



St. Francis

HEALTHCARE SYSTEM OF HAWAII
A Legacy of Caring for Hawaii's People

**Hawaii Medical Center LLC Files for Chapter 11 Bankruptcy Protection
Bankruptcy Filing Does Not Affect St. Francis Healthcare System's
Operations
Venue Changed to Hawaii**

On August 29, 2008, Hawaii Medical Center LLC filed a petition in Delaware for Chapter 11 bankruptcy protection. Hawaii Medical Center (HMC) has said it will reorganize and develop a financial plan to create a stronger organization.

**Response from Sister Agnelle Ching, OSF, Chief Executive Officer, St. Francis
Healthcare System of Hawaii:**

Hawaii Medical Center's bankruptcy filing does not affect St. Francis Healthcare System's operations. Our primary concern is to ensure ongoing care to the patients who depend on the health care services provided by the hospitals.

We have been working with Hawaii Medical Center through its financial challenges as much as possible so that the hospitals can continue to provide care without interruption. St. Francis Healthcare System had been allowing Hawaii Medical Center to defer principal payments on its loan to ensure there could be ongoing care for patients in our community.

We have filed for a change in venue because HMC's bankruptcy filing in Delaware is costly and inconvenient for both its secured and unsecured creditors. St. Francis petitioned the Delaware court to change the venue of the bankruptcy filing to Hawaii, which was granted on September 19, 2008.

Background:

St. Francis Healthcare System is one of Hawaii's leading health care providers. It opened St. Francis Hospital in 1927 and St. Francis Medical Center-West in 1990 to meet the growing health care needs of Hawaii's people. St. Francis Healthcare System introduced new services to the Islands, including kidney dialysis, organ transplants, home health care, and hospice care.

Divestiture of Medical Centers:

St. Francis Healthcare System divested its two medical centers (St. Francis Medical Center in Liliha and St. Francis Medical Center-West in Ewa) to exit acute care services and focus on care for Hawaii's growing elderly population and on hospice care.

The sale was approved by the Vatican, the Office of the State Attorney General, the State Health Planning and Development Agency (SHPDA) and other agencies. The transfer of ownership occurred in January 2007. The two hospitals were sold for \$46.5 million to Hawaii Medical Center LLC, a joint venture between the Hawaii Physician Group, comprising local doctors, and Wichita, Kansas-based Cardiovascular Hospitals of America.

Although the hospitals are now owned and operated by Hawaii Medical Center, many still mistakenly refer to the hospitals as St. Francis Medical Center, because of the longevity of the St. Francis name in the community.

Seller Financing by St. Francis Healthcare System:

Hawaii Medical Center purchased the two hospitals for \$46.5 million by making a down payment of \$6.5 million in cash to St. Francis Healthcare System, with St. Francis Healthcare System providing the remaining \$40 million in seller financing. In addition, St. Francis Healthcare System provided an \$8.9 million working capital loan to Hawaii Medical Center and entered into a 25-year real estate lease for the land underlying the hospitals.

Hawaii Medical Center Proposed Plans:

Of all the prospective buyers of the two medical centers, St. Francis Healthcare System selected Hawaii Medical Center because of its commitment to carry on the mission of providing quality care to the community and its agreement to abide by the Ethical and Religious Directives for Catholic Health Care Services and to maintain a Catholic mission by continuing to care for the poor.

In its certificate of need to SHPDA, Hawaii Medical Center stated the hospitals would undergo a major renovation program to create state-of-the-art facilities. Hawaii Medical Center planned to make \$32 million in improvements over five years. Hawaii Medical Center planned \$7 to \$8 million in improvements in the first year of operation and \$5 million annually for renovations and equipment.

As the new owner, Hawaii Medical Center planned to increase patient use at the two medical centers under the physician-owned structure. Hawaii Medical Center expected the hospitals would be operating at the break-even point by the end of its first year.