; the capital commitment offered by the prospective buyer; and the overall transaction timeline;

WHEREAS, the Board has reviewed and deliberated on all of the options and proposals presented by its independent advisors at length at each of its meetings for the past year;

WHEREAS, at the Board's direction the Corporation's financial advisor in three rounds of bids solicited proposals on individual LHMs, the Health System's portfolio of medical office building properties and the Health System as a whole, and the Board has concluded that no combination of individual proposals adequately covers Health System shared obligations, necessitating a transaction that conveys control of the entire Health System;

WHEREAS, the Board has reviewed and discussed the options and proposals presented by its independent advisors at length at each of its meetings for the past year, has reviewed and discussed the materials provided to the Board for review and attached as Exhibit A (the "Board Materials"), the definitive agreement setting forth the terms of the Transaction (the "Transaction Agreement") and similar presentations at past meetings; and today, completing the process of discernment that began in June 2012, this Board has concluded that the proposed transaction outlined in the attached Exhibit B (the "Transaction") will best satisfy the Corporation's key objectives and criteria;

WHEREAS, the Transaction is subject to approval by the Holy See with respect to alienation of the Province's stable patrimony and other canonical assets, which comprise a substantial portion of the property used by the LHMs;

WHEREAS, the Transaction is subject to the approval and consent of the California Attorney General and other state or federal governmental entities;

WHEREAS, the majority/all of the Directors of the Board have been confirmed to be present and voting and none are Interested Directors as such term is defined in Section 5233 of the California Corporations Code; and

WHEREAS, the requirements of applicable law with regard to self-dealing transactions and the Corporation's policies on conflicts of interest have been considered and addressed.

NOW, THEREFORE, IT IS HEREBY:

RESOLVED: That the Board hereby determines that the Transaction is in the best interest of the Corporation and the Affiliates; and

RESOLVED: That the Transaction is hereby approved, and that this Board recommends approval thereof by the Corporation's sole corporate member, Daughters of Charity Ministry Services Corporation ("Ministry Services Corporation"); and

RESOLVED: That each of the individuals holding the following offices of the Corporation from time to time are designated an "Authorized Officer" for all purposes in connection with the Transaction:

Chief Executive Officer	Board Chair
Chief Financial Officer	Board Treasurer
	Board Vice-Chair

RESOLVED: That the execution and delivery of the Transaction Agreement and all other agreements, instruments and documents named in Exhibit A or otherwise contemplated by the Transaction Agreement (the "Transaction Documents") and the performance of all obligations of this Corporation and each of its

Affiliates contemplated by the Transaction Documents are hereby approved and authorized; and

RESOLVED: That the articles of incorporation and bylaws of the Corporation and the Affiliates be amended as necessary or advisable to consummate the Transaction; and that each of the Authorized Officers acting singly be authorized, empowered and directed, on behalf of this Corporation acting for itself and as sole member of the Affiliates to execute and file any such amendments to the articles of incorporation and bylaws of the Corporation and the Affiliates, related actions by written consent of this Corporation as sole member, and other evidence of approvals required by reserved powers under applicable bylaws of Affiliates; and

RESOLVED: That each of the Authorized Officers acting singly be authorized and directed (a) to prepare, execute and file a written notice, application and other related materials with the California Attorney General regarding the Transaction pursuant to the requirements of Section 5914 of the California Corporations Code and the regulations promulgated in the California Administrative Code and to negotiate and agree to consent conditions and other requirements of such approval, and (b) to prepare, negotiate, execute and deliver all notifications, filings documents and certificates, and take all other actions, as may be reasonably necessary or appropriate, and to obtain all approvals or consents to the Transaction from the California Attorney General or any other state or federal government agency or regulatory body; and

RESOLVED: That following the receipt of all approvals or consents and the satisfaction (or waiver by an Authorized Officer) of the conditions precedent to the Transaction, each Authorized Officer acting singly is authorized to execute and deliver such certificates, affidavits, deeds, releases, other documents, actions by written consent, waivers or conditions, directions and instruments; to approve regulatory conditions; to modify or waive closing conditions; and to take such other actions as each Authorized Officer so acting deems to be necessary or desirable to carry out the intent of these resolutions to consummate the Transaction and to address post-closing regulatory, contractual and other requirements; such execution and delivery or other action by an Authorized Officer to be conclusive evidence of authorization by this Board; and

RESOLVED: That all acts and things done by any director, officer, employee or agent of the Corporation, on or prior to the date hereof, in the name and on behalf of the Corporation, in connection with the Transaction or any matter contemplated by or described in the foregoing resolutions, are in all respects ratified, approved, confirmed and adopted as acts and deeds by and on behalf of the Corporation; and

RESOLVED: That this Corporation ask each of the Affiliates' boards of directors (i) to concur in the Transaction as being in the Affiliates' best interests and (ii) to approve all Affiliate actions needed to implement the Transaction; and

RESOLVED: That, in accordance with the Corporation's bylaws, these resolutions will become final, binding action of the Corporation when such action has been approved or ratified by final action of Ministry Services Corporation acting in

accordance with the Corporation's bylaws and the bylaws of Ministry Services Corporation.

The undersigned Chairperson and Secretary of the Board do hereby certify that this document is a true and complete copy of the resolutions adopted by the Board on October 3, 2014.

_____
Sister Marjory Ann Baez, DC
Chairperson, DCHS Board of Directors

_____
Sister Janet Barrett, DC
Secretary, DCHS Board of Directors

EXHIBIT B

Summary of Definitive Agreement Terms: Prime

Name of the Agreement	• Definitive Agreement

Parties to the Agreement	• DCHS Parties
	  ◦ DOCMSC
	  ◦ DCHS
	• Acquirors
	  ◦ Prime Healthcare Services, Inc. ("Prime Healthcare")
	  ◦ Prime Healthcare Foundation, Inc. ("PHF")

Form of Transaction	• Membership substitution and conversion of membership interests
	  ◦ Prime Healthcare or its designated affiliates to acquire ownership or control of DCHS and its affiliates through membership substitution, stock or asset transfer, merger or other means; DCHS and St. Francis Medical Center, St. Louise Regional Hospital, O'Connor Hospital, Seton Medical Center and Caritas Business Services to convert to California business corporations
	  ◦ PHF to become the sole corporate member of St. Vincent Medical Center, DCHS Medical Foundation and the LHM Foundations and each to convert to a California nonprofit public benefit corporation (if not currently a public benefit corporation)
	  ◦ Final structure of assets, liabilities and ownership interests will be determined by DCHS and Acquirors by closing.

Necessary Approvals	• All actions required by statute, the articles of incorporation and the bylaws of each of the DCHS entities are authorized to be taken, including without limitation approval by each member and board of directors of articles of amendment, amendment of bylaws, conversion of corporate status from religious or public benefit to business corporation type, conversion to limited liability form, and transfer of all or substantially all assets, in each case as necessary or advisable to implement fully the intent of the approving resolutions and the terms and conditions of the Transaction.
Approved Ancillary Agreements	• Assignment and Assumption agreement between DCHS and DOCMSC transferring the retained assets from DCHS to DOCMSC • Escrow Agreement between DCHS and Prime Healthcare