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HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING

Wednesday, September 27, 2000
HEVH Board Room - 7:15 a.m.

A G E N D A

- I. CALL TO ORDER Robert Gordon
- II. APPROVAL OF MINUTES ** ACTION ITEM Robert Gordon
July 19, 2000 Board of Directors Meeting
- III. PRESIDENT'S REPORT Jim Maki
 - A. HEVH Transition
 - B. 2000/2001 DSH Preliminary Qualification
 - C. Seismic Study
- IV. MEDICAL STAFF REPORT ** ACTION ITEM Marc Domaguing, M.D.
- V. FINANCE REPORT ** ACTION ITEM Cindy Trousdale
 - A. Finance/Corporate Compliance Committee Meetings
Of August 22, 2000 and September 26, 2000
 - ** B. Financial Statement – Eight Months Ended August 31, 2000
- VI. PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM
 - ** A. Quality Council Report
 - ** B. Patient Satisfaction Survey Summary Report
 - ** C. Environment of Care Report – 2nd Quarter 2000
 - ** D. Risk Management Report
- VII. OTHER BUSINESS
- VIII. ADJOURNMENT

NEXT SCHEDULED MEETING:

WEDNESDAY, NOVEMBER 15, 2000 - 7:15 A.M. - HEVH BOARD ROOM

B. HEVH Transition

Mr. Maki reported that 20 companies have approached Shattuck Hammond regarding an interest in purchasing HEVH, seven of which have requested Confidentiality Agreements; 6 of which were returned to Shattuck Hammond.

Medical Pathways has expressed a strong interest. Citrus Valley Healthcare Partners have had a site visit of HEVH, but are not interested in proceeding with a purchase. The goal is that by July 20, 2000, any interested party would present an offer to Shattuck Hammond. If Medical Pathways purchases HEVH, they intend to run all capitation through the hospital, and the IPA takes the risk. There are 23,000 lives in Medical Pathways' IPA, East Valley Select.

SCHS will consider all options including total shut-down costs, maintaining ownership and creating a deal with Medical Pathways. It was noted that while closure of the hospital is an option, it would be very expensive to do so.

Mr. Carmack stated that all parties that have shown an interest in possible purchase of HEVH have been diligently pursued via personal phone conversations by Shattuck Hammond. It will be difficult for SCHS to fund HEVH beyond this year.

HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING

Wednesday, November 15, 2000
HEVH Board Room - 7:15 a.m.

A G E N D A

- | | | |
|-------|---|----------------------|
| I. | CALL TO ORDER | Robert Gordon |
| II. | APPROVAL OF MINUTES ** ACTION ITEM
September 27, 2000 Board of Directors Meeting | Robert Gordon |
| III. | CHAIRMAN'S REPORT | Robert Gordon |
| | A. Appointment of Nominating Committee | |
| | B. Review of Bylaws | |
| IV. | PRESIDENT'S REPORT | Jim Maki |
| | A. HEVH Transition | |
| | B. Governing Board Self Evaluations | |
| | C. Mission/Vision/Values Statements – Annual Review | |
| V. | MEDICAL STAFF REPORT ** ACTION ITEM | Marc Domaguing, M.D. |
| VI. | FINANCE REPORT ** ACTION ITEM | Jim Maki |
| | **A. Finance/Corporate Compliance Committee Meetings
Minutes of September 26, 2000 | |
| | ** B. Financial Statement – Ten months Ended October 31, 2000 | |
| VII. | PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM | John Zimmerman |
| | ** A. Patient Satisfaction Survey Report | |
| | ** B. Risk Management Report | |
| | ** C. Environment of Care Report, 3 rd Quarter 2000 | |
| | D. Evaluation of Services provided by Horizon | |
| | E. Report on Heart Attacks Outcomes, 1994-1996 | |
| | F. Hospital Plan for Provision of Care – Annual Review | |
| | G. Hospital Performance Improvement Plan – Annual Review | |
| VIII. | EDUCATION/ORIENTATION | Jim Maki |
| IX. | OTHER BUSINESS | |
| | A. Schedule of meetings 2001 | |
| X. | ADJOURNMENT | |

NEXT SCHEDULED MEETING
WEDNESDAY, JANUARY 24, 2001 – 7:15 A.M. – HEVH BOARD ROOM

III. PRESIDENT'S REPORT

A. HEVH Transition

Mr. Maki reported a very positive meeting with the SCHS Board of Directors yesterday. At the present time SCHS is not considering closing the hospital as an option. Negotiations continue with approximately six prospective buyers, but we are still waiting for a reasonable offer. The SCHS Board would like to sell to someone who will be community focused and continue to operate as an acute care hospital. In the meantime, efforts continue to find ways to make the hospital more profitable.

Mr. Caswell mentioned that we should consider the long-term commitment of the medical staff.

Dr. Sahhar also agrees and feels that a meeting needs to take place with the medical staff to reassure them that everything is being done in the best interest of the hospital, the medical staff and the community.

**HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING**

**Wednesday, January 24, 2001
HEVH Board Room - 7:15 a.m.**

A G E N D A

- | | | |
|-------|--|----------------------|
| I. | CALL TO ORDER | Robert Gordon |
| II. | APPROVAL OF MINUTES ** ACTION ITEM
November 15, 2000 Board of Directors Meeting | Robert Gordon |
| III. | CHAIRMAN'S REPORT | Robert Gordon |
| | A. Election of Board Members by the Nominating Committee | |
| IV. | PRESIDENT'S REPORT | Jim Maki |
| | A. HEVH Transition | |
| V. | MEDICAL STAFF REPORT ** ACTION ITEM | Marc Domaguing, M.D. |
| VI. | FINANCE REPORT ** ACTION ITEM | Jim Maki |
| | **A. Finance/Corporate Compliance Committee Meetings
Minutes of October 24, 2000 and November 14, 2000 | |
| | ** B. Financial Statements – Twelve months Ended December 31, 2000
(Not available until the day of the meeting) | |
| VII. | PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM | John Zimmerman |
| | ** A. Quality Council Report | |
| | ** B. Patient Satisfaction Survey Report | |
| | ** C. Risk Management Report | |
| | ** D. Environment of Care Report, 4th Quarter 2000 | |
| | ** E. Annual Employee Health Report | |
| | F. Conflict of Interest | |
| | G. Critical Incident Review | |
| VIII. | EDUCATION/ORIENTATION | Jim Maki |
| IX. | OTHER BUSINESS | |
| X. | ADJOURNMENT | |

**NEXT SCHEDULED MEETING
WEDNESDAY, MARCH 28, 2001 – 7:15 A.M. – HEVH BOARD ROOM**

IV. PRESIDENT'S REPORT

A. HEVH Transition

Mr. Maki thanked everyone who participated in the interviews conducted by the Camden Group. The sales agreement has not been signed yet. The appraisal took longer than anticipated. The Mardel Group is working on getting their financing in order and the sales agreement should be signed within the next couple of weeks. They are also looking to sign an interim management agreement with SCHS while the sale is going through. The census has held at an average of 46-47 this month.

MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
April 28, 2000

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, April 28, 2000 in the Board Room of Methodist Hospital, 300 West Huntington Drive, Arcadia, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble	Leonard M. Marangi
Arne Kalm	Lois S. Matthews
John F. Kooken	Francis X. McCormack
Craig D. Lucas	

EXCUSED:

Gleeson "Tige" Payne
Robert S. Rollo

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack	Dennis M. Lee
William Caswell	James Maki
Robert Gordon, Sr.	Cindy Trousdale

Chairman McCormack called the meeting to order at 7:35 a.m.

MINUTES

The minutes of the Board of Directors meeting of March 31, 2000 were reviewed. Mr. Carmack recommended a change to the summary under "SCHS Audit" on page four. His suggested change was to clarify that Kathy Schneider was not actually performing the audit but will be leading and organizing the effort.

There was also a question raised about the amount of the HEV Capital Budget that would need to be approved by the SCHS Finance Committee. Discussion of this was deferred to later in the meeting.

It was moved, seconded and carried to approve the minutes of the March 31, 2000 meeting with the above modification.

CHAIRMAN'S REPORT

Ratify Actions Taken by Board at March 31, 2000 meeting

Mr. McCormack requested that the Board ratify the actions taken by the Board at the March 31, 2000 meeting since there was not a quorum.

It was moved, seconded and carried to ratify the actions taken by the SCHS Board at its March 31, 2000 meeting.

SCHS Strategic Planning Ad Hoc Committee

Mr. McCormack gave a brief summary of the most recent meeting of the SCHS Strategic Planning Ad Hoc Committee. At that meeting the committee heard a presentation from Mr. Michael Madden, CEO, Providence St. Joseph's Hospital in Burbank. There may be another meeting of this committee in May to continue their discussions.

PRESIDENT'S REPORT

SCHS Activities Update/Status

Mr. Ralph indicated that both Methodist Hospital and Huntington Memorial Hospital are performing better than their budgets through the first quarter of this fiscal year. Operations redesign efforts continue at both facilities. The Joint Commission on Accreditation of Healthcare Organizations will be surveying both Huntington and Methodist in August and September of this year.

Huntington East Valley Proposals

Mr. Ralph summarized the proposals that had been received from three consultants that would assist us in developing a strategic direction for Huntington East Valley Hospital. The companies were Shattuck Hammond Partners, Cain Brothers and Deloitte & Touche. These companies were interviewed by Mr. Ralph, Mr. Carmack, Mr. Caswell and Mr. Maki. It is the recommendation that we retain Shattuck Hammond Partners. They are the most qualified company to help us in this very important project.

In response to a question, it was indicated that the direction that Huntington East Valley Hospital would take would likely involve a name change. It was mentioned that the transaction time frame would be from three to six months. There was also discussion about the cost of a fairness opinion. Mr. Ralph will clarify this with Shattuck Hammond. Mr. Gordon expressed a concern

with respect to Citrus Valley Health Partners as a potential partner. Mr. McCormack mentioned that he has looked at the contract and has several suggestions to make and would do so at a subsequent time with Mr. Ralph.

It was moved, seconded and carried to approve retaining Shattuck Hammond Partners in concept, subject to Mr. McCormack's review of the contract.

FINANCE COMMITTEE

HEVH Cash Flow

Mr. Maki gave a summary of Huntington East Valley's cash position after the first quarter of this year. They are faced with the likelihood of needing approximately \$1.4 million dollars in cash to pay claims from 1999 under their capitated agreements. There was also approximately \$540,000 in cash that is needed to pay down obligations in their accounts payable. The request is for a cash call of \$1,940,000 of which 2/3 would be provided by Huntington Memorial Hospital and 1/3 by Methodist Hospital of Southern California. Mr. Maki pointed out that the estimated IBNR obligation for the full year is \$2.1 million dollars of which approximately \$700,000 would be paid to Huntington Memorial and Methodist Hospital. Mr. Maki indicated that they are continuing to look at ways of reducing their operating expenses. The total cash needs for the entire year are anticipated to be approximately \$3.7 million dollars. The balance of these cash needs would be reviewed at a future date.

There were questions raised about the "due to affiliates" line items in the balance sheet. Information was given and the amounts that appear in these categories were clarified. In response to a question as to how this cash call will be implemented, it was agreed that this should be an inter-company advance and/or equity transfer from the hospitals to SCHS.

It was moved, seconded and carried to approve a capital call to Huntington Memorial and Methodist Hospital in the amount of \$1,940,000.

SoCal Clini Lab Update

Mr. Carmack gave a brief update on Southern California Clini Lab dissolution. We are finalizing the remaining transactions. A request has been made to Community Bank to extend the term of their loan for one to two years under current terms. It is anticipated that there will not be any difficulty with this request. The other main issue relates to the costs associated with moving the core lab back to Huntington Memorial Hospital. The total cost of this move is estimated at approximately \$2.25 million. We are analyzing which portion of this cost should be allocated to SCCL as a function of the dissolution.

Managed Care Update

Mr. Caswell gave an update on various subjects under managed care. Medical Pathways is still processing claims for APPA. We are still conducting a 100% audit on all approved claims. We are also working with the hospitals to get all of their claims processed so that we can have a final reconciliation of the APPA dissolution. Mr. Caswell also informed the Board that the capitated contracts under the old HPG physician organization have been terminated. To date there have been no noticeable movement of patients as a result. We are also moving forward on terminating the capitated agreements through Medical Pathways. Most of these capitated contracts should terminate by July 2000 with the exception of PacifiCare, Aetna and Blue Cross. Mr. Caswell is meeting with these organizations to negotiate termination of those capitated agreements.

SCHS Corporate Financials

Mr. Caswell briefly reviewed the performance of the SCHS actual to budget financials. There are no significant variances from the budget. Cash balances are appropriate to handle monthly expenses. He mentioned that the resolution to the master lease on the Berger building appears to be approximately \$14,000 over what was budgeted. Mr. Marangi recommended that we obtain a release from Pacific Clinics in the event that they were to default on their lease payments in the future.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:05 a.m. The next meeting of the Board will be held on May 26, 2000 at 7:30 a.m. at Huntington Memorial Hospital.


Respectfully submitted,



Craig D. Lucas
Secretary

MEMORANDUM

TO: SCHS Finance Committee
John F. Kooken, Chairman
Arne Kalm
Leonard Marangi

FROM: Stephen A. Ralph 

DATE: April 18, 2000

As was decided at the January SCHS Board meeting, we have been pursuing the overall strategy around Huntington East Valley Hospital. To that end I wanted to update you on where we are, as well as have you review the attached proposals we received from three appropriate firms to assist us in this transaction.

First, as I believe we concluded in January, our strategic direction is to continue to look for ways of divesting ourselves of Huntington East Valley as soon as possible. On the short term, we are continuing to look at how we can effectively manage East Valley while minimizing the amount of cash necessary from the other two hospitals to support it. However, given the operating losses that we anticipate for 2000, as well as Huntington East Valley's IBNR of approximately \$2 million that is on their books, it is clear that an infusion of cash will be necessary for the hospital.

I have met with representatives of Citrus Valley Health Partners, Tenet Healthcare and the County of Los Angeles as it relates to their interests in Huntington East Valley. This was obviously exploratory only and no details and/or aspects of any transaction were discussed. In my meetings with Pete Makowski of Citrus Valley Health Partners, he indicated a strong interest in Huntington East Valley, particularly from a market share perspective as it relates to Foothill Presbyterian. In conversations with Tenet, they, too, express some interest in East Valley, also from a market perspective as it relates to San Dimas Community Hospital, which is a facility that they own.

Finally, we have had a couple sessions with the County, but this may go nowhere, mostly because the County is still unsure as to what they are going to do with respect to replacement of the downtown County facility, whether or not they are going to move forward with the Baldwin Park facility and, to be quite honest, the political climate would make this a long shot. Nevertheless, we will keep all of our options open.

To that end, myself, along with Tim Carmack, Bill Caswell and Jim Maki, have interviewed three consultants/advisors who we could retain to assist us in this overall transaction. Two of them tend to be more of the investment banker/merger and acquisition type in the healthcare business while the third, Deloitte, is more of a consultant. I believe it is critical that we retain one of these groups to help us with this transaction. This will be a critical and time-consuming effort and we need the talent not only to make it happen, but to generate as much value for us as soon as possible.

Following our review of their proposals as well as the interviews, our recommendation is to retain Shattuck Hammond Partners. Michael Hammond, who is well known to many of us, as well as to Citrus Valley and Tenet, has considerable experience in this particular market and is certainly familiar with the San Gabriel Valley, having put together the Foothill/Citrus Valley deal, as well as other Tenet activities in the Greater Los Angeles area. While I recognize the overall fee for his firm may be a little more expensive, I think what we wind up with is a much better outcome. Our second choice would be Cain Brothers and Steve Hollis, with whom some of you are familiar. I think Steve, too, knows this market and is certainly familiar with Huntington East Valley, having done the original Glencomm/SCHS transaction. I do believe, however, that he is not as sophisticated in terms of knowing Tenet and some of the other players.

Finally, we did not feel that Deloitte brought the kind of knowledge or approach that we are looking for. They were looking for more of a consulting engagement and do not bring the experience of what we are looking for in terms of a divestiture of the organization.

I would like to make a decision as soon as possible in terms of who to retain and get on with this process. The market for acute hospitals is not very good, so the sooner we can get on with it, the better off we will be.

Please review these proposals and let me know your thoughts.

Encls.

cc: Francis X. McCormack
Tim Carmack
Dennis Lee
James Maki
Bill Caswell

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
June 30, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, June 30, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
Arne Kalm
John F. Kookan

Craig D. Lucas
Leonard M. Marangi
Francis X. McCormack

EXCUSED:

Lois S. Matthews
Gleeson "Tige" Payne

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
William Caswell
Dennis M. Lee

James Maki
Cecilia Montalvo
Dodie Ulrich

Chairman McCormack called the meeting to order at 7:40 a.m.

MINUTES

The minutes of the Board of Directors meeting of April 28, 2000 were approved.

Mr. Ralph welcomed and introduced Cecilia Montalvo from Shattuck Hammond Partners and Kathy Schneider, Director of Finance at Huntington Memorial Hospital.

CHAIRMAN'S REPORT

Methodist Leadership Retreat

The Chairman requested Mr. Kalm to report on the recent Methodist Hospital Board retreat held in Newport Beach.

Mr. Kalm noted that this was an annual event for the Methodist Board, executive management and certain members of the Medical Staff. The two speakers this year were Don Wegmiller, a consultant, and Tom Priselac, CEO of Cedars-Sinai Medical Center. The presentations focused on the pros and cons of hospital systems. Sunday morning the discussions were around the importance of culture and focused on some of differences between Huntington and Methodist, the importance of involving physicians in any changes being made, and the need to articulate the added value of any proposed changes. One of the things emphasized at the session was that "execution" was more important than strategy. Mr. Kalm also reported that there were positive comments from medical staff and indications were that there may be some form of action taken to explore new ways of cooperation between Huntington and Methodist and other things the System could do together, e.g., joint planning, marketing, etc.

PRESIDENT'S REPORT

Strategic Planning/ Business Development

Mr. Ralph indicated that the way the System had functioned would not be the approach going forward, and that we would focus on the hospitals and hospital-related services, meeting the needs of our local communities, etc. Although both Huntington and Methodist are heavily engaged in redesign efforts/cost cutting, it was agreed that it is time to look toward the future and to explore opportunities for how the two hospitals can work closer together and add value. This may be through market share growth, better collaboration in areas like human resources, finance, materials management, and certainly around clinical programs. He indicated we have been reviewing our strategic plans and opportunities for business development and marketing. He has asked Dennis Lee to head up a task force that will be exploring ways Huntington and Methodist can collaborate in the planning and business development areas. Initially, William Caswell and Kelly Linden will serve on this committee with Mr. Lee, with the group being expanded to include others as appropriate. Mr. Ralph emphasized the need to look at ways of jointly pursuing business development and marketing, which hopefully may lead to the alignment of some of our clinical programs and institutions.

Mr. Lee reiterated the matter of "execution" and the need to set up a process which will better execute our strategies to obtain the maximum benefit. Discussion followed regarding affiliation/merger options.

Huntington East Valley Hospital (HEVH) Update

Mr. Maki advised that the HEVH transition team had been meeting and an impact study is being prepared and a time frame being set. He added that they will continue to work with the Attorney General's office during the entire process.

Ms. Montalvo reviewed the Shattuck Hammond management presentation packet, copies of which previously had been sent to the Board members. She indicated that this material had been sent to seven different organizations that were possibly interested in purchasing the hospital and that her company had spoken with twenty different companies. She pointed out that some of potential buyers were not interested in smaller urban hospitals. She commented briefly on the organizations that had indicated an interest, and added that the final date for receiving proposals had been extended until July 20. Once the proposals have been reviewed, they will be weighed against the cost of maintaining the operation versus closing down the hospital. Discussion followed regarding the various potential buyer, the hospital's cash flow, present liabilities and the comparison between selling the hospital or closing it.

It was pointed out that since the System has advanced between \$4-5 million to HEVH, which is not collectible, both Methodist and Huntington will have to write down this amount sometime in the near future. Mr. Ralph suggested waiting to do any accounting adjustments since more complete financial information will be available by the end of July. Mr. Maki reminded the group that the \$1.7 million loss in 1999 was due to the excessive claims paid on the hospital's capitated business. Since the hospital is withdrawing from all capitation and moving back to per diem rates, he felt 2001 would be considerably better financially for the hospital. Discussion followed regarding the ability to turn HEVH into profitable entity. Mr. Marangi noted that in 2001 a positive cash flow of \$1 million was projected and this should be a consideration in the final decision regarding the hospital's future.

FINANCE COMMITTEE

SoCal Clini Lab

Mr. Carmack reviewed the financial analysis and final accounting for the laboratory, copies of which had been sent to the Directors. He commented on the intercompany payables and receivables, the effect of the outreach sale on the balance sheet, the Huntington, Methodist and Huntington East Valley equity balances as of May 31, 2000 and the pro forma equity balances with the effect of forgiving the SCHS and HEVH intercompany debt. He then discussed the possibility of selling the laboratory building and indicated he had received an "over-the-phone" informal appraisal of approximately \$6.5 million, which included the land and building. The matter of the write-offs was raised and, following a brief discussion, it was determined it would be best to postpone the write-offs until after the final report had been prepared, which would probably be the latter part of July.

Managed Care Update

Mr. Caswell stated that the legal documents have been drafted regarding the dissolution of APPA and the legal process was proceeding towards resolution by year end. He added that the \$500,000 from the recently approved capital call for the payment of APPA claims was being held in abeyance subject to claims processing.

Mr. Caswell then reviewed a handout of three graphs. The first illustrated the SCHS cap "disenrollment timeline" for APPA, HPG and AHC with the various health plans. He then reviewed "pie charts" on the managed care service mix and payor mix for both Huntington and Methodist. Also, he informed the Board that the capitated contract with PacifiCare had terminated as of June 1, although there are still several unresolved issues. He pointed out that PacifiCare is the current health carrier for all SCHS/hospital employees and that William Murin and Kevin Simes are in the process of reviewing other options. Discussion followed.

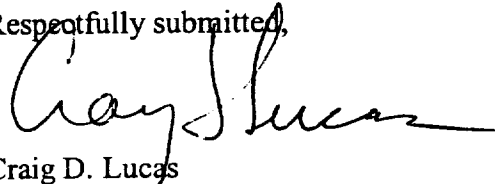
Finance Committee Meeting

Mr. Kalm requested that the July 25 meeting of the SCHS Finance Committee be moved to Monday, July 24 at noon. It was agreed and a notice will be sent confirming the change in date.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:15 a.m. The next meeting of the Board will be held on July 28, 2000 at 7:30 a.m. at Methodist Hospital.

Respectfully submitted,



Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
July 28, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, July 28, 2000 in the Board Room of Methodist Hospital, 300 West Huntington Drive, Arcadia, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
John F. Kooken
Craig D. Lucas

Leonard M. Marangi
Lois S. Matthews
Francis X. McCormack

EXCUSED:

Arne Kalm
Gleeson "Tige" Payne

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

William Caswell
Steve James
Dennis Lee

James Maki
Kathy Schneider
Dodie Ulrich

Chairman McCormack called the meeting to order at 7:40 a.m.

MINUTES

The minutes of the Board of Directors meeting of June 30, 2000 were approved.

CHAIRMAN'S REPORT

Methodist Hospital – Revised Bylaws

Mr. Lee distributed and commented briefly on a memorandum summarizing some minor changes in the hospital's Bylaws, which had been approved by the Methodist Board at its June 29, 2000 meeting. He then requested approval by the SCHS Board of these revised Bylaws.

promising buyer appears to be Medical Pathways. All options are being explored, including keeping the hospital open as part of SCHS versus closing it down. Discussion followed.

Business Development/Marketing – Update

Mr. Lee reported on the meetings of the Business Development Committee with Bill Caswell, Kelly Linden and himself, and pointed out that there are some opportunities available for Huntington and Methodist to create a better working affiliation relationship. The committee's feeling was that the next step would be for the hospitals to share the development of each hospital's strategic plan and then to create a joint strategic business plan. He added that the committee would be looking at service lines and evaluating how critical they are in terms of respective and combined operations, along with ways to increase market share. More detailed work needs to be accomplished in terms of joint marketing and advertising, and it was the consensus of the committee that joint advertising may not be feasible at this time. Mr. Lee pointed out that as Huntington and Methodist develop individual marketing materials, it is important not to advertise in such a way as to make it appear to the public that we are competing against each other.

Mr. Lee stated that there is strong commitment among the executives at both Methodist and Huntington to continue the affiliation. Mr. Ralph cited, as an example, the consolidation of psychiatric patients at Huntington's Della Martin Center, with the planned closing down of the psychiatric service at Methodist Hospital. He emphasized that what SCHS does should be effective and add value. He added that this consolidation was one of the System's true successes in the way it was addressed and the way it was communicated to the Medical Staff, as a number of the physicians involved expressed their appreciation at being included in the process. He complimented Catherine McLoughlin, the Director of Psychiatric Services, for handling this transition. He then requested the Board's approval of the closing down of the psychiatric program at Methodist Hospital.

Upon motion made, seconded and unanimously carried, the Board approved the closure of the psychiatric services at Methodist Hospital and the consolidation of these services with the psychiatric program at Huntington Memorial Hospital.

FINANCE COMMITTEE

SoCal Clini Lab

Ms. Schneider reviewed the financial statements for the lab. The SCHS and HEVH intercompany receivables have been written off and there may be a write-down of the laboratory building on Raymond Avenue once the appraisal is completed. It was noted that SoCal Clini Lab (SCCL) owes Huntington Memorial Hospital (HMH) close to \$1.8 million and, as the semi-annual payments are received by SCCL from Unilab, these funds would be used to pay off the debt to HMH and also to be applied against the debt owed by Methodist Hospital.

Upon motion made, seconded and unanimously carried the Board authorized the payoff from the SoCal Clini Lab funds of outside liabilities and the debt owed to Huntington Memorial Hospital, with the monitoring of payouts as the semi-annual payments are received from Unilab.

Huntington East Valley Hospital – Capital Call

Mr. Maki reported on the current cash flow and cash needs for the hospital. He stated that the hospital would need approximately \$1.8 million to cover the projected loss for the year 2000. Discussion followed.

Upon motion made, seconded and unanimously carried, the Board approved a capital call in the sum of \$1.8 million to cover the projected loss for the year 2000 for Huntington East Valley Hospital.

Earthquake Insurance

Mr. Kooken reported that management had recommended SCHS not renew the earthquake insurance on Huntington East Valley Hospital. The premium would be \$165,000 with a \$3 million deductible and a policy limit of \$20 million. The Finance Committee agreed with management's recommendation.

The Board was in agreement that the earthquake insurance for HEVH not be renewed this year.

SCHS YTD Financial Statements

Mr. Caswell shared that the SCHS financials were "in transition," and that a full consolidated report would be available at the September meeting. A detailed Berger Building schedule (budget vs. actual) would be available at that time.

Managed Care Update

Dissolution of APPA: Mr. Caswell reported that the legal work is in process for the dissolution of APPA. The APPA capital call of \$500,000 (previously approved by the SCHS Board) has not yet been called, but may be needed by mid to late August. He added that it might be necessary to request additional funds prior to October 1 once the APPA claims backlog is brought up to date.

Significant efforts are being made by Medical Pathways on the backlog of APPA and hospital claims.

Health Plans: Mr. Caswell advised that as of August 1, the only capitation contract remaining is with Blue Cross, and that contract will terminate as of December 31, 2001. He added that we have set SCHS-wide "rates and terms" in our contracts and have been aggressive in our position with the health plans. Although the contract with Aetna has been terminated, an acceptable agreement may still be reached as negotiations are continuing. Mr. Caswell indicated that positive discussions have taken place with the IPAs, particularly Medical Pathways and Physician Associates in support of the hospitals' contracting strategy. He advised that a similar meeting had taken place with HealthCare Partners regarding a relationship/ partnership. Mr. Ralph added that SCHS is making efforts to get the physician groups to align with the hospitals and reiterated that SCHS needs to take a firm position with the health plans. Discussion followed.

Wells Fargo Bank Resolution

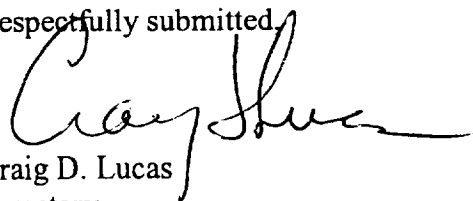
Mr. Caswell advised that a new account needed to be established as part of the transition of Huntington East Valley Hospital out of the capitated business. This account will be used to pay claims processed by Medical Pathways for claims with year 2000 dates of services. The bank has requested a Board resolution authorizing it to accept facsimile signatures. Ms. Schneider reiterated that no claims would be funded until reviewed by her and her staff and that the bank prepares a daily report, which is sent to her for review and approval. She added that these claims have a time limit or we are charged interest on these claims. Mr. Caswell then presented the bank resolution to the Board for approval (a copy of which previously had been sent to the Board members).

Upon motion made, seconded and unanimously carried, the Board approved the Wells Fargo Bank Resolution authorizing the bank to accept facsimile signatures. A copy of that Resolution is attached to the original minutes.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:00 a.m. The next meeting of the Board will be held on September 29, 2000 at 7:30 a.m. at Huntington Memorial Hospital.

Respectfully submitted,



Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
September 26, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Tuesday, September 26, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

Arne Kalm
John F. Kooken
Craig D. Lucas

Francis X. McCormack
Gleeson "Tige" Payne

EXCUSED:

James N. Gamble
Leonard M. Marangi
Lois S. Matthews

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
Robert Gordon
Michael Hammond
Dennis Lee

James Maki
Cecilia Montalvo
Cindy Trousdale
Dodie Ulrich

Chairman McCormack called the meeting to order at 12:15 p.m.

MINUTES

The minutes of the Board of Directors meeting of July 28, 2000 were approved.

CHAIRMAN'S REPORT

Resolution – SCHS Deferred Compensation

The Chairman advised that the trustee for the SCHS Deferred Compensation Plan was being changed to MetLife Trust Company, N.A., and presented a Resolution for the Board's approval authorizing same.

Upon motion made, seconded and unanimously carried, the Board approved the Resolution authorizing the change in trustee for the SCHS Deferred Compensation Plan to MetLife Trust company, N.A. A copy of that resolution is attached to the original minutes.

PRESIDENT'S REPORT

Huntington East Valley Hospital – Update

Mr. Ralph welcomed Michael Hammond and Cecilia Montalvo from Shattuck Hammond Partners, the firm handling the Huntington East Valley Hospital (HEVH) transaction. Mr. Hammond then distributed copies of and commented on the status report of the HEVH transaction, which outlined the three options, the Shattuck Hammond recommendation, the status of sale, profiles of interested buyers, etc.

Mr. Hammond reviewed the three options for the future of Huntington East Valley Hospital: (1) closure of the hospital and liquidation of assets; (2) sale of the hospital; or (3) continue to operate the hospital as an affiliate of SCHS. He presented an estimated cost comparison between the three options:

	<u>Net Cash</u>
Estimated Cost of Hospital Closure	\$13,554,000
Estimated Cost of Sale of Hospital	\$ 4,875,000
Estimated Cost of Continued Operation	\$ 7,423,000

Mr. Hammond then commented on some of the risk factors and net cash calculations involved for each of the three options. He added that Shattuck Hammond would be keeping the Attorney General's office informed as the transaction progresses. The Board was in general agreement that the closure of the hospital was not a viable option at this time.

Ms. Montalvo commented on the various individuals who had indicated an interest in the hospital, the degree of interest and the probability of consummation of a sale. Discussion followed.

Mr. Hammond then presented Shattuck Hammond's recommendation, which was to aggressively and quickly move forward to identify a qualified buyer and consummate a sale of the hospital.

The Board was in agreement with Shattuck Hammond's recommendation to quickly move forward to identify a qualified buyer to acquire the Huntington East Valley Hospital (as indicated on page 10 of the Shattuck Hammond report). Paralleling the sale effort, it was agreed that everything feasible should be explored immediately to stabilize the financial picture at HEVH.

JCAHO Survey

Mr. Ralph reported that Huntington and Methodist had completed their respective Joint Commission surveys and both had excellent scores: Huntington 92% and Methodist 91%.

Business Development/Marketing – Update

Due to time constraints, the business development/marketing update was deferred to next month's meeting of the Board.

Huntington Memorial Hospital – Bylaws

Mr. Ralph commented on his September 19, 2000 memorandum regarding the changes in the HMH Bylaws. He then asked for approval of the revised Bylaws.

Upon motion made, seconded and unanimously carried, the Board approved the Huntington Memorial Hospital revised Bylaws (effective June 2000), as outlined in Mr. Ralph's memorandum dated September 19, 2000, a copy of which is attached to the original minutes.

Sale of Huntington Transitional Care Center

Mr. Ralph advised the Board that the Huntington Transitional Care Center (HTCC) was in the process of being sold. The land and building are owned by the Huntington Trust. He added that the HTCC had been operating at a loss of approximately \$140,000 per month and was being sold as an ongoing, long-term care facility.

FINANCE COMMITTEE

HEVH Capital Equipment Purchase

Mr. Ralph advised that Huntington East Valley Hospital had experienced an equipment crisis situation during the first part of August and had to replace its sterilizer at a cost of approximately \$18,000. Since neither the Board nor the Finance Committee was meeting until September, management authorized the purchase of the new sterilizer.

Managed Care Update

Health Plans: Mr. Caswell advised that the first round of "Project Indispensable" had been completed and the results were very successful on the contract rates and terms with four of the health plans. He added that the recent negotiations with Blue Shield had also gone very well. He emphasized the need to be sensitive to the physician groups, as the more favorable hospital rates raise the potential of negatively impacting the IPAs and their risk pools. The contracts with

PacifiCare and HealthNet will be up for renewal on December 31, 2000, and a "notice of termination" has been sent to both health plans, along with our proposed rates and terms.

Dissolution of APPA: Legal documents have been filed for the dissolution of APPA. Claims continue to be received at the rate of approximately 150 per week, the majority of which are duplicates. It still has not been determined how much of the \$500,000 capital call previously approved by the Board will be needed to cover the balance of the unpaid claims.

SCHS Claims: A handout was reviewed showing the status of the current backlog of SCHS claims and a timeline for resolution. Mr. Caswell indicated that he and the contracting staff are meeting weekly with Medical Pathways and all possible efforts are being made to bring the claims processing to a current basis.

SCHS Financial Statements

Mr. Ralph commented briefly on the financials, copies of which had been sent to the Directors. He pointed out that the greatest variance was in the "outside services" category, which represented legal fees regarding the dissolution of APPA, consulting fees for the Huntington East Valley Hospital transaction, and Ernst & Young accounting fees.

OTHER

Wage Order – Non-exempt employees

Mr. Carmack raised the issue of the new wage order, which will take effect October 1, 2000. This requires that all non-exempt employees who miss taking a scheduled break, must be paid one full hour's pay. He pointed out that this could have a substantial financial impact on the hospitals. Discussion followed.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,

Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
December 14, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare Systems was convened on Thursday, December 14, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
Arne Kalm
John F. Kooken
Craig D. Lucas

Lois S. Matthews
Leonard M. Marangi
Francis X. McCormack

EXCUSED:

Gleeson "Tige" Payne
James Rothenberg

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
Robert Gordon
Michael Hammond
Dennis Lee

James Maki
Cecilia Montalvo
Cindy Trousdale
Dodie Ulrich

Chairman McCormack called the meeting to order at 12:20 p.m.

MINUTES

The minutes of the Board of Directors meeting of September 26, 2000 were approved.

CHAIRMAN'S REPORT

Ratification of Actions - September 26, 2000 Board Meeting

Due to the lack of a quorum at the September 26, 2000 meeting of the Board, the Chairman requested approval of the actions taken at that meeting.

Minutes - Board of Directors
Southern California Healthcare Systems
December 14, 2000
Page 2

Upon motion made, seconded and unanimously carried, the Board ratified the actions approved at the September 26, 2000 meeting of the SCHS Board.

Election of Directors and Officers

The Chairman presented the proposed slate of Directors for election for the January 2001-December 2002 term:

Representing Huntington Memorial Hospital

James N. Gamble
John F. Kooken
Leonard M. Marangi
Lois S. Matthews
Gleeson "Tige" Payne
James Rothenberg

Representing Methodist Hospital

Arne Kalm
Craig D. Lucas
Francis X. McCormack

Upon motion made, seconded and unanimously carried, the above-named Directors were elected for a two-year term, commencing January 2001.

The Chairman then presented the proposed slate of Officers for the January 2001 – December 2001 term:

John F. Kooken	Chairman
Leonard Marangi	Vice Chairman
Craig D. Lucas	Secretary
Stephen A Ralph	President
Assistant Treasurer	Timothy Carmack
Assistant Secretary	Dodie Ulrich

It was noted that the office of Treasurer was yet to be determined, pending some anticipated Board member changes from Methodist Hospital.

Upon motion made, seconded and unanimously carried, the above-named officers were elected for a term of one-year, commencing January 2001.

PRESIDENT'S REPORT

Huntington East Valley Hospital

Mr. Ralph welcomed Michael Hammond and Cecilia Montalvo from Shattuck Hammond Partners, the firm handling the Huntington East Valley Hospital (HEVH) transaction. Mr. Hammond reviewed briefly the three options for HEVH and the costs involved for each option, which were (i) to sell; (ii) to continue to operate; or (iii) to close it down. Shattuck Hammond's prior recommendation to the Board had been to secure a qualified buyer as soon as possible.

Mr. Hammond then distributed copies of and commented on a summary of a proposed Memorandum of Intent to Purchase HEVH, which had been submitted by PanPacific Health Enterprises, along with a deposit of \$195,000 in the form of a cashier's check. The principal of PanPacific Health Enterprises is C. Joseph Chang. Mr. Ralph thanked Ms. Matthews, who had referred Mr. Chang to us. Mr. Hammond gave a brief background on Mr. Chang and his company and pointed out that Mr. Chang's offer was contingent upon his being able to secure the necessary financing. He added that he felt confident that this could be accomplished. Mr. Hammond then reviewed the terms of the offer:

Purchase price to be \$6.5 million; \$5 million payable upon close of escrow (financed in part by California Bank and Trust in the amount of \$3,250,000 and the Small Business Administration in the amount of \$970,000); \$1.5 million payable not later than 12 months following the closing date, with interest payable to SCHS at the prime lending rate. Discussion followed. Mr. Hammond reiterated that the exposure for continued operation of HEVH could be substantial, the cost of closure of the hospital would be estimated at \$13 million, and therefore the PanPacific offer was the best option.

He then presented Shattuck Hammond's recommendation, which was that the SCHS Board authorize management to sell Huntington East Valley Hospital, based on the terms described in Shattuck Hammond's summary dated December 14, 2000, including negotiations regarding security for the \$1.5 million note. Discussion followed regarding the hospital's indebtedness and it was pointed out that there is a possibility that another capital call to HMH and MHSC might be required to cover ongoing expenses for the first quarter of 2001.

Upon motion made, seconded and unanimously carried, the Board authorized continued negotiations toward the sale of Huntington East Valley Hospital to PanPacific Health Enterprises, as outlined in the Shattuck Hammond December 14, 2000 summary (a copy of which is attached to the original minutes), with efforts being made to eliminate or reduce the \$1.5 million note. The Board further authorized Mr. Ralph to execute the purchase agreement in connection with this sale, subject to Mr. Ralph making reasonable efforts to contact the members of the Finance Committee to secure their prior approval of the final sales agreement.

FINANCE COMMITTEE

Annual Audit

Mr. Carmack reported that he had reviewed the matter of whether or not a formal audit was needed for SCHS. Kathy Schneider performed much of the audit work for 1999 and Ernst & Young reviewed the final product. This resulted in substantial savings, as the cost of the 1999 audit was approximately \$20,000. The cost of the 1998 formal audit was approximately \$45,000. Ernst & Young has advised that there will be approximately \$10,000 in audit costs for this year to be paid by the System because of inter-company transfers, etc. The individual hospitals will each have formal audits done by Ernst & Young. The Finance Committee discussed this matter at its last meeting and felt this audit was not needed and recommended a formal audit be waived for 2000.

After a brief discussion, the Board was in agreement that a formal audit would not be needed for the year 2000.

September and October Financials

Mr. Caswell noted that the financials had been prepared in a new format and that a new column would be added which would compare figures with the prior year. He extended his appreciation to Mr. Carmack and Ms. Schneider for their efforts in preparing these statements.

2001 Operating and Capital Budgets

Mr. Caswell commented on the System and three hospital budgets for 2001, which previously had been approved by the SCHS Finance Committee.

Upon motion made, seconded and unanimously carried, the Board approved the 2001 operating and capital budgets for Southern California Healthcare Systems, Huntington Memorial Hospital, Methodist Hospital and Huntington East Valley Hospital.

Discussion followed regarding cost-savings measures being implemented. Mr. Ralph reported that Huntington is on target as far as budgeted savings of \$11-12 million through Operation MOVE. Mr. Lee stated that Methodist had targeted \$13 million in savings, of which 85-90% has been identified. Mr. Maki pointed out that the financial status of Huntington East Valley is improving and should get better in 2001.

Managed Care Update

Mr. Caswell reported that the contract negotiations with Health Net are progressing well and it is anticipated they will be consummated in January. He noted the Medi-Cal is the largest contract to be negotiated.

Minutes - Board of Directors
Southern California Healthcare Systems
December 14, 2000
Page 5

He reported that APPA would be dissolved as of December 22, 2000, and that three additional SCHS entities (Medical Value Plan, Foothills Physician Services and Arcadia Health Services, dba Southern California Medical Management) also will be dissolved as of year-end.

EXECUTIVE SESSION

The Board then met in executive session to review and approve the deferred compensation program for funding in 2000.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,



Craig D. Lucas
Secretary

Huntington East Valley Hospital

**Southern California Healthcare System
Board of Directors**

December 14, 2000



SHATTUCK HAMMOND PARTNERS
A DIVISION OF PRICEWATERHOUSECOOPERS SECURITIES, LLC

Summary of Proposed Acquisition Terms - PanPacific Health Enterprises

The following is a summary of proposed terms based on a Memorandum of Intent to Purchase submitted by PanPacific Health Enterprises. C. Joseph Chang is the principal of PanPacific Health Enterprises. Henry Quong is a co-investor in the business. Both are residents of the local community. Mr. Chang is a member of the management team at Alhambra Community Hospital.

The Memorandum of Intent was accompanied by a cashier's check for escrow deposit in the amount of \$195,000 and a letter of lending commitment from California Bank and Trust.

Purchase Price

- \$6.5 million total purchase price.
- \$5 million payable upon close of escrow, financed in part by California Bank and Trust in the amount of \$3,250,000 and the Small Business Administration in the amount of \$970,000.
- \$1.5 million payable not later than 12 months following the closing date, with interest payable to SCHS at the prime lending rate.
- We are seeking clarification regarding various forms of collateral that might be available to secure the \$1.5 million note, including a lien on the accounts receivable (if acquired as part of the transaction), a second lien position on the deed of trust, and/or the pledge of personal property of the buyers.

Conditions Precedent

- Payment of \$195,000 has been received as a deposit for the opening of escrow.
- The buyer has agreed that pending the approval of the SCHS Board of Directors, the deposit can only be refunded if a "Permitted Terminating Event" occurs. Permitted Terminating Events include only:
 1. Receipt of an adverse finding on the Environmental Report;
 2. Material omission or misstatement of financial facts; and
 3. Failure to provide an updated seismic report by an agreed upon date.
- Shattuck Hammond Partners and SCHS Counsel (Musick Peeler & Garrett, LLP) have requested that item 2 be clarified for narrow interpretation.

Huntington East Valley Hospital

Other

- The transaction would require the approval of the California Attorney General.
- PanPacific has expressed its interest in employing all existing employees at HEVH.
- Specific assets to be included in the transaction are still under discussion. The \$6.5 Million proposed purchase price is for the hospital's real estate assets only. Additional consideration may be paid for other assets (e.g. accounts receivable).
- Final terms have not yet been fully negotiated.

Huntington East Valley Hospital

Recommendations

Shattuck Hammond Partners recommends that the Southern California Healthcare System Board of Directors authorize management to sell Huntington East Valley Hospital based on the terms described herein, including continued negotiations regarding security of the \$1.5 million dollar note.

This recommendation is based on the following:

- HEVH will continue to experience negative cash flow for an indefinite period of time, regardless of efforts to improve performance.
- Closure of Huntington East Valley Hospital would be expensive (estimated \$13 million).
- The offer from PanPacific Health Enterprises is the only bonofide offer received by Shattuck Hammond Partners after 6 months of marketing this facility.

Huntington East Valley Hospital

**MINIMUM
CONTINUE TO OPERATE
Through December 2005**

**SELL
By December 2000**

**CLOSE
As of December 2000**

<p>(\$4,362,000) Wind Down Expenses WARN Act</p> <p>(567,000) 12 Months Upkeep</p> <p>(9,025,000) Bond Defeasance</p> <p>2,200,000 Land Sale Proceeds</p> <p>(\$13,554,000) Net Cash</p>	<p>\$6,500,000 Sale Proceeds¹</p> <p>(9,025,000) Bond Defeasance</p> <p>(1,350,000) Transaction and Wind Down Costs</p> <p>(\$3,875,000) Net Cash</p>	<p>(\$4,813,000) Discounted Cash Flow (at 8.5%)</p> <p>(\$4,813,000) Net Cash²</p>
<p>(\$4,518,000) Methodist</p> <p>(\$9,036,000) Huntington</p>	<p>(\$1,292,000) Methodist</p> <p>(\$2,583,000) Huntington</p>	<p>(\$1,604,000) Methodist</p> <p>(\$3,209,000) Huntington</p>

¹ \$5 million payable at close. \$1.5 million payable under note to SCHS for 12 month term. There is some level of risk associated with this note.
² Actual cash flow \$5.7 million before discount. Five-year forecast only. Based on HEVH Budget for 2001 and assumes 43 ADC (see page 6).
 Forecasts range from \$4.8 million to \$7.2 million. Remaining balance due on bonds in 2005 of approximately \$8 Million.

Huntington East Valley Hospital

**Huntington East Valley Hospital
Comparison of Five-Year Financial Forecast**

	AS PRESENTED 9/26/00 BY SHATTUCK HAMMOND		BUDGET
	40 ADC	43 ADC	43 ADC
2000	(1,681)	(1,681)	(2,353)
2001	(1,508)	(940)	(485)
2002	(1,557)	(972)	(646)
2003	(1,630)	(1,027)	(696)
2004	(1,707)	(1,086)	(753)
2005	(1,789)	(1,150)	(821)
TOTAL	<u>(9,872)</u>	<u>(6,856)</u>	<u>(5,753)</u>

PROFIT/(LOSS)PER YEAR:

PRESENT VALUE OF 5 YEAR CASH REQUIREMENTS:

2001	2,557	2,205	2,612	see next page for detail
2002	1,325	833	627	
2003	1,190	723	558	
2004	1,115	671	519	
2005	<u>1,056</u>	<u>635</u>	<u>497</u>	
	<u>7,243</u>	<u>5,067</u>	<u>4,813</u>	

CONTRIBUTIONS TO HEV FROM HMH/MH DURING 2000:

2000 Capital Call	3,700
Increase in Due to Affiliates during 2000 thru 10/00	<u>767</u>
	<u>4,467</u>

* The September 26, 2000 Shattuck Hammond Partners financial model was updated to reflect operations as of October 2000. Inflation, fixed/variable and discount rate assumptions from September 26 were not changed in these revised projections.

* **Please note** that these projections depict fairly strict, no-frills operations for at or near a best case scenario, created simply to compare to sale and closure options. If HEV is not sold, it is probable that additional capital and marketing/business development costs would be incurred annually. Minimum estimate for these costs would be \$350,000 annually, or \$1,750,000 over the forecast period.

Huntington East Valley Hospital

**Huntington East Valley Hospital
Detail of 2001 Cash Requirements**

	Quarter Needed			
	1st QTR	2nd QTR	3rd QTR	4th QTR
Forecasted cash Needs for 2001 are for the following:				
Net Income (Loss)	(485)	(121)	(121)	(121)
Add back non cash Depreciation	854	214	214	214
(Increase) Patient Receivables and Inventories	(350)	(88)	(88)	(88)
(Decrease) in IBNR-to outside providers	(702)	(176)	(176)	(176)
(Decrease) in IBNR - funded by SCHS 2000 cap premium	(1,011)	(337)	(337)	(337)
Cash Used in Operations	(1,694)	(508)	(508)	(508)
Capital Expenditures	(700)	(175)	(175)	(175)
Decrease in LTD	(227)	(57)	(57)	(57)
(Decrease) in Current Portion due to Affiliates - HMF	(300)	(75)	(75)	(75)
Cash Needs	(2,921)	(815)	(815)	(815)
Present Value of Cash Needs - discounted at 8.5%	2,612			

Continued operations would result in a \$2.9 Million cash shortfall in 2001 alone.

HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING

Wednesday, September 27, 2000
HEVH Board Room - 7:15 a.m.

A G E N D A

- I. CALL TO ORDER Robert Gordon
- II. APPROVAL OF MINUTES ** ACTION ITEM Robert Gordon
July 19, 2000 Board of Directors Meeting
- III. PRESIDENT'S REPORT Jim Maki
 - A. HEVH Transition
 - B. 2000/2001 DSH Preliminary Qualification
 - C. Seismic Study
- IV. MEDICAL STAFF REPORT ** ACTION ITEM Marc Domaguing, M.D.
- V. FINANCE REPORT ** ACTION ITEM Cindy Trousdale
 - A. Finance/Corporate Compliance Committee Meetings
Of August 22, 2000 and September 26, 2000
 - ** B. Financial Statement – Eight Months Ended August 31, 2000
- VI. PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM
 - ** A. Quality Council Report
 - ** B. Patient Satisfaction Survey Summary Report
 - ** C. Environment of Care Report – 2nd Quarter 2000
 - ** D. Risk Management Report
- VII. OTHER BUSINESS
- VIII. ADJOURNMENT

NEXT SCHEDULED MEETING:

WEDNESDAY, NOVEMBER 15, 2000 - 7:15 A.M. - HEVH BOARD ROOM

B. HEVH Transition

Mr. Maki reported that 20 companies have approached Shattuck Hammond regarding an interest in purchasing HEVH, seven of which have requested Confidentiality Agreements; 6 of which were returned to Shattuck Hammond.

Medical Pathways has expressed a strong interest. Citrus Valley Healthcare Partners have had a site visit of HEVH, but are not interested in proceeding with a purchase. The goal is that by July 20, 2000, any interested party would present an offer to Shattuck Hammond. If Medical Pathways purchases HEVH, they intend to run all capitation through the hospital, and the IPA takes the risk. There are 23,000 lives in Medical Pathways' IPA, East Valley Select.

SCHS will consider all options including total shut-down costs, maintaining ownership and creating a deal with Medical Pathways. It was noted that while closure of the hospital is an option, it would be very expensive to do so.

Mr. Carmack stated that all parties that have shown an interest in possible purchase of HEVH have been diligently pursued via personal phone conversations by Shattuck Hammond. It will be difficult for SCHS to fund HEVH beyond this year.

HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING

Wednesday, November 15, 2000
HEVH Board Room - 7:15 a.m.

A G E N D A

- | | | |
|-------|---|----------------------|
| I. | CALL TO ORDER | Robert Gordon |
| II. | APPROVAL OF MINUTES ** ACTION ITEM
September 27, 2000 Board of Directors Meeting | Robert Gordon |
| III. | CHAIRMAN'S REPORT | Robert Gordon |
| | A. Appointment of Nominating Committee | |
| | B. Review of Bylaws | |
| IV. | PRESIDENT'S REPORT | Jim Maki |
| | A. HEVH Transition | |
| | B. Governing Board Self Evaluations | |
| | C. Mission/Vision/Values Statements – Annual Review | |
| V. | MEDICAL STAFF REPORT ** ACTION ITEM | Marc Domaguing, M.D. |
| VI. | FINANCE REPORT ** ACTION ITEM | Jim Maki |
| | **A. Finance/Corporate Compliance Committee Meetings
Minutes of September 26, 2000 | |
| | ** B. Financial Statement – Ten months Ended October 31, 2000 | |
| VII. | PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM | John Zimmerman |
| | ** A. Patient Satisfaction Survey Report | |
| | ** B. Risk Management Report | |
| | ** C. Environment of Care Report, 3 rd Quarter 2000 | |
| | D. Evaluation of Services provided by Horizon | |
| | E. Report on Heart Attacks Outcomes, 1994-1996 | |
| | F. Hospital Plan for Provision of Care – Annual Review | |
| | G. Hospital Performance Improvement Plan – Annual Review | |
| VIII. | EDUCATION/ORIENTATION | Jim Maki |
| IX. | OTHER BUSINESS | |
| | A. Schedule of meetings 2001 | |
| X. | ADJOURNMENT | |

NEXT SCHEDULED MEETING
WEDNESDAY, JANUARY 24, 2001 – 7:15 A.M. – HEVH BOARD ROOM

III. PRESIDENT'S REPORT

A. HEVH Transition

Mr. Maki reported a very positive meeting with the SCHS Board of Directors yesterday. At the present time SCHS is not considering closing the hospital as an option. Negotiations continue with approximately six prospective buyers, but we are still waiting for a reasonable offer. The SCHS Board would like to sell to someone who will be community focused and continue to operate as an acute care hospital. In the meantime, efforts continue to find ways to make the hospital more profitable.

Mr. Caswell mentioned that we should consider the long-term commitment of the medical staff.

Dr. Sahhar also agrees and feels that a meeting needs to take place with the medical staff to reassure them that everything is being done in the best interest of the hospital, the medical staff and the community.

**HUNTINGTON EAST VALLEY HOSPITAL
BOARD OF DIRECTORS MEETING**

**Wednesday, January 24, 2001
HEVH Board Room - 7:15 a.m.**

A G E N D A

- | | | |
|-------|--|----------------------|
| I. | CALL TO ORDER | Robert Gordon |
| II. | APPROVAL OF MINUTES ** ACTION ITEM
November 15, 2000 Board of Directors Meeting | Robert Gordon |
| III. | CHAIRMAN'S REPORT | Robert Gordon |
| | A. Election of Board Members by the Nominating Committee | |
| IV. | PRESIDENT'S REPORT | Jim Maki |
| | A. HEVH Transition | |
| V. | MEDICAL STAFF REPORT ** ACTION ITEM | Marc Domaguing, M.D. |
| VI. | FINANCE REPORT ** ACTION ITEM | Jim Maki |
| | **A. Finance/Corporate Compliance Committee Meetings
Minutes of October 24, 2000 and November 14, 2000 | |
| | ** B. Financial Statements – Twelve months Ended December 31, 2000
(Not available until the day of the meeting) | |
| VII. | PERFORMANCE IMPROVEMENT REPORT ** ACTION ITEM | John Zimmerman |
| | ** A. Quality Council Report | |
| | ** B. Patient Satisfaction Survey Report | |
| | ** C. Risk Management Report | |
| | ** D. Environment of Care Report, 4th Quarter 2000 | |
| | ** E. Annual Employee Health Report | |
| | F. Conflict of Interest | |
| | G. Critical Incident Review | |
| VIII. | EDUCATION/ORIENTATION | Jim Maki |
| IX. | OTHER BUSINESS | |
| X. | ADJOURNMENT | |

**NEXT SCHEDULED MEETING
WEDNESDAY, MARCH 28, 2001 – 7:15 A.M. – HEVH BOARD ROOM**

IV. PRESIDENT'S REPORT

A. HEVH Transition

Mr. Maki thanked everyone who participated in the interviews conducted by the Camden Group. The sales agreement has not been signed yet. The appraisal took longer than anticipated. The Mardel Group is working on getting their financing in order and the sales agreement should be signed within the next couple of weeks. They are also looking to sign an interim management agreement with SCHS while the sale is going through. The census has held at an average of 46-47 this month.

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
April 28, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, April 28, 2000 in the Board Room of Methodist Hospital, 300 West Huntington Drive, Arcadia, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble	Leonard M. Marangi
Arne Kalm	Lois S. Matthews
John F. Kooken	Francis X. McCormack
Craig D. Lucas	

EXCUSED:

Gleeson "Tige" Payne
Robert S. Rollo

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack	Dennis M. Lee
William Caswell	James Maki
Robert Gordon, Sr.	Cindy Trousdale

Chairman McCormack called the meeting to order at 7:35 a.m.

MINUTES

The minutes of the Board of Directors meeting of March 31, 2000 were reviewed. Mr. Carmack recommended a change to the summary under "SCHS Audit" on page four. His suggested change was to clarify that Kathy Schneider was not actually performing the audit but will be leading and organizing the effort.

There was also a question raised about the amount of the HEV Capital Budget that would need to be approved by the SCHS Finance Committee. Discussion of this was deferred to later in the meeting.

It was moved, seconded and carried to approve the minutes of the March 31, 2000 meeting with the above modification.

CHAIRMAN'S REPORT

Ratify Actions Taken by Board at March 31, 2000 meeting

Mr. McCormack requested that the Board ratify the actions taken by the Board at the March 31, 2000 meeting since there was not a quorum.

It was moved, seconded and carried to ratify the actions taken by the SCHS Board at its March 31, 2000 meeting.

SCHS Strategic Planning Ad Hoc Committee

Mr. McCormack gave a brief summary of the most recent meeting of the SCHS Strategic Planning Ad Hoc Committee. At that meeting the committee heard a presentation from Mr. Michael Madden, CEO, Providence St. Joseph's Hospital in Burbank. There may be another meeting of this committee in May to continue their discussions.

PRESIDENT'S REPORT

SCHS Activities Update/Status

Mr. Ralph indicated that both Methodist Hospital and Huntington Memorial Hospital are performing better than their budgets through the first quarter of this fiscal year. Operations redesign efforts continue at both facilities. The Joint Commission on Accreditation of Healthcare Organizations will be surveying both Huntington and Methodist in August and September of this year.

Huntington East Valley Proposals

Mr. Ralph summarized the proposals that had been received from three consultants that would assist us in developing a strategic direction for Huntington East Valley Hospital. The companies were Shattuck Hammond Partners, Cain Brothers and Deloitte & Touche. These companies were interviewed by Mr. Ralph, Mr. Carmack, Mr. Caswell and Mr. Maki. It is the recommendation that we retain Shattuck Hammond Partners. They are the most qualified company to help us in this very important project.

In response to a question, it was indicated that the direction that Huntington East Valley Hospital would take would likely involve a name change. It was mentioned that the transaction time frame would be from three to six months. There was also discussion about the cost of a fairness opinion. Mr. Ralph will clarify this with Shattuck Hammond. Mr. Gordon expressed a concern

with respect to Citrus Valley Health Partners as a potential partner. Mr. McCormack mentioned that he has looked at the contract and has several suggestions to make and would do so at a subsequent time with Mr. Ralph.

It was moved, seconded and carried to approve retaining Shattuck Hammond Partners in concept, subject to Mr. McCormack's review of the contract.

FINANCE COMMITTEE

HEVH Cash Flow

Mr. Maki gave a summary of Huntington East Valley's cash position after the first quarter of this year. They are faced with the likelihood of needing approximately \$1.4 million dollars in cash to pay claims from 1999 under their capitated agreements. There was also approximately \$540,000 in cash that is needed to pay down obligations in their accounts payable. The request is for a cash call of \$1,940,000 of which 2/3 would be provided by Huntington Memorial Hospital and 1/3 by Methodist Hospital of Southern California. Mr. Maki pointed out that the estimated IBNR obligation for the full year is \$2.1 million dollars of which approximately \$700,000 would be paid to Huntington Memorial and Methodist Hospital. Mr. Maki indicated that they are continuing to look at ways of reducing their operating expenses. The total cash needs for the entire year are anticipated to be approximately \$3.7 million dollars. The balance of these cash needs would be reviewed at a future date.

There were questions raised about the "due to affiliates" line items in the balance sheet. Information was given and the amounts that appear in these categories were clarified. In response to a question as to how this cash call will be implemented, it was agreed that this should be an inter-company advance and/or equity transfer from the hospitals to SCHS.

It was moved, seconded and carried to approve a capital call to Huntington Memorial and Methodist Hospital in the amount of \$1,940,000.

SoCal Clini Lab Update

Mr. Carmack gave a brief update on Southern California Clini Lab dissolution. We are finalizing the remaining transactions. A request has been made to Community Bank to extend the term of their loan for one to two years under current terms. It is anticipated that there will not be any difficulty with this request. The other main issue relates to the costs associated with moving the core lab back to Huntington Memorial Hospital. The total cost of this move is estimated at approximately \$2.25 million. We are analyzing which portion of this cost should be allocated to SCCL as a function of the dissolution.

Managed Care Update

Mr. Caswell gave an update on various subjects under managed care. Medical Pathways is still processing claims for APPA. We are still conducting a 100% audit on all approved claims. We are also working with the hospitals to get all of their claims processed so that we can have a final reconciliation of the APPA dissolution. Mr. Caswell also informed the Board that the capitated contracts under the old HPG physician organization have been terminated. To date there have been no noticeable movement of patients as a result. We are also moving forward on terminating the capitated agreements through Medical Pathways. Most of these capitated contracts should terminate by July 2000 with the exception of PacifiCare, Aetna and Blue Cross. Mr. Caswell is meeting with these organizations to negotiate termination of those capitated agreements.

SCHS Corporate Financials

Mr. Caswell briefly reviewed the performance of the SCHS actual to budget financials. There are no significant variances from the budget. Cash balances are appropriate to handle monthly expenses. He mentioned that the resolution to the master lease on the Berger building appears to be approximately \$14,000 over what was budgeted. Mr. Marangi recommended that we obtain a release from Pacific Clinics in the event that they were to default on their lease payments in the future.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:05 a.m. The next meeting of the Board will be held on May 26, 2000 at 7:30 a.m. at Huntington Memorial Hospital.


Respectfully submitted,



Craig D. Lucas
Secretary

MEMORANDUM

TO: SCHS Finance Committee
John F. Kookan, Chairman
Arne Kalm
Leonard Marangi

FROM: Stephen A. Ralph 

DATE: April 18, 2000

As was decided at the January SCHS Board meeting, we have been pursuing the overall strategy around Huntington East Valley Hospital. To that end I wanted to update you on where we are, as well as have you review the attached proposals we received from three appropriate firms to assist us in this transaction.

First, as I believe we concluded in January, our strategic direction is to continue to look for ways of divesting ourselves of Huntington East Valley as soon as possible. On the short term, we are continuing to look at how we can effectively manage East Valley while minimizing the amount of cash necessary from the other two hospitals to support it. However, given the operating losses that we anticipate for 2000, as well as Huntington East Valley's IBNR of approximately \$2 million that is on their books, it is clear that an infusion of cash will be necessary for the hospital.

I have met with representatives of Citrus Valley Health Partners, Tenet Healthcare and the County of Los Angeles as it relates to their interests in Huntington East Valley. This was obviously exploratory only and no details and/or aspects of any transaction were discussed. In my meetings with Pete Makowski of Citrus Valley Health Partners, he indicated a strong interest in Huntington East Valley, particularly from a market share perspective as it relates to Foothill Presbyterian. In conversations with Tenet, they, too, express some interest in East Valley, also from a market perspective as it relates to San Dimas Community Hospital, which is a facility that they own.

Finally, we have had a couple sessions with the County, but this may go nowhere, mostly because the County is still unsure as to what they are going to do with respect to replacement of the downtown County facility, whether or not they are going to move forward with the Baldwin Park facility and, to be quite honest, the political climate would make this a long shot. Nevertheless, we will keep all of our options open.

To that end, myself, along with Tim Carmack, Bill Caswell and Jim Maki, have interviewed three consultants/advisors who we could retain to assist us in this overall transaction. Two of them tend to be more of the investment banker/merger and acquisition type in the healthcare business while the third, Deloitte, is more of a consultant. I believe it is critical that we retain one of these groups to help us with this transaction. This will be a critical and time-consuming effort and we need the talent not only to make it happen, but to generate as much value for us as soon as possible.

Following our review of their proposals as well as the interviews, our recommendation is to retain Shattuck Hammond Partners. Michael Hammond, who is well known to many of us, as well as to Citrus Valley and Tenet, has considerable experience in this particular market and is certainly familiar with the San Gabriel Valley, having put together the Foothill/Citrus Valley deal, as well as other Tenet activities in the Greater Los Angeles area. While I recognize the overall fee for his firm may be a little more expensive, I think what we wind up with is a much better outcome. Our second choice would be Cain Brothers and Steve Hollis, with whom some of you are familiar. I think Steve, too, knows this market and is certainly familiar with Huntington East Valley, having done the original Glencomm/SCHS transaction. I do believe, however, that he is not as sophisticated in terms of knowing Tenet and some of the other players.

Finally, we did not feel that Deloitte brought the kind of knowledge or approach that we are looking for. They were looking for more of a consulting engagement and do not bring the experience of what we are looking for in terms of a divestiture of the organization.

I would like to make a decision as soon as possible in terms of who to retain and get on with this process. The market for acute hospitals is not very good, so the sooner we can get on with it, the better off we will be.

Please review these proposals and let me know your thoughts.

Encls.

cc: Francis X. McCormack
Tim Carmack
Dennis Lee
James Maki
Bill Caswell

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
June 30, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, June 30, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
Arne Kalm
John F. Kooken

Craig D. Lucas
Leonard M. Marangi
Francis X. McCormack

EXCUSED:

Lois S. Matthews
Gleeson "Tige" Payne

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
William Caswell
Dennis M. Lee

James Maki
Cecilia Montalvo
Dodie Ulrich

Chairman McCormack called the meeting to order at 7:40 a.m.

MINUTES

The minutes of the Board of Directors meeting of April 28, 2000 were approved.

Mr. Ralph welcomed and introduced Cecilia Montalvo from Shattuck Hammond Partners and Kathy Schneider, Director of Finance at Huntington Memorial Hospital.

CHAIRMAN'S REPORT

Methodist Leadership Retreat

The Chairman requested Mr. Kalm to report on the recent Methodist Hospital Board retreat held in Newport Beach.

Mr. Kalm noted that this was an annual event for the Methodist Board, executive management and certain members of the Medical Staff. The two speakers this year were Don Wegmiller, a consultant, and Tom Priselac, CEO of Cedars-Sinai Medical Center. The presentations focused on the pros and cons of hospital systems. Sunday morning the discussions were around the importance of culture and focused on some of differences between Huntington and Methodist, the importance of involving physicians in any changes being made, and the need to articulate the added value of any proposed changes. One of the things emphasized at the session was that "execution" was more important than strategy. Mr. Kalm also reported that there were positive comments from medical staff and indications were that there may be some form of action taken to explore new ways of cooperation between Huntington and Methodist and other things the System could do together, e.g., joint planning, marketing, etc.

PRESIDENT'S REPORT

Strategic Planning/ Business Development

Mr. Ralph indicated that the way the System had functioned would not be the approach going forward, and that we would focus on the hospitals and hospital-related services, meeting the needs of our local communities, etc. Although both Huntington and Methodist are heavily engaged in redesign efforts/cost cutting, it was agreed that it is time to look toward the future and to explore opportunities for how the two hospitals can work closer together and add value. This may be through market share growth, better collaboration in areas like human resources, finance, materials management, and certainly around clinical programs. He indicated we have been reviewing our strategic plans and opportunities for business development and marketing. He has asked Dennis Lee to head up a task force that will be exploring ways Huntington and Methodist can collaborate in the planning and business development areas. Initially, William Caswell and Kelly Linden will serve on this committee with Mr. Lee, with the group being expanded to include others as appropriate. Mr. Ralph emphasized the need to look at ways of jointly pursuing business development and marketing, which hopefully may lead to the alignment of some of our clinical programs and institutions.

Mr. Lee reiterated the matter of "execution" and the need to set up a process which will better execute our strategies to obtain the maximum benefit. Discussion followed regarding affiliation/merger options.

Huntington East Valley Hospital (HEVH) Update

Mr. Maki advised that the HEVH transition team had been meeting and an impact study is being prepared and a time frame being set. He added that they will continue to work with the Attorney General's office during the entire process.

Ms. Montalvo reviewed the Shattuck Hammond management presentation packet, copies of which previously had been sent to the Board members. She indicated that this material had been sent to seven different organizations that were possibly interested in purchasing the hospital and that her company had spoken with twenty different companies. She pointed out that some of potential buyers were not interested in smaller urban hospitals. She commented briefly on the organizations that had indicated an interest, and added that the final date for receiving proposals had been extended until July 20. Once the proposals have been reviewed, they will be weighed against the cost of maintaining the operation versus closing down the hospital. Discussion followed regarding the various potential buyer, the hospital's cash flow, present liabilities and the comparison between selling the hospital or closing it.

It was pointed out that since the System has advanced between \$4-5 million to HEVH, which is not collectible, both Methodist and Huntington will have to write down this amount sometime in the near future. Mr. Ralph suggested waiting to do any accounting adjustments since more complete financial information will be available by the end of July. Mr. Maki reminded the group that the \$1.7 million loss in 1999 was due to the excessive claims paid on the hospital's capitated business. Since the hospital is withdrawing from all capitation and moving back to per diem rates, he felt 2001 would be considerably better financially for the hospital. Discussion followed regarding the ability to turn HEVH into profitable entity. Mr. Marangi noted that in 2001 a positive cash flow of \$1 million was projected and this should be a consideration in the final decision regarding the hospital's future.

FINANCE COMMITTEE

SoCal Clini Lab

Mr. Carmack reviewed the financial analysis and final accounting for the laboratory, copies of which had been sent to the Directors. He commented on the intercompany payables and receivables, the effect of the outreach sale on the balance sheet, the Huntington, Methodist and Huntington East Valley equity balances as of May 31, 2000 and the pro forma equity balances with the effect of forgiving the SCHS and HEVH intercompany debt. He then discussed the possibility of selling the laboratory building and indicated he had received an "over-the-phone" informal appraisal of approximately \$6.5 million, which included the land and building. The matter of the write-offs was raised and, following a brief discussion, it was determined it would be best to postpone the write-offs until after the final report had been prepared, which would probably be the latter part of July.

Managed Care Update

Mr. Caswell stated that the legal documents have been drafted regarding the dissolution of APPA and the legal process was proceeding towards resolution by year end. He added that the \$500,000 from the recently approved capital call for the payment of APPA claims was being held in abeyance subject to claims processing.

Mr. Caswell then reviewed a handout of three graphs. The first illustrated the SCHS cap "disenrollment timeline" for APPA, HPG and AHC with the various health plans. He then reviewed "pie charts" on the managed care service mix and payor mix for both Huntington and Methodist. Also, he informed the Board that the capitated contract with PacifiCare had terminated as of June 1, although there are still several unresolved issues. He pointed out that PacifiCare is the current health carrier for all SCHS/hospital employees and that William Murin and Kevin Simes are in the process of reviewing other options. Discussion followed.

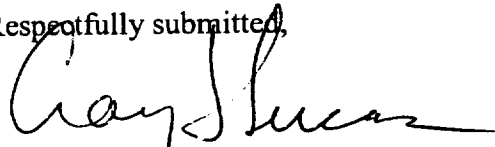
Finance Committee Meeting

Mr. Kalm requested that the July 25 meeting of the SCHS Finance Committee be moved to Monday, July 24 at noon. It was agreed and a notice will be sent confirming the change in date.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:15 a.m. The next meeting of the Board will be held on July 28, 2000 at 7:30 a.m. at Methodist Hospital.

Respectfully submitted,



Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
July 28, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Friday, July 28, 2000 in the Board Room of Methodist Hospital, 300 West Huntington Drive, Arcadia, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
John F. Kooken
Craig D. Lucas

Leonard M. Marangi
Lois S. Matthews
Francis X. McCormack

EXCUSED:

Arne Kalm
Gleeson "Tige" Payne

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

William Caswell
Steve James
Dennis Lee

James Maki
Kathy Schneider
Dodie Ulrich

Chairman McCormack called the meeting to order at 7:40 a.m.

MINUTES

The minutes of the Board of Directors meeting of June 30, 2000 were approved.

CHAIRMAN'S REPORT

Methodist Hospital – Revised Bylaws

Mr. Lee distributed and commented briefly on a memorandum summarizing some minor changes in the hospital's Bylaws, which had been approved by the Methodist Board at its June 29, 2000 meeting. He then requested approval by the SCHS Board of these revised Bylaws.

Upon motion made, seconded and unanimously carried, the Board approved the revised Methodist Hospital Bylaws and the changes as summarized in Mr. Lee's July 28, 2000 memorandum. A copy of that memorandum is attached to the original minutes.

It was indicated that Huntington Memorial Hospital had also made some changes to its Bylaws and these would be brought forth for approval in September.

SCHS AUDITED FINANCIAL STATEMENTS

Mr. Steve James of Ernst & Young, reviewed the Audited Financial Statements, which were in draft form. He noted that Kathy Schneider had prepared the original statements, which were then sent to Ernst & Young for review. Ernst & Young's responsibility was to issue an opinion. He indicated that Ernst & Young had reviewed and agreed with the estimates made by management teams regarding asset impairment. There were significant audit adjustments made and all conflicting issues with management were resolved to Ernst & Young's satisfaction. Mr. James pointed out that this was a complex audit. He added that he wanted to disclose to the Board that one of Ernst & Young's employees had been hired by Huntington Memorial Hospital and added that that employee has severed all ties with Ernst & Young, so there would be no potential conflict of interest.

Mr. James stated that although the System had declining assets in 1999, primarily due to the expense involved with APPA, SCHS was still a financially viable organization. He commented on the debt service ratio and indicated that management was able to obtain a waiver of forbearance from the insurers until the end of 2000. Although it appears SCHS will still be in default at the end of this year, the bond insurers have indicated that they could see no reason why they would not continue to give SCHS a waiver as long as SCHS continues to show financial improvement according to plan. Mr. James added that it is not uncommon to receive extended waivers and that communication is the key. Mr. Marangi requested that the Board be kept informed on this matter.

PRESIDENT'S REPORT

Resignation of Robert Rollo

Mr. Ralph informed the Board that Mr. Rollo had resigned recently from the Huntington Memorial Hospital Board and would no longer be a member of the SCHS Board. Huntington will be recommending someone in the near future to fill this vacancy.

Huntington East Valley Hospital – Update

Mr. Maki reported on the progress of the potential sale of HEVH. Out of 18 interested parties, it was narrowed down to 7 who signed confidentiality agreements. He added that Citrus Valley Health Partners has withdrawn from any possible negotiations, and at the present time the most

promising buyer appears to be Medical Pathways. All options are being explored, including keeping the hospital open as part of SCHS versus closing it down. Discussion followed.

Business Development/Marketing – Update

Mr. Lee reported on the meetings of the Business Development Committee with Bill Caswell, Kelly Linden and himself, and pointed out that there are some opportunities available for Huntington and Methodist to create a better working affiliation relationship. The committee's feeling was that the next step would be for the hospitals to share the development of each hospital's strategic plan and then to create a joint strategic business plan. He added that the committee would be looking at service lines and evaluating how critical they are in terms of respective and combined operations, along with ways to increase market share. More detailed work needs to be accomplished in terms of joint marketing and advertising, and it was the consensus of the committee that joint advertising may not be feasible at this time. Mr. Lee pointed out that as Huntington and Methodist develop individual marketing materials, it is important not to advertise in such a way as to make it appear to the public that we are competing against each other.

Mr. Lee stated that there is strong commitment among the executives at both Methodist and Huntington to continue the affiliation. Mr. Ralph cited, as an example, the consolidation of psychiatric patients at Huntington's Della Martin Center, with the planned closing down of the psychiatric service at Methodist Hospital. He emphasized that what SCHS does should be effective and add value. He added that this consolidation was one of the System's true successes in the way it was addressed and the way it was communicated to the Medical Staff, as a number of the physicians involved expressed their appreciation at being included in the process. He complimented Catherine McLoughlin, the Director of Psychiatric Services, for handling this transition. He then requested the Board's approval of the closing down of the psychiatric program at Methodist Hospital.

Upon motion made, seconded and unanimously carried, the Board approved the closure of the psychiatric services at Methodist Hospital and the consolidation of these services with the psychiatric program at Huntington Memorial Hospital.

FINANCE COMMITTEE

SoCal Clini Lab

Ms. Schneider reviewed the financial statements for the lab. The SCHS and HEVH intercompany receivables have been written off and there may be a write-down of the laboratory building on Raymond Avenue once the appraisal is completed. It was noted that SoCal Clini Lab (SCCL) owes Huntington Memorial Hospital (HMH) close to \$1.8 million and, as the semi-annual payments are received by SCCL from Unilab, these funds would be used to pay off the debt to HMH and also to be applied against the debt owed by Methodist Hospital.

Upon motion made, seconded and unanimously carried the Board authorized the payoff from the SoCal Clini Lab funds of outside liabilities and the debt owed to Huntington Memorial Hospital, with the monitoring of payouts as the semi-annual payments are received from Unilab.

Huntington East Valley Hospital – Capital Call

Mr. Maki reported on the current cash flow and cash needs for the hospital. He stated that the hospital would need approximately \$1.8 million to cover the projected loss for the year 2000. Discussion followed.

Upon motion made, seconded and unanimously carried, the Board approved a capital call in the sum of \$1.8 million to cover the projected loss for the year 2000 for Huntington East Valley Hospital.

Earthquake Insurance

Mr. Kooken reported that management had recommended SCHS not renew the earthquake insurance on Huntington East Valley Hospital. The premium would be \$165,000 with a \$3 million deductible and a policy limit of \$20 million. The Finance Committee agreed with management's recommendation.

The Board was in agreement that the earthquake insurance for HEVH not be renewed this year.

SCHS YTD Financial Statements

Mr. Caswell shared that the SCHS financials were "in transition," and that a full consolidated report would be available at the September meeting. A detailed Berger Building schedule (budget vs. actual) would be available at that time.

Managed Care Update

Dissolution of APPA: Mr. Caswell reported that the legal work is in process for the dissolution of APPA. The APPA capital call of \$500,000 (previously approved by the SCHS Board) has not yet been called, but may be needed by mid to late August. He added that it might be necessary to request additional funds prior to October 1 once the APPA claims backlog is brought up to date.

Significant efforts are being made by Medical Pathways on the backlog of APPA and hospital claims.

Health Plans: Mr. Caswell advised that as of August 1, the only capitation contract remaining is with Blue Cross, and that contract will terminate as of December 31, 2001. He added that we have set SCHS-wide "rates and terms" in our contracts and have been aggressive in our position with the health plans. Although the contract with Aetna has been terminated, an acceptable agreement may still be reached as negotiations are continuing. Mr. Caswell indicated that positive discussions have taken place with the IPAs, particularly Medical Pathways and Physician Associates in support of the hospitals' contracting strategy. He advised that a similar meeting had taken place with HealthCare Partners regarding a relationship/ partnership. Mr. Ralph added that SCHS is making efforts to get the physician groups to align with the hospitals and reiterated that SCHS needs to take a firm position with the health plans. Discussion followed.

Wells Fargo Bank Resolution

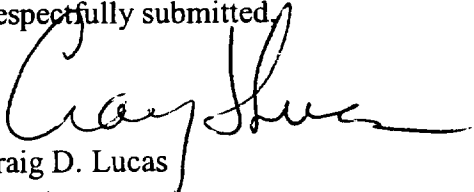
Mr. Caswell advised that a new account needed to be established as part of the transition of Huntington East Valley Hospital out of the capitated business. This account will be used to pay claims processed by Medical Pathways for claims with year 2000 dates of services. The bank has requested a Board resolution authorizing it to accept facsimile signatures. Ms. Schneider reiterated that no claims would be funded until reviewed by her and her staff and that the bank prepares a daily report, which is sent to her for review and approval. She added that these claims have a time limit or we are charged interest on these claims. Mr. Caswell then presented the bank resolution to the Board for approval (a copy of which previously had been sent to the Board members).

Upon motion made, seconded and unanimously carried, the Board approved the Wells Fargo Bank Resolution authorizing the bank to accept facsimile signatures. A copy of that Resolution is attached to the original minutes.

ADJOURNMENT

There being no further business, the meeting was adjourned at 9:00 a.m. The next meeting of the Board will be held on September 29, 2000 at 7:30 a.m. at Huntington Memorial Hospital.

Respectfully submitted,


Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
September 26, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare systems was convened on Tuesday, September 26, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

Arne Kalm
John F. Kooken
Craig D. Lucas

Francis X. McCormack
Gleeson "Tige" Payne

EXCUSED:

James N. Gamble
Leonard M. Marangi
Lois S. Matthews

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
Robert Gordon
Michael Hammond
Dennis Lee

James Maki
Cecilia Montalvo
Cindy Trousdale
Dodie Ulrich

Chairman McCormack called the meeting to order at 12:15 p.m.

MINUTES

The minutes of the Board of Directors meeting of July 28, 2000 were approved.

CHAIRMAN'S REPORT

Resolution – SCHS Deferred Compensation

The Chairman advised that the trustee for the SCHS Deferred Compensation Plan was being changed to MetLife Trust Company, N.A., and presented a Resolution for the Board's approval authorizing same.

Upon motion made, seconded and unanimously carried, the Board approved the Resolution authorizing the change in trustee for the SCHS Deferred Compensation Plan to MetLife Trust company, N.A. A copy of that resolution is attached to the original minutes.

PRESIDENT'S REPORT

Huntington East Valley Hospital – Update

Mr. Ralph welcomed Michael Hammond and Cecilia Montalvo from Shattuck Hammond Partners, the firm handling the Huntington East Valley Hospital (HEVH) transaction. Mr. Hammond then distributed copies of and commented on the status report of the HEVH transaction, which outlined the three options, the Shattuck Hammond recommendation, the status of sale, profiles of interested buyers, etc.

Mr. Hammond reviewed the three options for the future of Huntington East Valley Hospital: (1) closure of the hospital and liquidation of assets; (2) sale of the hospital; or (3) continue to operate the hospital as an affiliate of SCHS. He presented an estimated cost comparison between the three options:

	<u>Net Cash</u>
Estimated Cost of Hospital Closure	\$13,554,000
Estimated Cost of Sale of Hospital	\$ 4,875,000
Estimated Cost of Continued Operation	\$ 7,423,000

Mr. Hammond then commented on some of the risk factors and net cash calculations involved for each of the three options. He added that Shattuck Hammond would be keeping the Attorney General's office informed as the transaction progresses. The Board was in general agreement that the closure of the hospital was not a viable option at this time.

Ms. Montalvo commented on the various individuals who had indicated an interest in the hospital, the degree of interest and the probability of consummation of a sale. Discussion followed.

Mr. Hammond then presented Shattuck Hammond's recommendation, which was to aggressively and quickly move forward to identify a qualified buyer and consummate a sale of the hospital.

The Board was in agreement with Shattuck Hammond's recommendation to quickly move forward to identify a qualified buyer to acquire the Huntington East Valley Hospital (as indicated on page 10 of the Shattuck Hammond report). Paralleling the sale effort, it was agreed that everything feasible should be explored immediately to stabilize the financial picture at HEVH.

JCAHO Survey

Mr. Ralph reported that Huntington and Methodist had completed their respective Joint Commission surveys and both had excellent scores: Huntington 92% and Methodist 91%.

Business Development/Marketing – Update

Due to time constraints, the business development/marketing update was deferred to next month's meeting of the Board.

Huntington Memorial Hospital – Bylaws

Mr. Ralph commented on his September 19, 2000 memorandum regarding the changes in the HMH Bylaws. He then asked for approval of the revised Bylaws.

Upon motion made, seconded and unanimously carried, the Board approved the Huntington Memorial Hospital revised Bylaws (effective June 2000), as outlined in Mr. Ralph's memorandum dated September 19, 2000, a copy of which is attached to the original minutes.

Sale of Huntington Transitional Care Center

Mr. Ralph advised the Board that the Huntington Transitional Care Center (HTCC) was in the process of being sold. The land and building are owned by the Huntington Trust. He added that the HTCC had been operating at a loss of approximately \$140,000 per month and was being sold as an ongoing, long-term care facility.

FINANCE COMMITTEE

HEVH Capital Equipment Purchase

Mr. Ralph advised that Huntington East Valley Hospital had experienced an equipment crisis situation during the first part of August and had to replace its sterilizer at a cost of approximately \$18,000. Since neither the Board nor the Finance Committee was meeting until September, management authorized the purchase of the new sterilizer.

Managed Care Update

Health Plans: Mr. Caswell advised that the first round of "Project Indispensable" had been completed and the results were very successful on the contract rates and terms with four of the health plans. He added that the recent negotiations with Blue Shield had also gone very well. He emphasized the need to be sensitive to the physician groups, as the more favorable hospital rates raise the potential of negatively impacting the IPAs and their risk pools. The contracts with

PacifiCare and HealthNet will be up for renewal on December 31, 2000, and a "notice of termination" has been sent to both health plans, along with our proposed rates and terms.

Dissolution of APPA: Legal documents have been filed for the dissolution of APPA. Claims continue to be received at the rate of approximately 150 per week, the majority of which are duplicates. It still has not been determined how much of the \$500,000 capital call previously approved by the Board will be needed to cover the balance of the unpaid claims.

SCHS Claims: A handout was reviewed showing the status of the current backlog of SCHS claims and a timeline for resolution. Mr. Caswell indicated that he and the contracting staff are meeting weekly with Medical Pathways and all possible efforts are being made to bring the claims processing to a current basis.

SCHS Financial Statements

Mr. Ralph commented briefly on the financials, copies of which had been sent to the Directors. He pointed out that the greatest variance was in the "outside services" category, which represented legal fees regarding the dissolution of APPA, consulting fees for the Huntington East Valley Hospital transaction, and Ernst & Young accounting fees.

OTHER

Wage Order – Non-exempt employees

Mr. Carmack raised the issue of the new wage order, which will take effect October 1, 2000. This requires that all non-exempt employees who miss taking a scheduled break, must be paid one full hour's pay. He pointed out that this could have a substantial financial impact on the hospitals. Discussion followed.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,

Craig D. Lucas
Secretary

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
December 14, 2000**

The regular meeting of the Board of Directors of Southern California Healthcare Systems was convened on Thursday, December 14, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman Francis X. McCormack presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
Arne Kalm
John F. Kooken
Craig D. Lucas

Lois S. Matthews
Leonard M. Marangi
Francis X. McCormack

EXCUSED:

Gleeson "Tige" Payne
James Rothenberg

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
Robert Gordon
Michael Hammond
Dennis Lee

James Maki
Cecilia Montalvo
Cindy Trousdale
Dodie Ulrich

Chairman McCormack called the meeting to order at 12:20 p.m.

MINUTES

The minutes of the Board of Directors meeting of September 26, 2000 were approved.

CHAIRMAN'S REPORT

Ratification of Actions - September 26, 2000 Board Meeting

Due to the lack of a quorum at the September 26, 2000 meeting of the Board, the Chairman requested approval of the actions taken at that meeting.

Minutes - Board of Directors
Southern California Healthcare Systems
December 14, 2000
Page 2

Upon motion made, seconded and unanimously carried, the Board ratified the actions approved at the September 26, 2000 meeting of the SCHS Board.

Election of Directors and Officers

The Chairman presented the proposed slate of Directors for election for the January 2001-December 2002 term:

Representing Huntington Memorial Hospital

James N. Gamble
John F. Kooken
Leonard M. Marangi
Lois S. Matthews
Gleeson "Tige" Payne
James Rothenberg

Representing Methodist Hospital

Arne Kalm
Craig D. Lucas
Francis X. McCormack

Upon motion made, seconded and unanimously carried, the above-named Directors were elected for a two-year term, commencing January 2001.

The Chairman then presented the proposed slate of Officers for the January 2001 – December 2001 term:

John F. Kooken	Chairman
Leonard Marangi	Vice Chairman
Craig D. Lucas	Secretary
Stephen A Ralph	President
Assistant Treasurer	Timothy Carmack
Assistant Secretary	Dodie Ulrich

It was noted that the office of Treasurer was yet to be determined, pending some anticipated Board member changes from Methodist Hospital.

Upon motion made, seconded and unanimously carried, the above-named officers were elected for a term of one-year, commencing January 2001.

PRESIDENT'S REPORT

Huntington East Valley Hospital

Mr. Ralph welcomed Michael Hammond and Cecilia Montalvo from Shattuck Hammond Partners, the firm handling the Huntington East Valley Hospital (HEVH) transaction. Mr. Hammond reviewed briefly the three options for HEVH and the costs involved for each option, which were (i) to sell; (ii) to continue to operate; or (iii) to close it down. Shattuck Hammond's prior recommendation to the Board had been to secure a qualified buyer as soon as possible.

Mr. Hammond then distributed copies of and commented on a summary of a proposed Memorandum of Intent to Purchase HEVH, which had been submitted by PanPacific Health Enterprises, along with a deposit of \$195,000 in the form of a cashier's check. The principal of PanPacific Health Enterprises is C. Joseph Chang. Mr. Ralph thanked Ms. Matthews, who had referred Mr. Chang to us. Mr. Hammond gave a brief background on Mr. Chang and his company and pointed out that Mr. Chang's offer was contingent upon his being able to secure the necessary financing. He added that he felt confident that this could be accomplished. Mr. Hammond then reviewed the terms of the offer:

Purchase price to be \$6.5 million; \$5 million payable upon close of escrow (financed in part by California Bank and Trust in the amount of \$3,250,000 and the Small Business Administration in the amount of \$970,000); \$1.5 million payable not later than 12 months following the closing date, with interest payable to SCHS at the prime lending rate. Discussion followed. Mr. Hammond reiterated that the exposure for continued operation of HEVH could be substantial, the cost of closure of the hospital would be estimated at \$13 million, and therefore the PanPacific offer was the best option.

He then presented Shattuck Hammond's recommendation, which was that the SCHS Board authorize management to sell Huntington East Valley Hospital, based on the terms described in Shattuck Hammond's summary dated December 14, 2000, including negotiations regarding security for the \$1.5 million note. Discussion followed regarding the hospital's indebtedness and it was pointed out that there is a possibility that another capital call to HMM and MHSC might be required to cover ongoing expenses for the first quarter of 2001.

Upon motion made, seconded and unanimously carried, the Board authorized continued negotiations toward the sale of Huntington East Valley Hospital to PanPacific Health Enterprises, as outlined in the Shattuck Hammond December 14, 2000 summary (a copy of which is attached to the original minutes), with efforts being made to eliminate or reduce the \$1.5 million note. The Board further authorized Mr. Ralph to execute the purchase agreement in connection with this sale, subject to Mr. Ralph making reasonable efforts to contact the members of the Finance Committee to secure their prior approval of the final sales agreement.

FINANCE COMMITTEE

Annual Audit

Mr. Carmack reported that he had reviewed the matter of whether or not a formal audit was needed for SCHS. Kathy Schneider performed much of the audit work for 1999 and Ernst & Young reviewed the final product. This resulted in substantial savings, as the cost of the 1999 audit was approximately \$20,000. The cost of the 1998 formal audit was approximately \$45,000. Ernst & Young has advised that there will be approximately \$10,000 in audit costs for this year to be paid by the System because of inter-company transfers, etc. The individual hospitals will each have formal audits done by Ernst & Young. The Finance Committee discussed this matter at its last meeting and felt this audit was not needed and recommended a formal audit be waived for 2000.

After a brief discussion, the Board was in agreement that a formal audit would not be needed for the year 2000.

September and October Financials

Mr. Caswell noted that the financials had been prepared in a new format and that a new column would be added which would compare figures with the prior year. He extended his appreciation to Mr. Carmack and Ms. Schneider for their efforts in preparing these statements.

2001 Operating and Capital Budgets

Mr. Caswell commented on the System and three hospital budgets for 2001, which previously had been approved by the SCHS Finance Committee.

Upon motion made, seconded and unanimously carried, the Board approved the 2001 operating and capital budgets for Southern California Healthcare Systems, Huntington Memorial Hospital, Methodist Hospital and Huntington East Valley Hospital.

Discussion followed regarding cost-savings measures being implemented. Mr. Ralph reported that Huntington is on target as far as budgeted savings of \$11-12 million through Operation MOVE. Mr. Lee stated that Methodist had targeted \$13 million in savings, of which 85-90% has been identified. Mr. Maki pointed out that the financial status of Huntington East Valley is improving and should get better in 2001.

Managed Care Update

Mr. Caswell reported that the contract negotiations with Health Net are progressing well and it is anticipated they will be consummated in January. He noted the Medi-Cal is the largest contract to be negotiated.

Minutes - Board of Directors
Southern California Healthcare Systems
December 14, 2000
Page 5

He reported that APPA would be dissolved as of December 22, 2000, and that three additional SCHS entities (Medical Value Plan, Foothills Physician Services and Arcadia Health Services, dba Southern California Medical Management) also will be dissolved as of year-end.


EXECUTIVE SESSION

The Board then met in executive session to review and approve the deferred compensation program for funding in 2000.

ADJOURNMENT

There being no further business, the meeting was adjourned at 1:50 p.m.

Respectfully submitted,

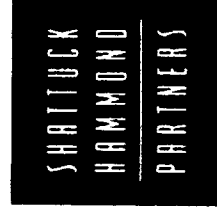


Craig D. Lucas
Secretary

Huntington East Valley Hospital

**Southern California Healthcare System
Board of Directors**

December 14, 2000



SHATTUCK HAMMOND PARTNERS
A DIVISION OF PRICEWATERHOUSECOOPERS SECURITIES, LLC

Summary of Proposed Acquisition Terms - PanPacific Health Enterprises

The following is a summary of proposed terms based on a Memorandum of Intent to Purchase submitted by PanPacific Health Enterprises. C. Joseph Chang is the principal of PanPacific Health Enterprises. Henry Quong is a co-investor in the business. Both are residents of the local community. Mr. Chang is a member of the management team at Alhambra Community Hospital.

The Memorandum of Intent was accompanied by a cashier's check for escrow deposit in the amount of \$195,000 and a letter of lending commitment from California Bank and Trust.

Purchase Price

- \$6.5 million total purchase price.
- \$5 million payable upon close of escrow, financed in part by California Bank and Trust in the amount of \$3,250,000 and the Small Business Administration in the amount of \$970,000.
- \$1.5 million payable not later than 12 months following the closing date, with interest payable to SCHS at the prime lending rate.
- We are seeking clarification regarding various forms of collateral that might be available to secure the \$1.5 million note, including a lien on the accounts receivable (if acquired as part of the transaction), a second lien position on the deed of trust, and/or the pledge of personal property of the buyers.

Conditions Precedent

- Payment of \$195,000 has been received as a deposit for the opening of escrow.
- The buyer has agreed that pending the approval of the SCHS Board of Directors, the deposit can only be refunded if a "Permitted Terminating Event" occurs. Permitted Terminating Events include only:
 1. Receipt of an adverse finding on the Environmental Report;
 2. Material omission or misstatement of financial facts; and
 3. Failure to provide an updated seismic report by an agreed upon date.
- Shattuck Hammond Partners and SCHS Counsel (Musick Peeler & Garrett, LLP) have requested that item 2 be clarified for narrow interpretation.

Huntington East Valley Hospital

Other

- The transaction would require the approval of the California Attorney General.
- PanPacific has expressed its interest in employing all existing employees at HEVH.
- Specific assets to be included in the transaction are still under discussion. The \$6.5 Million proposed purchase price is for the hospital's real estate assets only. Additional consideration may be paid for other assets (e.g. accounts receivable).
- Final terms have not yet been fully negotiated.

Huntington East Valley Hospital

Recommendations

Shattuck Hammond Partners recommends that the Southern California Healthcare System Board of Directors authorize management to sell Huntington East Valley Hospital based on the terms described herein, including continued negotiations regarding security of the \$1.5 million dollar note.

This recommendation is based on the following:

- HEVH will continue to experience negative cash flow for an indefinite period of time, regardless of efforts to improve performance.
- Closure of Huntington East Valley Hospital would be expensive (estimated \$13 million).
- The offer from PanPacific Health Enterprises is the only bonofide offer received by Shattuck Hammond Partners after 6 months of marketing this facility.

Huntington East Valley Hospital

**MINIMUM
CONTINUE TO OPERATE
Through December 2005**

**SELL
By December 2000**

**CLOSE
As of December 2000**

<p>(\$4,362,000) Wind Down Expenses WARN Act</p> <p>(567,000) 12 Months Upkeep</p> <p>(9,025,000) Bond Defeasance</p> <p>2,200,000 Land Sale Proceeds</p> <p>(\$13,554,000) Net Cash</p>	<p>\$6,500,000 Sale Proceeds¹</p> <p>(9,025,000) Bond Defeasance</p> <p>(1,350,000) Transaction and Wind Down Costs</p> <p>(\$3,875,000) Net Cash</p>	<p>(\$4,813,000) Discounted Cash Flow (at 8.5%)</p> <p>(\$4,813,000) Net Cash²</p>
<p>(\$4,518,000) Methodist</p> <p>(\$9,036,000) Huntington</p>	<p>(\$1,292,000) Methodist</p> <p>(\$2,583,000) Huntington</p>	<p>(\$1,604,000) Methodist</p> <p>(\$3,209,000) Huntington</p>

¹ \$5 million payable at close. \$1.5 million payable under note to SCHS for 12 month term. There is some level of risk associated with this note
² Actual cash flow \$5.7 million before discount. Five-year forecast only. Based on HEVH Budget for 2001 and assumes 43 ADC (see page 6)
 Forecasts range from \$4.8 million to \$7.2 million. Remaining balance due on bonds in 2005 of approximately \$8 Million.

Huntington East Valley Hospital

Huntington East Valley Hospital
Comparison of Five-Year Financial Forecast

PROFIT/(LOSS)PER YEAR:	AS PRESENTED 9/26/00 BY SHATTUCK HAMMOND		BUDGET
	40 ADC	43 ADC	43 ADC
2000	(1,681)	(1,681)	(2,353)
2001	(1,508)	(940)	(485)
2002	(1,557)	(972)	(646)
2003	(1,630)	(1,027)	(696)
2004	(1,707)	(1,086)	(753)
2005	(1,789)	(1,150)	(821)
TOTAL	(9,872)	(6,856)	(5,753)

PRESENT VALUE OF 5 YEAR CASH REQUIREMENTS:

2001	2,557	2,205	2,612
2002	1,325	833	627
2003	1,190	723	558
2004	1,115	671	519
2005	1,056	635	497
	7,243	5,067	4,813

2,612 see next page for detail

CONTRIBUTIONS TO HEV FROM HMH/MH DURING 2000:

2000 Capital Call	3,700
Increase in Due to Affiliates during 2000 thru 10/00	767
	4,467

* The September 26, 2000 Shattuck Hammond Partners financial model was updated to reflect operations as of October 2000. Inflation, fixed/variable and discount rate assumptions from September 26 were not changed in these revised projections.

* Please note that these projections depict fairly strict, no-frills operations for at or near a best case scenario, created simply to compare to sale and closure options. If HEV is not sold, it is probable that additional capital and marketing/business development costs would be incurred annually. Minimum estimate for these costs would be \$350,000 annually, or \$1,750,000 over the forecast period.

Huntington East Valley Hospital

**Huntington East Valley Hospital
Detail of 2001 Cash Requirements**

	Quarter Needed			
	1st QTR	2nd QTR	3rd QTR	4th QTR
Forecasted cash Needs for 2001 are for the following:				
Net Income (Loss)	(485)	(121)	(121)	(121)
Add back non cash Depreciation	854	214	214	214
(Increase) Patient Receivables and Inventories	(350)	(88)	(88)	(88)
(Decrease) in IBNR-to outside providers	(702)	(176)	(176)	(176)
(Decrease) in IBNR - funded by SCHS 2000 cap premium	(1,011)	(337)	(337)	(337)
Cash Used in Operations	(1,694)	(508)	(508)	(171)
Capital Expenditures	(700)	(175)	(175)	(175)
Decrease in LTD	(227)	(57)	(57)	(57)
(Decrease) in Current Portion due to Affiliates - HMF	(300)	(75)	(75)	(75)
Cash Needs	(2,921)	(815)	(815)	(478)
Present Value of Cash Needs - discounted at 8.5%	2,612			

Continued operations would result in a \$2.9 Million cash shortfall in 2001 alone.

DRAFT - Subject to approval
at 3/28/2001 meeting.

**MINUTES
BOARD OF DIRECTORS
SOUTHERN CALIFORNIA HEALTHCARE SYSTEMS
February 28, 2001**

The regular meeting of the Board of Directors of Southern California Healthcare Systems was convened on Wednesday, February 28, 2000 in the Board Room of Huntington Memorial Hospital, 100 West California Boulevard, Pasadena, with Chairman John F. Kooken presiding.

VOTING DIRECTORS PRESENT:

James N. Gamble
James Halverson
John F. Kooken
Craig D. Lucas

Leonard M. Marangi
Douglas McEachern
James Rothenberg

EXCUSED:

Lois S. Matthews
Gleeson "Tige" Payne

EX-OFFICIO DIRECTOR PRESENT:

Stephen A. Ralph

ALSO PRESENT:

Tim Carmack
William Caswell
Robert Gordon

Dennis Lee James Maki
Dennis Lee
Dodie Ulrich

As the Chairman was detained, Mr. Ralph called the meeting to order at 4:05 p.m.

NEW DIRECTORS

Mr. Ralph introduced and welcomed the newest Board members, James Rothenberg (representing Huntington Hospital), and James Halverson and Douglas McEachern (representing Methodist Hospital).

CHAIRMAN'S REPORT

MINUTES

The minutes of the Board of Directors meeting held on December 14, 2000 were approved.

Southern California Healthcare Systems
Board of Directors – Minutes
February 28, 2001
Page 2

SCHS Bylaws

The Chairman requested the Board's approval of the revised SCHS Bylaws, pointing out that the only change was the annual meeting date being changed to December in order to make the SCHS Bylaws consistent with the two hospitals. A redlined copy reflecting those changes previously had been sent to the Directors.

Upon motion made, seconded and unanimously carried, the Board approved the revisions to the SCHS Bylaws. A copy of the Bylaws is attached to the original minutes, along with a redlined copy of the changes.

Mr. Kooken remarked that the SCHS Bylaws had been revised several times, with the addition of Beverly and Verdugo Hills hospitals and again when those hospitals withdrew from the System. He indicated that the Bylaws would be thoroughly reviewed once again to ensure there are no loose ends.

Committee Appointments

Mr. Kooken asked the Board members to indicate their willingness to serve on the Finance Committee or Compensation Committee by indicating on the sign-up sheet that had been placed in their notebooks.

Mr. Ralph noted that the office of Treasurer was still open due to the changes in the Board representation from Methodist Hospital. He commented on the Compensation Committee and its role in creating a compensation structure going forward. Mr. Kooken added that the prior Compensation Committee had a System-wide compensation structure, salary guidelines and comparable incentives. The purpose of the committee was to achieve some degree of uniformity with hospital benefits (e.g., executive compensation). The new committee will revisit all those areas and determine what we want to accomplish.

Southern California Healthcare Systems
 Board of Directors – Minutes
 February 28, 2001
 Page 3

Ratification of Election of HEVH Directors and Officers

The slate of officers and Directors recently nominated and elected by the Huntington East Valley Hospital Board of Directors was presented for approval.

Upon motion made, seconded and unanimously carried, the Board ratified the election of the following officers and Directors of Huntington East Valley Hospital for the March 1, 2001 through February 28, 2002 term:

<u>Officers</u>	<u>Term Expires</u>
Robert A. Gordon, Sr., Chairman	February 2004
Peter Miller, Vice-Chairman	February 2002
Fred H. Sahhar, M.D., Secretary	February 2003
Edwin C. Heinrich, Treasurer	February 2004
<u>Directors</u>	<u>Term Expires</u>
Sarah Flores	February 2004
Ida Fracasse	February 2002
Rose Liegler, R.N., M.S.N. Ph.D.	February 2003
James W. Maki - ex officio	February 2002
Stephen A. Ralph - ex officio	February 2002
Marc L. Domaguing, M.D., Chief of Staff	December 2001

PRESIDENT'S REPORT

Huntington East Valley Hospital (HEVH)

Mr. Ralph gave a brief background on SCHS and the acquisition of HEVH (formerly Glendora Community Hospital) in 1995, at which time it was operating as a for-profit entity. By the end of 1996, SCHS was a five-hospital system. Two hospitals subsequently left the system in 1998. Last spring, when the SCHS Board decided to focus "west of the 605," it was felt that HEVH was out of the System's market area. Shattuck Hammond was then engaged to review the options for HEVH and it was determined that selling the hospital to a qualified buyer was the best option. At its

Southern California Healthcare Systems
Board of Directors – Minutes
February 28, 2001
Page 4

December meeting, the SCHS Board approved Shattuck Hammond's recommendation to proceed with negotiations with a potential buyer, PanPacific Health Enterprises ("PanPacific"). An Asset Purchase Agreement with PanPacific was signed earlier in the month.

Mr. Carmack reviewed the "Key Terms and Conditions" of the transaction, a copy of which is attached to the original minutes. Discussion followed. PanPacific has agreed to hire essentially all of the present employees of the hospital and to retain the hospital's existing Board of Directors. It was pointed out that Pan Pacific's main concern was that SCHS agree to not compete in the cities of Glendora, Azusa, La Verne, San Dimas and Covina for a period of three years.

There was discussion around the \$1.5 million note that PanPacific has asked SCHS to take back and the State Attorney General's review process in this transaction. It was noted that due to the fact that the hospital will revert back to a for-profit entity from a nonprofit status, the Attorney General's office will be closely reviewing this transaction. Mr. Carmack added that there have been no problems with the transaction to date and it has the potential of closing rather quickly. Mr. Carmack emphasized the confidentiality issue and indicated that the buyers were requesting that their names not be released publicly until such time as the transaction is closed. It was therefore determined that no press release would be made until the close of the transaction. It is expected that Huntington's name will be removed and the hospital will be known as East Valley Hospital. Discussion followed.

The issue of the 26 patient beds currently on loan from Methodist Hospital was discussed and Mr. Gordon indicated that HEVH would like to purchase these beds from Methodist.

Southern California Healthcare Systems
Board of Directors – Minutes
February 28, 2001
Page 5

Mr. Maki expressed his thanks and appreciation to management for the way the entire matter has been handled and that a buyer had been secured who would continue the hospital's present operations.

Planning and Business Development Activity

Mr. Lee summarized the results of several meetings held between himself, Messrs. Ralph and Caswell and Kelly Linden, Vice President of Business Development for Methodist Hospital, regarding where the two hospitals would fit into categories of joint business development. These meetings will focus on trying to gain better information about competitors, and to become more targeted in market share building efforts. The information presently available on competitors is very dated but efforts will be made to gather more current data through physician contracts and managed care organizations. He pointed out that the movement of market share from one hospital to another is very difficult. Joint planning efforts will be made around strategy and technology (e.g., cardiac imaging, radiation oncology, etc.)

Another area where the two hospitals can work together will be in facility planning, especially in view of the 2008 and 2030 deadlines (Senate Bill 1953 – seismic regulations) around the retrofitting or replacement of facilities. Mr. Lee indicated that at the next meeting of the executive team they will be sharing each other's capital plans for the next ten years, which will provide an understanding as to what the two hospitals' plans are. Information technology is another area that will be explored. Mr. Kooker added that he sees the information technology as a great opportunity for the two hospitals to work together. Discussion followed. The joint managed care contracting is one area where the two hospitals working together has proven very successful.

Southern California Healthcare Systems
Board of Directors – Minutes
February 28, 2001
Page 6

FINANCIAL REVIEW

SCHS Financials

Mr. Carmack reviewed the financial statements. He noted that the System's loss for 2000 was \$19,004,000. He reviewed the combined statement of operations and balance sheet, noting that these reports take the place of a formal audit, which the Board agreed was not necessary for last year. He pointed out that each entity would have its own formal audit. The figures in these statements contain all operations of the hospitals, which would include Congress Services and the Huntington Medical Foundation, as well as the Skilled Nursing Facility at Methodist. Mr. McEachern inquired about a comparison between Huntington and Methodist and expressed his concern regarding the outstanding receivables. Discussion followed.

Managed Care Update

Mr. Caswell advised that the final dissolution documents for APPA had been filed with the court. He added that several other entities had been dissolved as of year end (Foothills Physician Services, Medical Value Plan, and Arcadia Health Services dba Southern California Medical Management). We are continuing to maintain solidarity between Huntington and Methodist in our contracting efforts, which has proved beneficial in our negotiations with the health plans. He added that we are still in capitation on one contract with Blue Cross (approximately 15,000 lives) which will terminate on December 31 of this year. Mr. Caswell reported that following public notice of the cancellation of our contract with Health Net, an agreement had been reached where Health Net accepted our proposed rates and terms. Discussion followed. The issue of the growing accounts receivable from health plans was discussed. A meeting was held recently with the hospital auditors, Ernst & Young to review this matter and look for a solution.

Southern California Healthcare Systems
Board of Directors – Minutes
February 28, 2001
Page 7

1300 East Green Street Lease

Mr. Ralph noted that our lease with the Berger Foundation for the building at 1300 East Green Street ends in February 2003. At the present time the Huntington Medical Foundation (HMF) occupies two-thirds of that space, with the remaining one-third being occupied by the contracting department personnel. The Huntington Medical Foundation has been downsizing and has indicated it would like to vacate these premises. The Berger Foundation is agreeable and has agreed to release us from the lease if we can secure a suitable replacement. Pasadena City College has indicated an interest in taking over the building and HMF is prepared to move in 30 to 60 days.

Future Board Meeting Dates/Times

The Chairman noted and the Board was in agreement that future meetings of the SCHS Board will be held on the fourth Wednesday of the month at 4:30 pm. The meetings will alternate between Huntington and Methodist hospitals.

ADJOURNMENT

There being no further business, the meeting was adjourned.

Respectfully submitted,

Craig D. Lucas
Secretary