LHP Hospital Group, Inc.
Proposal for the Marion County Hospital District
February 10, 2012
February 10, 2012

Ponder & Co.
Two Prudential Plaza
180 North Stetson Avenue, Ste 750
Chicago, IL 60601
Attention: David L. Atchison

Re: Indication of Interest Concerning the Munroe Regional Health System

Dear Mr. Atchison:

LHP Hospital Group, Inc. (“LHP”) has reviewed the Confidential Descriptive Memorandum concerning Munroe Regional Health System (“MRHS”) along with your instruction letter dated December 20, 2011, and is pleased to submit this Indication of Interest as directed therein. We believe that we can bring real and unique value to a MRHS relationship. Therefore, the opportunity to work with MRMC fits very well with our own strategic goals and objectives.

In order to allow the Board and management of MRHS some flexibility in choosing a transaction model that best suits their unique needs and interests, we have structured our response to include two separate alternatives.

**Alternative I:**
**LHP / MRHS Joint Venture (JV) Proposal**

LHP is well-known throughout the industry for its innovative approach to collaborative relationships with not-for-profit providers. Our joint venture model is designed specifically to address the strategic needs of mission-oriented organizations like MRHS without the need for those community-based, locally-governed institutions to give up control of their assets. These JVs are the centerpiece of LHP’s development strategy. We would encourage the MRHS Board to consider this JV proposal as an opportunity to simply bring in a capital partner and stay involved in the ownership and governance of the facilities rather than to simply turn over the assets to a buyer, whose corporate objectives may, over time, deviate from those of the existing board and the community. This model maximizes the existing Board’s ongoing control of healthcare in their community while at the same time bringing in a strategic partner with access to substantial capital and management resources.

“We would encourage the MRHS Board to consider this JV proposal as an opportunity to simply bring in a capital partner and stay involved in the ownership and governance of the facilities rather than to simply turn over the assets to a buyer whose corporate objectives may, over time, deviate from those of the existing board and the community.”
Alternative II: Asset Purchase Proposal (Through JV Between LHP and Another Regional Network)

The second alternative is an asset purchase transaction through a joint venture between LHP and another existing regional network provider. We would look to the MRHS Board for their input on who the most appropriate network would be. This model would facilitate the inclusion of MRHS in a strong regional network for marketing and managed care contracting purposes, but at the same time, would provide the best assurance that MRHS would receive top priority in relation to capital spending, management focus, new program development, and physician recruitment. In addition, this would allow MRHS the opportunity to convert its equity position in the facilities to cash rather than simply assigning that equity to another not-for-profit provider.

Each of the two alternatives is detailed in the following pages under section 8 and are summarized and compared at the end of that section.

Due Diligence

LHP will need to conduct additional due diligence and gather more information to complete this transaction. At your request, we have provided a detailed due diligence list as part of our response. Our focus will be primarily on financial, legal, environmental, and compliance issues. We expect that we could complete our due diligence within 90 days of signing a non-binding LOI. We will likely bring in outside subject matter experts for certain legal matters and environmental surveys. However, our organization is staffed and experienced in completing complex acquisition and joint venture transactions and the vast majority of our due diligence review will be performed by internal staff.

Contacts

The primary contacts for this process will be as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Phone#</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jim Shannon</td>
<td>EVP Development</td>
<td>972-943-1705</td>
<td><a href="mailto:jim.shannon@lhphospitalgroup.com">jim.shannon@lhphospitalgroup.com</a></td>
</tr>
<tr>
<td>Dan Moen</td>
<td>CEO</td>
<td>972-943-1702</td>
<td><a href="mailto:dan.moen@lhphospitalgroup.com">dan.moen@lhphospitalgroup.com</a></td>
</tr>
<tr>
<td>Brady Sturgeon</td>
<td>VP Development</td>
<td>972-943-1707</td>
<td><a href="mailto:brady.sturgeon@lhphospitalgroup.com">brady.sturgeon@lhphospitalgroup.com</a></td>
</tr>
<tr>
<td>Rebecca Hurley</td>
<td>EVP General Counsel</td>
<td>972-943-1704</td>
<td><a href="mailto:rebecca.hurley@lhphospitalgroup.com">rebecca.hurley@lhphospitalgroup.com</a></td>
</tr>
</tbody>
</table>

Approvals

LHP’s Senior Management has reviewed this document. However, as is customary with transactions of this nature, this proposal is conditioned upon the completion of due diligence, the negotiation and execution of a mutually satisfactory definitive agreement and receipt of all necessary approvals, consents, waivers and clearances from governmental and other regulatory authorities. Specifically this transaction could be subject to regulatory approvals including, State Attorney General approval and expiration of the waiting periods under the Hart-Scott-Rodino Act. Any transaction would also be subject to the approvals of the respective Boards of Directors of LHP and MRHS.

Acknowledgement

We acknowledge that neither MCHD, MRM, MRHS, or Ponder will be liable to us for any damages or expenses of any kind or type, unless we are the successful Strategic Partner and
then, only to the extent set forth in the definitive agreement between MCHD and the Strategic Partner.

We remain excited by the possibility of partnering with MRHS to improve and expand upon the strong historical commitments that MRHS has made to the community and the region. We hope that you will not hesitate to contact us should you have any questions or need any further clarifications regarding our proposal.

Regards,

Dan Moen
President & CEO

**Legal Disclaimer:** This letter is not intended to be, and is not, a binding contract between us, but is intended merely as an expression of our interest as of this date. The parties will be jointly bound only in accordance with the terms and conditions contained in executed Definitive Agreements. The contents of this letter and the existence of this proposal are subject to the confidentiality agreement previously executed by us and your client and accordingly are not to be disclosed to any other party other than your client and not to be made public.
Brief Description of LHP Hospital Group

LHP is a privately held hospital company based in Plano, Texas, just outside Dallas. LHP was established to provide essential capital and expertise to not-for-profit hospitals and health systems in a manner that is consistent with their existing values and historical missions. Built upon the foundation of a collaborative culture that values relationships, embraces local governance, empowers continued capital investment and insists upon quality, LHP has established itself as the partner of choice for some of the top faith-based, mission-oriented health systems in the country. Through joint ventures with not-for-profit hospitals, LHP owns and operates acute care facilities in small cities and select urban markets throughout the United States.

Centered on teamwork, our culture of collaboration is the cornerstone of our business – and the heart of our joint ventures with not-for-profit hospitals. By working collaboratively with our partners in every respect, we empower community leaders to make local healthcare decisions. This collaboration also extends to our relationships with our medical staffs and enables physicians to feel more in control of the environments in which they work.

We believe that our culture and the way we do business differentiate LHP from other potential capital partners. As stated above, the management team of LHP is made up of senior executives from the former Triad Hospitals, Inc. Triad had long been known for its focus on quality, local governance, physician involvement, collaborative culture, and capital investment in the communities it served. Our legacy is based upon that same set of core principles which guide our thinking and our collective actions. Those “LHP Core Commitments” are as follows:

I. Commitment to Quality

We believe that the end result of all our efforts can be measured by the quality of the services that we provide to our patients. It is our desire and expectation that each of us and all of us are focused on being better today than we were yesterday.

II. Commitment to Local Control & Governance

We believe strongly in the collective wisdom of local leaders in making decisions regarding the health and welfare of their own communities. Through our unique governance structure we seek to engage local leaders, both inside and outside the medical community, in order to empower them to make decisions which impact the provision of health services to their community.

III. Commitment to Physician Involvement

We regard our physicians as key partners in the development of successful health care delivery models that meet the needs of patients, communities and employees. It is our desire that, wherever decisions are made that will affect the care of our patients and the work environment at our hospitals, physicians will be at the table.
IV. Commitment to Collaboration

We believe that the best results occur when we act together in a coordinated fashion. Therefore, we seek to bring together local leaders, physicians, employees, and other healthcare providers to improve the outcomes of our patients and the vitality of our communities.

V. Commitment to Capital Investment

We believe that patients, employees and physicians deserve our best efforts in providing state-of-the art facilities and equipment. In an industry dependent upon rapidly evolving technologies, we believe that significant and continuing capital investment is critical.

Our investment partners, CCMP and CPPIB, share these values and take a long-term view of their investment in LHP. In testimony to this they have supported the establishment of an extraordinary corporate Board of Directors with an unmatched insider’s perspective on the current needs, pressures and opportunities facing not-for-profit healthcare institutions around the country.

LHP Board of Directors

Our company’s board of directors is made up of some of the most highly regarded thought leaders in the healthcare industry. Its’ membership is as follows:

James D. Shelton, chairman of the board, LHP Hospital Group, Inc. and former chairman and chief executive officer, Triad Hospitals, Inc., Plano, TX

Daniel J. Moen, chief executive officer, LHP Hospital Group, Inc. and former executive vice president, Triad Hospitals, Inc.; Plano, TX

David L. Bernd, chief executive officer, Sentara Healthcare, Norfolk, VA and former chairman of the American Hospital Association

Donald B. Halverstadt, M.D., senior physician and former chief of the Donald B. Halverstadt, M.D. Center of Excellence in Pediatric Urology at the Children’s Hospital of Oklahoma, and vice chairman and one of ten Governors of the Oklahoma University Medical Center Hospital System of the Health Sciences Center in Oklahoma City, and former chairman of the University of Oklahoma Board of Regents, Oklahoma City, OK

Douglas D. Hawthorne, chief executive officer, Texas Health Resources, Arlington, TX, formerly on the board and executive committee of the American Hospital Association and former chairman of Premier, an alliance of not-for-profit hospitals and Healthcare systems

George F. Lynn, president emeritus, AtlantiCare, Atlantic City, NJ and former chairman of the American Hospital Association

Gary A. Mecklenburg, executive partner, Waud Capital, LLC and former chief executive officer, Northwestern Memorial HealthCare, Chicago, IL, former chairman of the American Hospital Association

A. James Tinker, president emeritus, MercyCare Service Corporation, Cedar Rapids, IA, formerly served on the board of the American Hospital Association chaired the Regional Policy Board 6

Kevin G. O’Brien, managing director, CCMP Capital Advisors, LLC, Dallas, TX
Stephen Murray, president and Chief executive officer, CCMP Capital Advisors, LLC, New York, NY

Andre Bourbonnais, vice president and head of principal investing, CPPIB, Toronto, Ontario

Jim Fasano, senior principal, CPPIB, Toronto, Ontario

We are building an extraordinary company focused on the needs of the not-for-profit acute care hospital sector. We anticipate completing 2 to 4 joint venture projects annually with key partners in selected markets in order to enable those partners to achieve their strategic long-term goals for their systems and their communities.

LHP Joint Venture Experience

The LHP management team has extensive experience in developing and operating whole hospital joint ventures with not-for-profit partners. According to research conducted by a nationally recognized consulting firm, there have been approximately 34 whole-hospital joint ventures in the U.S. between not-for-profit and for-profit partners in the last 20 years which featured a shared governance model. Of those 34 joint ventures, members of the current LHP management team were involved in the structuring and management of 24 of these, or more than 70% (see graph below).

Whole Hospital Joint Ventures Between Not-For-Profit & For-Profit Partners
Recent LHP Transactions

LHP completed its first hospital transaction as a new company on February 1, 2009 in Pocatello, Idaho with the establishment of the Pocatello Health System, LLC (PHS), a joint venture between LHP and the not-for-profit Portneuf Health Care Foundation, Inc. PHS owns and operates the 250-bed Portneuf Medical Center, the primary regional referral hospital in southeastern Idaho. The joint venture recently completed the construction of a new replacement facility which opened on May 10, 2011 and will greatly enhance the provision of healthcare services in the region for many years to come.

The Sherman Health System, LLC (SHS) is a joint venture between LHP and Texas Health Resources (THR), the largest not-for-profit health system in Texas. SHS was created to acquire, own and operate the 241-bed Wilson N. Jones Medical Center (WNJ) located in Sherman, TX. SHS acquired the facility on April 15, 2010 and has rebranded it Texas Health Presbyterian Hospital - WNJ. WNJ is now a member of the THR network in North Texas and participates in THR’s managed care contracts and quality programs. LHP and THR share governance and LHP has responsibility for the day-to-operations of the facility.

LHP also has six other hospital projects currently under contract and / or development. The first is a project under contract in northern New Jersey that is awaiting certificate-of-need approval. The Pascack Valley Health System, LLC (PVHS) is a joint venture between LHP and Hackensack University Medical Center (HUMC), based in Hackensack, NJ. HUMC is the largest hospital in New Jersey and one of the premier tertiary teaching hospitals in the region. PVHS was created to own and operate the former Pascack Valley Hospital (to be renamed Hackensack University Medical Center at Pascack Valley), a 128-bed community hospital 12 miles north of Hackensack in Westwood, NJ.

In addition, LHP completed a joint venture with an affiliate of Ascension Health, the Seton Family of Hospitals in Austin, TX. The JV broke ground in April, 2011 on a new hospital in the fast-growing Killeen / Harker Heights area of central Texas. The hospital is an 84-bed, $100M project and is expected to be completed in the second quarter of 2012.

LHP and Saint Mary’s Health System recently announced the completion of a letter of intent to create a JV that will own and operate Saint Mary’s Hospital in Waterbury, CT. Saint Mary’s is a 347-bed teaching hospital affiliated with the Yale University School of Medicine. Shortly after filing the required certificate-of-need for the Saint Mary’s transaction, the JV announced the completion of a second letter of intent to add Waterbury Hospital to the JV. Waterbury Hospital is a 367-bed teaching hospital affiliated with both the Yale University School of Medicine and the University Of Connecticut School Of Medicine. The JV has committed to consolidate the two facilities onto one campus in a state-of-the-art replacement hospital.
LHP and Hackensack University Medical Center (HUMC) also recently announced that they were seeking approval from the New Jersey Department of Health to purchase Mountainside Hospital in Montclair, NJ. Mountainside is a 251-bed that has been recognized as one of the top performing hospitals in New Jersey.

And finally, LHP recently announced the completion of a letter-of-intent to enter into a 40-year lease of Bay Medical Center in Panama City, FL with the Sacred Heart Health System, an affiliate of Ascension Health. Bay Medical is a 323-bed full-service hospital serving a 6 county region of the Florida panhandle.

Contact information for each of these partnerships is provided in the table below.

Table I - Current LHP Joint Ventures

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Location</th>
<th>Not-For-Profit Partner</th>
<th>Contact Name</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portneuf Medical Center</td>
<td>Pocatello, ID</td>
<td>Portneuf Health Care Foundation, Inc.</td>
<td>Mark Buckalew, Board Chair</td>
<td>208-235-5740</td>
</tr>
<tr>
<td>Wilson N. Jones Medical Center</td>
<td>Sherman, TX</td>
<td>Texas Health Resources</td>
<td>Doug Hawthorne, THR CEO</td>
<td>817-462-7915</td>
</tr>
<tr>
<td>HackensackUMC at Pascack Valley</td>
<td>Westwood, NJ</td>
<td>Hackensack University Medical Center</td>
<td>Bob Garrett, HUMC CEO</td>
<td>201-996-2004</td>
</tr>
<tr>
<td>Seton Medical Center Harker Heights</td>
<td>Harker Heights, TX</td>
<td>Seton Family of Hospitals (an affiliate of Ascension)</td>
<td>Tom Gallagher, Seton EVP</td>
<td>512-324-1903</td>
</tr>
<tr>
<td>Saint Mary’s Hospital</td>
<td>Waterbury, CT</td>
<td>Saint Mary’s Health System</td>
<td>Chad Wable, SMHS CEO</td>
<td>203-709-3368</td>
</tr>
<tr>
<td>Waterbury Hospital</td>
<td>Waterbury, CT</td>
<td>Greater Waterbury Health Network</td>
<td>Darlene Stromstad, GWHN CEO</td>
<td>203-573-6000</td>
</tr>
<tr>
<td>Bay Medical Center</td>
<td>Panama City, FL</td>
<td>Sacred Heart Health System</td>
<td>Laura Kaiser, SHHS CEO</td>
<td>850-416-7023</td>
</tr>
<tr>
<td>Mountainside Hospital</td>
<td>Montclair, NJ</td>
<td>Hackensack University Medical Center</td>
<td>Bob Garrett, HUMC CEO</td>
<td>201-996-2004</td>
</tr>
</tbody>
</table>

In addition, prior to the creation of LHP, as stated above, as the former management team at Triad Hospitals, and before that as senior managers at HCA, we have participated in a number of similar transactions with not-for-profit, mission-oriented partners over many years. Seven such joint ventures, along with contact information, are listed below:
<table>
<thead>
<tr>
<th>Hospital</th>
<th>Location</th>
<th>Not-For-Profit Partner</th>
<th>Contact Name</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>McKenzie-Willamette Medical Center</td>
<td>Springfield, OR</td>
<td>Cascade Health Solutions</td>
<td>Maureen Weathers Board Chair</td>
<td>541-954-5765</td>
</tr>
<tr>
<td>Mat-Su Regional Medical Center (fka Valley Hospital)</td>
<td>Wasilla, AK</td>
<td>Valley Hospital Association</td>
<td>Rick Johnson, Board Chair</td>
<td>907-232-8016</td>
</tr>
<tr>
<td>Presbyterian Hospital of Denton (fka Denton Community Hospital)</td>
<td>Denton, TX</td>
<td>Texas Health Resources</td>
<td>Doug Hawthorne, THR CEO</td>
<td>817-462-7915</td>
</tr>
<tr>
<td>Trinity Medical Center (fka Montclair Baptist Medical Center)</td>
<td>Birmingham, AL</td>
<td>Baptist Health System</td>
<td>Beth O’Brien, Group Exec Officer, CHI (former BHS CEO)</td>
<td>859-594-3854</td>
</tr>
<tr>
<td>Cedar Park Regional Hospital</td>
<td>Cedar Park, TX</td>
<td>Seton Healthcare Network (an affiliate of Ascension)</td>
<td>Tom Gallagher, Seton EVP</td>
<td>512-324-1903</td>
</tr>
<tr>
<td>Gateway Medical Center</td>
<td>Clarksville, TN</td>
<td>Gateway Health System</td>
<td>Bill Wyatt, Board Chair</td>
<td>931-553-2030</td>
</tr>
<tr>
<td>Medical Center South Arkansas</td>
<td>El Dorado, AR</td>
<td>Share Foundation</td>
<td>Steve Smart, DDS, Board Chair</td>
<td>870-863-0088</td>
</tr>
</tbody>
</table>

Although, with the sale of Triad in July 2007, we are no longer affiliated with any of these joint ventures, the listed individuals would be happy to take your calls and answer any questions that you may have.

**Brief Description of Strategic Direction and MRHS Fit**

LHP was established to provide essential capital and expertise to not-for-profit hospitals and health systems in a manner that is consistent with their existing values and historical missions. Our strategic focus is to identify fundamentally strong, not-for-profit hospitals with a clear strategic direction that are in need of additional capital and expertise in order to meet their long-term strategic objectives. MRHS appears to us to meet LHP’s strategic objectives perfectly.

**Mission, Vision and Values**

As each of our facilities is a partnership with a local not-for-profit partner, LHP is a very mission oriented organization. That mission varies somewhat at each facility depending upon the strategic and mission objectives of each of our partners. However, there are some common elements in the mission focus at each of the partnerships with which LHP is involved. They can be summarized as follows:

1) Patients come first – Above all else, the organization must always make the needs and welfare of our patients our top priority.

2) Physician Involvement - There is always a place at the table for our physicians. It is our desire that, wherever decisions are made that will affect the care of our patients and the work environment at our hospitals; physicians will be at the table.
3) Local Governance - We believe strongly in the collective wisdom of local leaders in making decisions regarding the health and welfare of their own communities.

4) Employee Satisfaction – We value our employees as key partners in the care and well being of our patients.

These common elements are embodied in our mission statement below.

**LHP’s Mission Statement**

To continuously improve the quality of healthcare services provided to our patients. We accomplish this by developing a collaborative culture that:

- Improves the health of our patients by always focusing on their needs.
- Fosters physician participation and involvement in hospital decision making
- Involves community leaders in the governance of each facility.
- Recognizes the value and contributions of our employees.

For a further discussion of LHP’s vision and values, please see “LHP’s Core Commitments” found above.

**Quality Initiatives**

Our commitment to quality is the first of LHP’s Core Commitments as outlined on pages 5 and 6 above. We believe that the most important aspect of this commitment is a cultural focus that appropriately values quality and will not compromise for the sake of short-term profitability. We believe that high quality produces long-term, sustainable profitability and because of this is entirely compatible with sound financial management. It does, however, require significant investment and may not always bear immediately sustainable results. Our previous organization, Triad Hospitals, Inc. experienced remarkable results under the current LHP management team. Facilities under Triad management consistently scored at or above the 90th percentile and Triad was consistently recognized as an industry leader in the area of quality improvement and outcomes measurement. We also provided significant leadership for the quality initiatives of the American Hospital Association, the Federation of American Health Systems and The Joint Commission.

Many individual efforts went into these achievements but none was more important than a “commitment from the top”. From the corporate Board of Directors to the Senior Management Team, there was a very outspoken commitment to focus the organization’s efforts to achieve measurable quality improvements. Thus empowered, the organization developed strategies ranging from extensive data collection and reporting capabilities, to intensive training and educational opportunities, to quarterly conference calls with each facility management team to discuss specific quality improvement activities and results with regional and corporate management. The Triad Corporate Board of Directors, which included two physicians currently practicing in Triad facilities, received a quarterly report summarizing these initiatives and the results. Follow-up action plans were often requested of specific management teams by the
Board when circumstances warranted. Likewise, the Board issued letters of commendation to hospitals with exceptional results. Quality dashboards were developed to summarize key results and routine satisfaction surveys were conducted at each facility.

Patient satisfaction surveys were conducted throughout the year and physician and employee satisfaction surveys were conducted annually at every facility. A large component of each facility management teams’ incentive compensation was tied to the results of these surveys and quality scores. Moreover, we were able to identify a very direct correlation between improvements in our quality and satisfaction scores and decreases in our malpractice and litigation expenses.

LHP is making an even greater commitment from the top in order to ensure an unparalleled focus on quality in our facilities. As you can see from the make-up of our corporate Board of Directors (see Appendix II – An Overview of LHP Hospital Group, Inc.), we have sought out some of the top not-for-profit health system CEOs from around the country, known for their commitment to quality, for their insight and accountability.

We believe that you must measure your progress, benchmark and learn from the best, and deploy the necessary tools and education in order to succeed. Having entered into our first hospital joint venture relationship as LHP Hospital Group, Inc. in February 2009 (Portneuf Medical Center in Pocatello, Idaho), LHP has spent the last 6 months developing our own corporate quality dashboard. Visits and conference calls have been held with some of the leading hospitals in America as LHP staff and members of the LHP Quality Committee tackle this very important task. The LHP Quality Committee meets quarterly as a regular part of the corporate Board meeting to review clinical measures and satisfaction and engagement scores of our key stakeholders. LHP is committed to continuous improvement rather than arbitrarily mandating that all facilities must be at a specific score. At the same time, we believe that education and training go hand in hand with measurement to ensure that we are always delivering the highest quality care to patients and their families.

LHP tries very hard to balance the need for certain quality and satisfaction measures that need to be monitored at the corporate level across all facilities while allowing for customization at the local level to meet specific needs.

All LHP facilities participate in the H-CAPHS survey and we are very careful to adhere to all CMS guidelines. The patient satisfaction surveys are divided into three components - Inpatient, Emergency Department and Outpatient testing. A telephone survey is conducted by using random digit dialing. All information is reported real time on a secure website so that patient care providers do not have to wait for a quarterly report to see how they are doing. The website is easy to navigate and also provides national and regional benchmarks.

The inpatient survey includes all required H-CAPHS questions plus several questions from our corporate Ethics and Compliance Department plus the opportunity to add customized questions unique to each facility. Results can be looked at by shift and by unit. Comments from individual patients are also included.

All data are shared with key stakeholders by way of the Performance Improvement Council which meets monthly and is attended by Administration, Medical Staff representation, and other leadership on an ad-hoc basis. Key data are presented to the Governing Board on a regular basis and guide strategic planning.

These items are by no means all-inclusive, but represent a few of the key ways in which we track outcomes, variances, and quality. We believe quality is everyone’s job.
Community Considerations

LHP strives diligently to be a good corporate citizen in every market in which it does business. The specific activities undertaken in each market vary slightly based upon the historical mission of our partner in each market. However, without knowing the specifics of your existing efforts LHP will commit to the following:

- Conducting periodic community needs assessments and coordinating a strategic response with the local charitable foundation
- Continuing the use of the existing charity care policies in place at the hospital
- Continuation of the programs in the Community Benefit Report
- Developing a strategic plan, through the JV Board, which focuses on quality of care and patient safety, as well as targeted investments in new or expanded services, facilities and equipment aimed at driving increased market share and reduced outmigration

As part of our routine due diligence efforts, LHP will conduct a comprehensive quality assessment to identify areas of strength and weakness. That assessment will be used to establish immediate goals and objectives for quality and patient outcomes during the initial transition period.

It should also be noted that the JV Board controls all decisions related to the deletion of services. Therefore, no reduction of services could be undertaken without the not-for-profit partner’s express approval. Furthermore, the proposed model would result in the city and /or county receiving sales and real estate taxes from the partnership in order to support improved public services.

Employee Considerations

LHP will offer employment at their then current salaries to all those “at will” employees that are actively working at the Facilities (including existing management) and will provide and maintain a comprehensive and competitive wage and benefits package. LHP will recognize employees’ length-of-service for the purpose of benefits vesting. Further, LHP will honor the terms of employment contracts for those employees who have such agreements, subject to a review of these contracts as part of the due diligence process.

In order to be eligible for LHP benefits, all MRHS personnel will become employees of LHP. They will be leased back to the JV for a fee equal to LHP’s cost.

LHP further commits to perform an annual employee satisfaction survey (which we perform at all our hospitals) the results of which will be shared with the JV Board and an action plan developed to respond to employee concerns.

Physician Considerations

As you can see from the contents of our proposal, LHP is committed to strong physician relationships. It is a key component of our entire corporate culture and permeates everything we do, from the way we structure our Boards, to the way we make routine operating decisions. One of the more important initiatives that we have undertaken is to establish at each of our facilities a “Physician Roundtable”. This volunteer group of between 15 and 18 active physicians on the medical staff meets monthly with management to discuss topics brought to the group by the medical staff. Our role as management is to listen and respond. Our goal in these sessions is to provide the medical staff with consistent and easy access to management to provide their input on any area of operations that they feel needs attention. All levels of LHP’s management team are represented, from hospital to division to corporate staff. We find that this model is an excellent way to deal with issues that are important to our physicians and to involve them in
crafting solutions to long-standing dissatisfiers which often cause physicians to send patients elsewhere or in some cases negatively impact patient outcomes and satisfaction.

In addition, as you will see elsewhere in this proposal, LHP is committed to insuring physician participation on both the JV and hospital governing Boards. We believe that wherever decisions are being made which will affect patient care, physicians should have a place at the table. LHP will use two of its 5 appointments to the JV Board of Directors to appoint local physicians and at least 50% of the hospital Board of Trustees will be local physicians.

**Physician Recruitment and Retention / Outreach Efforts**

LHP, as part of its routine due diligence efforts, will conduct a comprehensive physician needs assessment to determine community needs by specialty. A detailed physician recruitment plan will be developed based upon these findings and presented to the JV Board of Directors. Provision will be made in both the annual operating and capital budgets for the execution of the approved plan. This plan will likely include the establishment of multiple ambulatory centers across the service area to incorporate physician office space, imaging capabilities, lab draw stations, and in some cases urgent care. Although primarily focused around primary care, it may be advisable to include some space for specialty and subspecialty rotations in certain of these ambulatory centers.

LHP expects that the operations of the hospital’s medical staff will be substantially unchanged. For example, the following areas will remain as is:

- Physician medical staff privileges
- Physician medical staff status i.e., Active, Courtesy, etc.
- Medical staff officers i.e., Chief of Staff and department chairpersons
- Medical staff bylaws
- Existing hospital-based physician groups

**Operational Considerations**

While every facility’s operating challenges are different, in previous transactions we have typically found opportunities in the following areas.

- Increased volumes due to LHP’s physician satisfier initiatives.
- Increased revenues due to LHP’s revenue cycle management and managed care contract negotiations.
- Improved staffing levels due to the implementation of LHP productivity management systems.
- Reduced supply costs due to access to LHP’s GPO contract pricing.
- Reduced consulting and legal expenses due to LHP’s corporate support system.

LHP brings significant management resources to the JV in areas such as:

- Reimbursement / Government Programs
- Financial Operations Support
- Capital Management
- Physician Recruiting
- Physician Roundtable Support
- Managed Care
- Policies & Procedures
- Plant Operations
- ER Management
- Development
  - Market Assessment/Strategic Planning
We are not in a position at this time, given our relative lack of due diligence, to get to specifics on how we would propose to address all of the issues listed in this section in the instruction letter. These issues deserve a thoughtful response and, as a general rule, are not issues upon which we would “impose” a solution. We would propose to conduct our due diligence, bring our subject matter experts to review the existing situation, have them develop the alternatives and then bring those alternatives to the Board and to the Physician Roundtable for their input and evaluation. We have very deep experience in transitions of this nature and are confident in our ability to develop a consensus-driven plan around the issues and, once agreed upon, to move swiftly in its implementation.

Proposed Partnership Structure, Payments and Commitments

As stated in the introductory letter, LHP is proposing two separate alternatives in order to give the MRHS board as much flexibility as possible in selecting a transaction model that best meets their unique strategic goals and objectives. Our preferred model is presented as “Alternative I – LHP / MRHS Joint Venture Proposal”. It has the benefit of bringing MRHS into a larger regional network for purposes of risk sharing, group purchasing, managed care contracting, and shared support services, while at the same time allowing the MRHS board to maintain continuing governance control of healthcare in its own community and a continuing ownership position. This model is also less complicated (being between two parties, rather than three) and will presumably have less regulatory complications. It should also be noted that the proceeds to MRHS from this model will be sufficient to pay off all existing debt and other obligations while at
the same time establishing a substantial local charitable foundation controlled exclusively by the MRHS board to do other good works in the community.

In the event that the MRHS board has an affinity with another existing regional provider network and sees its future best served by joining that network, we have offered “Alternative II - Asset Purchase Proposal (Through JV Between LHP and Another Regional Network)”. This model has the benefit of allowing MRHS to join the preferred network but without the necessity of abandoning the existing equity in the organization. Most transactions between not-for-profit providers take the form of a change in sponsorship wherein the acquirer assumes the sponsorship of the 501c3 thereby assuming both the assets and liabilities. Rarely does cash change hands in such a transaction, which means that the acquirer gets any equity built up in the organization for free. Under our model, the JV between LHP and the regional network would be acquiring the assets for cash. Therefore, the equity in MRHS, which is substantial, would go into a local foundation controlled by MRHS to be used for other good works in the community. This model maximizes the cash paid to the local charitable foundation (MRHS is taking all of its equity out in cash as opposed to leaving a portion in the JV as an ongoing member interest), but at the cost of governance control and continuing ownership in the MRHS assets.
Alternative I – LHP / MRHS Joint Venture Proposal

Objective

The objective of this proposal is to outline a possible joint venture transaction (JV) between LHP and MRHS to own and operate the existing MRHS Facilities, pay off all system debt and to provide a platform for continued growth and service improvement throughout the MRHS service area and beyond.

MRHS Assets Involved in the Proposed JV

This proposal pertains to the assets and business operations of the following MRHS entities (the “Facilities”):

- Munroe Regional Medical Center
- Timber Ridge Water & Sewer, Inc.
- Ownership interests in the following entities:
  - Ocala Healthcare Associates, GP (62.5%)
  - Timber Ridge Imaging Center (50%)
  - Medical Imaging Center (33.3%)
  - Munroe Regional Home Care, LLC (49%)
- Any other associated hospital ancillary businesses, real estate or Related Assets not listed as “Assets Retained by MRHS” below
- Net Working Capital (defined below)

Related Assets include all rights, privileges and interests necessary to the continued operations of the Facilities including:

- Brand Names
- Trademarks
- Copyrights
- Intellectual Property

Valuation of Assets

Based upon information provided to date, LHP believes that a fair value for the Facilities is within a range of $145.0M to $160.0M (which includes Net Working Capital, as defined below).

Net Working Capital is defined as:

- Patient Accounts Receivable, less an appropriate allowance for discounts, contractual adjustments, and doubtful accounts (discounted by 10% for the cost, timing, and risk of collections), plus
- Supply Inventory in an amount that is customary and in usable condition, plus
- Prepaid Expenses that are of benefit to the JV, plus
- Other Current Assets that are of benefit to the JV, less
- Accounts Payable, less
- Accrued Expenses including accrued salaries, wages and benefits to the extent that they are assumable.
**Assets Retained by MRHS**

MRHS would retain the following assets:

- Any assets held in the Foundation
- Cash, cash equivalents and investments
- Certain non-assumable current assets such as prepaid insurance, etc.
- Pension Plan assets

**Liabilities Retained by MRHS**

This joint venture proposal does not include the assumption of liabilities by the JV not listed above including: debt, liabilities for professional liability and malpractice claims related to periods prior to closing, Medicare/Medicaid cost report receivables/payables, liabilities related to existing pension plans, or capitalized leases other than those amounts included in the above definition of net working capital. However, if any other liabilities are agreed to be assumed by hospital, there would be a corresponding reduction in the valuation.

*These liabilities will be more than satisfied by the substantial initial cash distribution made by the JV to MRHS at closing, which is more fully described below.*

**Proposed Joint Venture Structure**

LHP and MRHS will become equity owners of a new company, which will own and operate the Facilities as described below.

For illustrative purposes MRHS has been shown below to maintain a 20% interest in the JV (the minimum required for maintaining 50/50 governance). However, MRHS could choose to leave more of their equity in the JV by taking out less cash and maintaining up to a 40% interest in the JV.
The following diagram illustrates the structure of the proposed MRHS / LHP JV. The benefits of this structure are that it allows each community to own and govern its own health system, while at the same time providing the benefits of a regional system such as risk sharing, shared services, joint managed care contracting, group purchasing, etc.

How the MRHS / LHP JV is Structured

Based upon the valuation range between $145.0M and $160.0M with MRHS maintaining the minimum equity position in the JV of 20%:

- A new JV company (likely a limited liability company) is formed to own and operate the Facilities.
- LHP capitalizes the JV with a cash contribution of between $196.0M and $208.0M.
- MRHS keeps its existing cash, cash investments and debt.
- MRHS contributes the land, facilities, equipment, operations & net working capital to the JV at a valuation of between $145.0M and $160.0M.
- MRHS receives a cash distribution from JV at closing of between $96.0M and $108.0M to satisfy debts/liabilities and to establish a local charitable foundation.
- Upon initial capitalization of the JV, the entity has the existing Net Working Capital, is completely debt-free, and has $100.0M in cash to help complete the Master Facility Plan. This cash, along with the free cash flow generated by the elimination of debt service should be sufficient to complete the Master Facility Plan.
The JV assumes all reasonable operating contracts used in the normal course of business.
The JV profits, losses and cash distributions are shared between MRHS and LHP based upon their respective ownership interests in the JV.
The JV itself is a taxable entity that will pay local sales and property taxes. However, it is considered a “flow-through” entity for income tax purposes, with income being taxed at the owner level rather than the entity level.
Profits distributed to LHP are taxable.
Profits distributed to MRHS are likely tax-exempt.

Calculation of MRHS and LHP Ownership Interest and Capitalization of JV (Assuming MRHS Maintains the Minimum 20% Interest in the JV)

<table>
<thead>
<tr>
<th>Item</th>
<th>$145M Valuation</th>
<th>Equity %</th>
<th>$160M Valuation</th>
<th>Equity %</th>
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</thead>
<tbody>
<tr>
<td>Munroe Regional Health System Contribution to JV:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed Value of Facilities, Equipment, Operations &amp; Net Working Capital</td>
<td>$ 145.0</td>
<td>$ 160.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calculation of JV Ownership:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Step 1:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MRHS Asset Contribution to JV</td>
<td>$ 145.0</td>
<td>42.5%</td>
<td>$ 160.0</td>
<td>43.5%</td>
</tr>
<tr>
<td>LHP Cash Contribution to JV</td>
<td>$ 196.0</td>
<td>57.5%</td>
<td>$ 208.0</td>
<td>56.5%</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$ 341.0</td>
<td>100.0%</td>
<td>$ 368.0</td>
<td>100.0%</td>
</tr>
<tr>
<td>Step 2 (simultaneous with Step 1):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Distribution to MRHS at Closing</td>
<td>$ (96.0)</td>
<td></td>
<td>$ (108.0)</td>
<td></td>
</tr>
<tr>
<td>MRHS Equity...ownership</td>
<td>$ 49.0</td>
<td>20.0%</td>
<td>$ 52.0</td>
<td>20.0%</td>
</tr>
<tr>
<td>LHP Equity...ownership</td>
<td>$ 196.0</td>
<td>80.0%</td>
<td>$ 208.0</td>
<td>80.0%</td>
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<tr>
<td>Total Capitalization of JV...100% Equity</td>
<td>$ 245.0</td>
<td>100.0%</td>
<td>$ 260.0</td>
<td>100.0%</td>
</tr>
<tr>
<td>Cash Remaining at Close for Capital Expansion</td>
<td>$ 100.0</td>
<td></td>
<td>$ 100.0</td>
<td></td>
</tr>
</tbody>
</table>

Ongoing Capital Needs

After the initial capitalization, funding for capital expenditures and other cash needs will be secured by the JV in the following order of priority:

- Available cash at closing ($100.0M)
- Cash available from operations of the JV
- Loans from LHP on terms mutually agreeable to LHP and the JV
- Loans from third party lenders
- Pro-rata cash contributions from the owners to the JV
As stated earlier, should the parties determine that additional cash is needed at closing to fund necessary transition priorities, LHP would be willing to contribute additional cash to the JV and MRHS would need to take less cash out of the JV.

**Governance of JV:**

The most innovative feature of LHP’s joint venture model is the governance. Most health systems could find multiple partners who would be willing to share ownership in their assets. However, it takes an organization with a truly collaborative culture and deep shared governance experience to embrace a real, meaningful shared governance model.

The following diagram illustrates the two levels of governance proposed by LHP.

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* Certain day-to-day operating decisions of the hospital are delegated by Board of Directors to the hospital Board of Trustees

**JV Board of Directors**

There will be a ten (10) member Board of Directors for the JV appointed as follows:

- 50% by MRHS
- 50% by LHP

**Board of Directors’ Powers:**

- The JV Board of Directors will have the following powers. These powers are intended to closely track many of the requirements of the IRS as expressed in Revenue Ruling 98-15. This March 1998 IRS document provides guidance as to how
a non-profit organization’s tax-exempt status can be maintained in “whole hospital” JVs.

- To approve hiring of CEO
- To approve all budgets, including, both operating and capital budgets
- To discontinue the provision of medical services
- To add new medical services
- To evaluate the charity care provided by the hospital
- To make certain determinations with regard to JCAHO accreditation
- To make cash distributions

- In addition, the Board members appointed by MRHS will have the following reserve powers:
  - Right to terminate the JV CEO
  - Right to name the JV Board Chairman
  - Right to dissolve the JV if it fails to meet the Community Benefit Standards of the 1986 Internal Revenue Code

- All activities of the JV Board of Directors will be conducted using block voting...that is, the Board of Directors could only approve an action if such action obtains the approval of both the majority of the members appointed by MRHS and by LHP.

**Hospital Board of Trustees**

There will be a twelve (12) member local Board of Trustees for the hospital appointed by the JV Board of Directors as follows:

- 50% physicians from medical staff
- 50% local community leaders

**Board of Trustees’ Powers:**

- Adopting a Hospital Vision, Mission and Value statement
- Strategic planning and business decisions
- Monitoring quality and performance improvement
- Granting medical staff privileges
- Executing physician disciplinary actions consistent with Medical Staff Bylaws
- Identifying new service and educational opportunities
- Other powers could be delegated to the Board of Trustees as determined by the JV Board of Directors

**Employee Matters**

LHP will offer employment at their then current salaries to all those “at will” employees that are actively working at the Facilities (including existing management) and will provide a comprehensive and competitive benefits package. LHP will recognize their length-of-service for the purpose of benefits vesting. Further, LHP will honor the terms of employment contracts for those employees who have such agreements, subject to a review of these contracts as part of the due diligence process.

In order to be eligible for LHP benefits, all MRHS personnel will become employees of LHP. They will be leased back to the JV for a fee equal to LHP’s cost.
Management Services

An affiliate of LHP will be named manager of the JV and will provide day-to-day full service management via a management agreement for a fee equal to 2% of JV net revenue.

The services provided in the management agreement will include among others; corporate oversight and operational support, reimbursement services, purchasing and supply chain services, business planning, quality and resource management, human resource support, facility planning, legal, real estate and more.

Although LHP staff will provide planning and oversight for information services and risk management as part of the management fee, the direct cost of information services (i.e. hardware, software, programming, and implementation) and direct insurance costs are not included in this fee and would be paid directly by the hospital.

The management agreement will have an initial term of 5 years and would be automatically renewed for additional 5-year terms unless the JV is dissolved.

Insurance Coverage

MRHS will purchase extended, reporting endorsement policies from all current liability insurance carriers at its expense, including endorsement policies for any employed physicians.

Medical Staff Matters

LHP expects that the operations of the hospital’s medical staff will be substantially unchanged. For example, the following areas will remain as is:

- Physician medical staff privileges
- Physician medical status i.e., Active, Courtesy, etc.
- Medical staff officers i.e., Chief of Staff and department chairpersons
- Medical staff bylaws
- Existing hospital-based physician groups

In addition, 50% of the hospital’s Board of Trustees will be physicians from the hospital’s medical staff.

Uncompensated Care Commitment

The JV will continue to provide for the treatment of indigent patients based upon the existing policy in use at the hospital.

Service Commitment

One of the unique features of the LHP joint venture model is that all Board decisions require the approval of both owners. Therefore, no changes to the service mix could occur without the express approval of MRHS. This assures that the hospital will continue to operate as a full-service, acute care hospital that will continue to provide the existing safety net services.

Capital Commitment

As indicated in our LHP Core Commitments, we believe that consistent, substantial investment in state-of-the-art facilities and equipment is an essential driver of organizational excellence. It is by no means the only driver, but it impacts nearly every aspect of facility operations and organizational effectiveness.
This management team has a very good reputation for strong capital investment at facilities under its management. We believe it was one of the key factors in our strong and sustained same-store volume growth during our tenure at Triad (and now with LHP) and has had a major influence on our success in driving significant improvements in physician, patient and employee satisfaction levels and quality outcomes. We would also point out once again that one of the distinguishing features of our proposed joint venture model is the concept of shared governance. Ongoing capital spending decisions will not be made by LHP management in isolation. All annual capital budgets and strategic plans will be established and approved by the JV Board of Directors in which MRHS will have an equal say. This ensures continuing accountability to the local community on this critically important issue of long-term capital investment.

We would be comfortable agreeing in advance on a multi-year capital commitment and funding the JV up-front in a manner sufficient to meet the commitment. However, as that decision affects not only the amount of cash that MRHS can take out as a special distribution and still maintain its 20% interest in the JV and would likely impact the amount of the ongoing distributions from the JV going forward, we feel that additional discussions between MRHS and LHP should take place in order to settle on the correct number. After all, the money spent by the JV belongs to both partners, not just LHP. The primary factors that need to be understood in making such a decision is what precisely is involved in the Master Facility Plan and how quickly can the plan be accomplished.

**Physician Recruitment & Retention Commitments**

The JV will commit to a mutually agreeable physician recruitment and retention plan. In fact, it is our practice at each of our new joint ventures to conduct a comprehensive physician needs assessment that is used as the foundation for a multi-year physician recruitment plan that is approved by the Board and the Physician Roundtable. We also have an in-house director of physician recruitment in our corporate offices to oversee recruitment efforts at all of our JV facilities.

**Non-Compete**

MRHS and LHP will agree not to compete with the JV in the service area during the term of the JV unless the following process is followed. If either party identifies a healthcare opportunity in which it wishes to invest that is in the non-compete area, such party must first present it to the JV. If the receiving party agrees, the opportunity will be pursued through the JV. If the receiving party disagrees, the proposing party may proceed to invest in the opportunity on its own behalf.

**First Right of Refusal**

In the event that either LHP or MRHS receives a bona fide offer from an unrelated third party to purchase its ownership interest in the JV, the non-selling party will have a “First Right of Refusal” to purchase such ownership interest for a purchase price equal to the amount offered by such third party.

**Benefits of the JV Structure to MRHS**

- MRHS assures that the hospital maintains its historical mission in the community through:
  - Continuity of management – LHP offers employment to all employees – including senior management
  - Continued accountability of management to a local Board of Trustees composed of local physicians and community leaders
- Continuation of the current charity care policies
- Continued adherence to the Community Benefit Standards for not-for-profit healthcare organizations

- MRHS will not be selling the Facilities, but will rather choose LHP as a capital partner.

- MRHS and the community continue to have a significant amount of local involvement in the governance (50%) and ownership (20%) of the hospital.

- Upon initial capitalization, the JV will have $100M, the existing Net Working Capital and no debt. The resulting free cash flow and the participation of a strong capital partner will give it the financial strength complete the Master Facility Plan and to grow and to compete effectively.

- LHP brings significant management resources to the JV in areas such as:
  - Reimbursement / Government Programs
  - Financial Operations Support
  - Capital Management
  - Physician Recruiting
  - Physician Roundtable Support
  - Managed Care
  - Policies & Procedures
  - Plant Operations
  - ER Management
  - Development
    - Market Assessment/Strategic Planning
    - Transaction Structuring & Negotiation
    - Design & Construction
    - Real Estate
  - Legal
    - Operations Legal
    - Acquisition/Development Legal
    - Regulatory/Compliance
  - Information Systems
    - Planning
    - Contracting
    - Implementation
  - Resource Management
  - Accreditation & Licensure
  - Quality & Outcomes
  - Finance & Accounting
    - Budgeting/Financial Planning
    - Treasury
    - Tax
    - Accounting
    - Risk Management
    - Internal Audit
  - Human Resources
    - Executive Recruiting
    - Wage & Salary Admin.
    - Benefit Administration
- Marketing/Public Affairs
  - Government Relations
  - Marketing
  - Public Relations
  - Customer Satisfaction
- Materials Management
  - GPO Contracting
  - Equipment Purchasing

- MRHS will have LHP as a capital partner to invest in the Facilities in the future as necessary.

- The linkage through LHP will provide the benefits of a regional system such as risk sharing, shared support services, joint managed care contracting, group purchasing, etc.

- MRHS will have the cash resources after paying all its existing debts to establish a substantial local charitable foundation.

- The JV will become one of the largest taxpayers in the city and county providing much needed tax revenues to local government entities.

- Going forward, MRHS will have continuing ownership and pro-rata profit distributions from the JV to add to its charitable foundation.
Alternative II: Asset Purchase Proposal (Through JV Between LHP and Another Regional Network)

Objective

The objective of this proposal is to outline a possible asset purchase transaction (the “Transaction”) by a Joint Venture (the “JV”) between LHP and an existing regional network based in Florida (the “Regional Partner”) created to acquire, own and operate the existing MRHS Facilities.

MRHS Assets Involved in the Proposed JV

This proposal pertains to the assets and business operations of the following MRHS entities (the “Facilities”):

- Munroe Regional Medical Center
- Timber Ridge Water & Sewer, Inc.
- Ownership interests in the following entities:
  - Ocala Healthcare Associates, GP (62.5%)
  - Timber Ridge Imaging Center (50%)
  - Medical Imaging Center (33.3%)
  - Munroe Regional Home Care, LLC (49%)
- Any other associated hospital ancillary businesses, real estate or Related Assets not listed as “Assets Retained by MRHS” below
- Net Working Capital (defined below)

Related Assets include all rights, privileges and interests necessary to the continued operations of the Facilities including:

- Brand Names
- Trademarks
- Copyrights
- Intellectual Property

Valuation of Assets

Based upon information gathered to date, LHP believes that a fair value for the Facilities is within a range of $145.0M to $160.0M (which includes Net Working Capital, as defined below).

Net Working Capital is defined as:

- Patient Accounts Receivable, less an appropriate allowance for discounts, contractual adjustments, and doubtful accounts (discounted by 10% for the cost, timing, and risk of collections), plus
- Supply Inventory in an amount that is customary and in usable condition, plus
- Prepaid Expenses that are of benefit to the JV, plus
- Other Current Assets that are of benefit to the JV, less
- Accounts Payable, less
- Accrued Expenses including accrued salaries, wages and benefits to the extent that they are assumable.

Assets Retained by MRHS
MRHS would retain the following assets:

- Any assets held in the Foundation
- Cash, cash equivalents and investments
- Certain non-assumable current assets such as prepaid insurance, etc.
- Pension Plan assets

**Liabilities Retained by MRHS**

This purchase proposal does not include the assumption of liabilities by the JV not listed above including: debt, liabilities for professional liability and malpractice claims related to periods prior to closing, Medicare/Medicaid cost report receivables/payables, liabilities related to existing pension plans, or capitalized leases other than those amounts included in the above definition of net working capital. However, if any other liabilities are agreed to be assumed by hospital, there would be a corresponding reduction in the purchase price.

**Proposed Joint Venture Structure**

LHP and the Regional Partner will become equity owners of a new company, which will acquire, own and operate the Facilities as described below.

**How the JV is Structured**

- A new JV company (likely a limited liability company) is formed to acquire, own and operate the Facilities.
- LHP capitalizes the JV with a cash contribution of between $196.0M and $208.0M.
- Regional Partner capitalizes the JV with a cash contribution of between $49.0M and $52.0M.
- MRHS keeps its existing cash, investments and debt.
The JV acquires the Facilities from MRHS for a payment of between $145.0M and $160.0M at closing.

Upon initial capitalization, the JV will have $100.0M in cash to help complete the Master Facility Plan. This cash, along with the free cash flow generated by the elimination of debt service should be sufficient to complete the Master Facility Plan.

The JV assumes all reasonable operating contracts used in the normal course of business.

The JV profits, losses and cash distributions are shared between the Regional Partner and LHP based upon their respective ownership interests in the JV.

The JV itself is a taxable entity that will pay local sales and property taxes. However, it is considered a “flow-through” entity for income tax purposes, with income being taxed at the owner level rather than the entity level, i.e. profits distributed to LHP are taxable, while profits distributed to Partner are not.

Employee Matters

LHP will offer employment at their then current salaries to all those “at will” employees that are actively working at the Facilities (including existing management) and will provide a comprehensive and competitive benefits package. LHP will recognize their length-of-service for the purpose of benefits vesting. Further, LHP will honor the terms of employment contracts for those employees who have such agreements, subject to a review of these contracts as part of the due diligence process.

In order to be eligible for LHP benefits, all MRHS personnel will become employees of LHP. They will be leased back to the JV for a fee equal to LHP’s cost.

Management Services

An affiliate of LHP will be named manager of the JV and will provide day-to-day full service management via a management agreement for a fee equal to 2% of JV net revenue.

The services provided in the management agreement will include among others; corporate oversight and operational support, reimbursement services, purchasing and supply chain services, business planning, quality and resource management, human resource support, facility planning, legal, real estate and more.

Although LHP staff will provide planning and oversight for information services and risk management as part of the management fee, the direct cost of information services (i.e. hardware, software, programming, and implementation) and direct insurance costs are not included in this fee and would be paid directly by the hospital.

The management agreement will have an initial term of 5 years and would be automatically renewed for additional 5-year terms unless the JV is dissolved.

Insurance Coverage

MRHS will purchase extended, reporting endorsement policies from all current liability insurance carriers at its expense, including endorsement policies for any employed physicians.

Medical Staff Matters

LHP expects that the operations of the hospital’s medical staff will be substantially unchanged. For example, the following areas will remain as is:

- Physician medical staff privileges
- Physician medical staff status i.e., Active, Courtesy, etc.
Medical staff officers i.e., Chief of Staff and department chairpersons
- Medical staff bylaws
- Existing hospital-based physician groups

In addition, 50% of the hospital’s Board of Trustees will be physicians from the hospital’s medical staff.

**Uncompensated Care Commitment**

The JV will continue to provide for the treatment of indigent patients based upon the existing policy in use at the hospital.

**Service Commitment**

The JV will commit to operate the facility as a full service acute care hospital with the existing service mix for a minimum period of 10 years.

**Capital Commitment**

As indicated in our LHP Core Commitments, we believe that consistent, substantial investment in state-of-the-art facilities and equipment is an essential driver of organizational excellence. It is by no means the only driver, but it impacts nearly every aspect of facility operations and organizational effectiveness.

This management team has a very good reputation for strong capital investment at facilities under its management. We believe it was one of the key factors in our strong and sustained same-store volume growth during our tenure at Triad (and now with LHP) and has had a major influence on our success in driving significant improvements in physician, patient and employee satisfaction levels and quality outcomes. We would also point out once again that one of the distinguishing features of our proposed joint venture model is the concept of shared governance. Ongoing capital spending decisions will not be made by LHP management in isolation. All annual capital budgets and strategic plans will be established and approved by the JV Board of Directors in which the Regional Network Partner will have an equal say.

We would be comfortable agreeing in advance on a multi-year capital commitment and funding the JV up-front in a manner sufficient to meet that commitment. However, we feel that additional discussions are required to settle on the correct number given the substantial capital commitment to the Master Facility Plan and depending upon what is included in that plan.

**Physician Recruitment & Retention Commitments**

The JV will commit to a mutually agreeable physician recruitment and retention plan. In fact, it is our practice at each of our new joint ventures to conduct a comprehensive physician needs assessment that is used as the foundation for a multi-year physician recruitment plan that is approved by the Board and the Physician Roundtable. We also have an in-house director of physician recruitment in our corporate offices to oversee recruitment efforts at all of our JV facilities.

**Benefits of the Asset Purchase to MRHS**

- MRHS assures that the hospital maintains its historical mission in the community through:
  - Continuity of management – LHP offers employment to all employees – including senior management
  - Continued accountability of management to a local Board of Trustees composed of
local physicians and community leaders

- Continuation of the current charity care policies
- Continued adherence to the Community Benefit Standards for not-for-profit healthcare organizations

MRHS maximizes its cash proceeds from the transaction. MRHS will have substantial cash resources after paying all its existing debts to establish a strong local charitable foundation to meet community health needs outside of the hospital setting.

The transaction will place the Facilities in a strong regional network.

The complete recapitalization of the system (there will be no debt at the system level) and the participation of two strong equity partners (LHP & the regional network provider) will assure continuing access to capital for growth and expansion.

LHP brings significant management resources to the JV in areas such as:

- Reimbursement / Government Programs
- Financial Operations Support
- Capital Management
- Physician Recruiting
- Physician Roundtable Support
- Managed Care
- Policies & Procedures
- Plant Operations
- ER Management
- Development
  - Market Assessment/Strategic Planning
  - Transaction Structuring & Negotiation
  - Design & Construction
  - Real Estate
- Legal
  - Operations Legal
  - Acquisition/Development Legal
  - Regulatory/Compliance
- Information Systems
  - Planning
  - Contracting
  - Implementation
- Resource Management
- Accreditation & Licensure
- Quality & Outcomes
- Finance & Accounting
  - Budgeting/Financial Planning
  - Treasury
  - Tax
  - Accounting
  - Risk Management
  - Internal Audit
- Human Resources
  - Executive Recruiting
  - Wage & Salary Admin.
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<tr>
<td>Benefit Administration</td>
</tr>
<tr>
<td>Marketing/Public Affairs</td>
</tr>
<tr>
<td>Government Relations</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Public Relations</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td>Materials Management</td>
</tr>
<tr>
<td>GPO Contracting</td>
</tr>
<tr>
<td>Equipment Purchasing</td>
</tr>
</tbody>
</table>

- The JV will become one of the largest taxpayers in the city and county providing much needed tax revenues to local government entities.
## Summary Comparison of Alternative 1 versus Alternative 2

<table>
<thead>
<tr>
<th>Item</th>
<th>Alternative 1 – MRHS Joint Venture Proposal</th>
<th>Alternative 2 – Asset Purchase Proposal (assuming a regional network partner (“Regional Partner”))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description of Project</td>
<td>LHP and MRHS own JV which, in turn, owns and operates Facilities</td>
<td>LHP and Regional Partner own JV which, in turn, owns and operates Facilities</td>
</tr>
<tr>
<td>Primary Driver(s)</td>
<td>Maximizes MRHS’ local governance and control while still achieving the benefits of a regional network</td>
<td>Maximizes MRHS’ cash proceeds to the local charitable foundation</td>
</tr>
<tr>
<td><strong>Ownership:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LHP</td>
<td>60 - 80%</td>
<td>80%</td>
</tr>
<tr>
<td>MRHS</td>
<td>20 - 40%</td>
<td>NA</td>
</tr>
<tr>
<td>Regional Partner</td>
<td>NA</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Governance:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JV Board of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LHP</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>MRHS</td>
<td>50%</td>
<td>NA</td>
</tr>
<tr>
<td>Regional Partner</td>
<td>NA</td>
<td>50%</td>
</tr>
<tr>
<td>Hospital Board of Trustees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Leaders</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Physicians</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Management:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manager</td>
<td>LHP manages day-to-day operations of JV for 2% of Net Revenue</td>
<td>LHP manages day-to-day operations of JV for 2% of Net Revenue</td>
</tr>
<tr>
<td><strong>Other:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of Equipment, Hospital Operations &amp; Working Capital</td>
<td>$145.0M – $160.0M</td>
<td>$145.0M – $160.0M</td>
</tr>
<tr>
<td>MRHS Transaction Proceeds</td>
<td>$96.0M – $108.0M Cash $49.0M – $52.0M JV int. (assume 20%) $145.0M – $160.0M Total</td>
<td>$145.0M – $160.0M Cash</td>
</tr>
</tbody>
</table>
Financial Capability

LHP is exceptionally well capitalized with an equity commitment from its financial sponsors, CCMP Capital Advisors, LLC (the former private equity subsidiary of JP Morgan Chase) and the Canada Pension Plan Investment Board of $600 million. In addition, LHP has a credit facility from a lending group that includes Citibank, Regions Bank, Morgan Stanley and Bank of America to fund future growth as needed. We have ample resources to complete the contemplated transaction and to fund future capital improvements as necessary.

Transaction Execution

LHP is able to move quickly and expeditiously to the closing of this transaction. The following outlines our proposed time frame to close on this transaction from the date that LHP is selected by MRHS.

<table>
<thead>
<tr>
<th>Estimated Time</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 days</td>
<td>Sign non-binding Letter of Intent and announce the transaction</td>
</tr>
<tr>
<td>120 days</td>
<td>Conduct mutual due diligence and simultaneously negotiate and draft a Definitive Agreement</td>
</tr>
<tr>
<td>150 days</td>
<td>Sign Definitive Agreement after approval of transaction by both MRHS and LHP Boards of Directors</td>
</tr>
<tr>
<td>150 days +</td>
<td>Close transaction after receiving all necessary regulatory approvals including as required, certificates of need, State Attorney General review, and expiration of the Hart-Scott-Rodino Act waiting period.</td>
</tr>
</tbody>
</table>

Other Considerations

We believe that the two alternatives contained in this proposal represent the best options available to MRHS depending upon the Board’s strategic objectives.

Should the Board decide that they want to continue to control healthcare in their community but still want the benefits of being in a larger regional provider network, then Alternative I should be appealing. It preserves their Board control and unique mission objectives, while at the same time linking them to the broader LHP network. In addition, it allows MRHS the opportunity to take a large portion of their equity in cash to set up a local charitable foundation to focus on meeting additional community health needs.

If on the other hand, they see their future as best served by joining one of the historical regional provider networks, Alternative II should be appealing. It allows them to join the regional network but still allows them to cash out their existing equity rather than simply turn it over to the network.