Proposal to
Marion County Hospital District
Ocala, Florida

February 10, 2012

RegionalCare Hospital Partners
103 Continental Place, Suite 410
Brentwood, Tennessee 37027
Phone: 615-277-1415
Fax: 615-370-9539
To: 
Marion County Hospital District 
Ocala, Florida 

From: 
RegionalCare Hospital Partners 

EXECUTIVE SUMMARY 

We express great appreciation to your organization and are thankful that RegionalCare Hospital Partners (“RegionalCare”) has been invited to participate in the review process for a partnership with Marion County Hospital District (“MCHD”) in the operation of Munroe Regional Health System (“MRHS”). 

Today you are most likely facing the most important decision ever made by the leaders of Munroe Regional Health System --- a partnership choice between several hospital companies that must provide the systems, connections and cultural fit needed to secure your future. 

We are confident that RegionalCare has the acumen, experience and capital that will provide MRHS with the resources and support to aggressively move forward and become the Ocala’s premier destination for health care. This means that in a partnership with RegionalCare, MRHS will become the pivotal center for a wide regional network of hospitals, clinics and physicians, known for extraordinary service and quality. 

As you will see in the attached proposal, RegionalCare’s innovative leadership, programs, systems, affiliations and national connections are propelling our affiliated hospitals toward sustained excellence. 

Key considerations that position RegionalCare as an industry leader: 

- Physician / hospital integration, alignment capability. 
- Quality processes, patient satisfaction. 
- Depth of services. 
- Hands-on hospital operations experience of leadership. 
- Attention to Employee satisfaction. 
- Willingness to spend capital at the necessary levels. 
- Ability to energize, work side-by-side with your employees and physicians, 
- Proven ability to plan strategically in today’s difficult health care environment. 

In this proposal you will see how RegionalCare differs from us competitors and why that makes us the strongest long-term partner for MRHS.
In the national health care sector --- what sets RegionalCare apart.

- RegionalCare’s hospitals are carefully selected for their ability to become strong centers of regional growth, each a powerful health care hub.

- RegionalCare’s hospitals are in strong market positions, geographically non-urban with significant growth potential. Other hospital companies have built their volumes by acquiring hospitals in large group packages which does not allow focused criteria for their selection.

- RegionalCare is a growing company that operates large regional medical centers. We are not a big company that operates a collection of small hospitals.

As the following chart demonstrates, our average hospital size puts us near the top of our industry peer group.

**Non-Urban Hospital Systems**

- RegionalCare’s admission growth is 4%, compared to our industry peer group which experienced negative admission growth.

- Our quality initiatives for hospitals are strong and cutting edge and they are making major positive differences in patient outcomes and satisfaction. As outlined in the attached report, our partner hospitals are regionally connected to major teaching medical centers for clinical and quality support. We are developing a partnership with the *Institute for Healthcare Improvement (IHI)*, working with their services and systems to evaluate and improve our hospitals’ organizational culture. The IHI nationally recognized “Partnership for Patients” program is an initiative that includes the improvement of
quality, safety and affordability of health care. For example, IHI is providing the
tools and education to its member hospital organizations, plus CMS to reduce harm
in nine core focus areas. RegionalCare hospitals will soon have complete access to
these resources.

• We all know that patients today are not reticent to shop for their health care, even in an
industry where Americans used to be were fiercely loyal to one family doctor. No longer.
People want high quality care and they want it faster. In most non-urban US markets
many people are quite willing to drive or fly long distances to get what they perceive as
faster, higher quality care. Yet, against this backdrop, RegionalCare hospitals are
growing. **Today most of the not-for-profit hospitals as well as most of the for-profit
hospital companies see their admissions declining ---- RegionalCare’s hospital
admissions are going up.** That’s because RegionalCare leaders are skillful and
innovative at all the pieces that must work together to grow services, recruit physicians,
improve patient satisfaction and rally market confidence.

• As many large systems do, RegionalCare does not centralize pieces of individual hospital
operations. Each hospital is supported locally. We strongly believe that hospital
departments and services and the good paying jobs associated with those services are
unique to each setting and each community ---- and should remain there.

• RegionalCare’s systems and services do not make use of formulas or pre-packaged
off-the-shelf documents, particularly physician contracts and clinical affiliations. Each
physician relationship is unique, each tertiary medical center relationship must fit the
community and be near enough for patient accessibility. RegionalCare’s resources
are regionally focused.

• RegionalCare has one of the most effective on-staff physician recruitment teams in the
industry. RegionalCare has put major resources and emphasis on this talent and it is
paying off. We have been very successful at matching community settings, employment
contracting / partnership affiliations and launching support for new practices. The results
show up in the number of new physicians we are placing --- despite a national shrinking
supply of newly trained physicians.

• The trustees of RegionalCare’s hospital boards will verify that their boards are powerful
with all local membership, engaged and in charge of all aspects of the organization’s
strategic direction. Our boards are not advisory in nature. Between 40% - 60% of the
board seats are held by physicians.

• The senior officers of RegionalCare have actually operated hospitals. Prior to our work
today, we have served many years in the trenches as administrators, making a positive
difference in community hospitals across the country.
The information you have provided and our own research provides the basics of our proposal that consists of the following:

- Enhancing MRHS’ facilities and infrastructure to position the system for the future and meeting the needs of the communities it serves.
- Physician recruitment, alignment and clinical integration.
- Continuing the expansion of services and access, particularly in the southern and southeastern sections of the service area.
- Ensuring the highest quality patient care, patient satisfaction and safety.
- Ensuring optimal efficiencies through process improvement and economies of scale.

MRHS today has the stature --- and with RegionalCare as a partner --- the expertise and capital to negotiate clinical affiliations from a position of strength. These will be selected with a great deal of input from the hospital and physicians for their excellence in many areas: accountable care (or similar) organizational capabilities, quality/payment protocols and systems, and most importantly, their regional accessibility for patient and physician accessibility.

For example, our hospital in Florence, Alabama, through RegionalCare’s expertise has created a powerful affiliation with University of Alabama (UAB) Medical Center, Birmingham. The model supports local accessibility. Proximity is key and therefore works as an extension of the local community hospital’s mission and service (See Tab 6 for a Summary of our UAB affiliation).

Again, we thank you for the opportunity to participate in this review process and we look forward to your response.

RegionalCare Hospital Partners

[Signature]

Martin S. Rash
Chairman & CEO
# Table of Contents

1. Proposal for Partnership to Munroe Regional Health System.

2. The Energy and Teamwork at RegionalCare Partner Hospitals.
   *Employees, trustees & physicians.*

3. RegionalCare Leadership & Transaction Team.

4. Offer Comparison.
   *Proposed Options with Marion County Hospital District*

5. Patient Satisfaction Scores & Quality Measures

   *Florence, Alabama & University of Birmingham Alabama (UAB) Health System*

7. RegionalCare’s Trustee and Physician Annual Conference

8. References: RegionalCare Hospitals and Financial Partners

9. Audited Financial Statements
   RegionalCare Hospital Partners, Inc.
   *(See separate attachment)*
PROPOSAL
For Partnership to
Marion County Hospital District
Ocala, Florida

1. The identity of the Strategic Partner.

RegionalCare is a privately owned corporation, under the direction of its founders (See Tab 3 for Biographies) all who have exceptional careers in the leadership and operation of community hospitals.

Warburg Pincus, RegionalCare’s major stockholder and the world’s leading health care investment firm for over 35 years, based their initial and continuing major investments in our company on many factors but foremost, our ability to put together effective and motivational management teams that can build hospital market share and quality services for mid-sized hospitals across the country.

RegionalCare Hospital Partners’ sole focus is to partner with community hospitals in medium-sized markets across the country. We are seeking to work with hospitals that have regional growth potential and are strong enough that their relationships with large tertiary medical centers can be nurtured and collaborative but always negotiated from a position of strength.

As a partner with your hospital, RegionalCare would encourage Munroe Regional Health System (“MRHS”) to remain collaborative but independent from the priorities and budgets of tertiary medical centers in your service area.

We do fully support strong clinical ties with other hospitals but we advocate that these be set up in a manner that first protects the health of your market’s citizens by making available the most medical services possible close to home. This is much less apt to happen with tertiary ownership / affiliations.

RegionalCare will continue to grow MRHS and its medical staff as a hub of health care for its market, gradually slowing the need for patients to seek their health care out of the area and thus bring more services, more jobs and continued financial strength to MRHS.

Our approach emphasizes the control and authority of the local management team and board as well as working with the medical staff — as well as working with the medical staff to implement the hospital’s key initiatives and meet community needs. The important and specific initiatives of our partnerships are always directed by the board and center on:

- Full support of patient satisfaction including quality of care.
- Growth of programs and services.
- Preparing for federal and state changes including reimbursement challenges.
- Recruitment of physicians, mid-level professionals and hospital employees.
• Assuring state-of-the-art facilities and equipment.
• Workplace values, participative management, employee satisfaction.
• Physician-hospital alignment.
• Growing market share.

RegionalCare was established by a team of health care executives who are well-known for positive growth outcomes through investing capital and leadership in community hospitals.

2. A description of Strategic Partner’s existing health care facilities in Florida and how MRHS would fit with these facilities.

RegionalCare does not have partnerships with any hospitals in Florida --- we view this as an important point. We have pledged in this proposal, like we did to all the hospital organizations listed below that:

_The priorities of each hospital are determined by their administration, board and medical staff. We provide support and expertise to the management team and medical staff and significant access to capital for the entire organization to grow services, quality, outreach, and reputation._

There is no confusion in our organization where our loyalties and budget priorities are deployed in each market. It is clear that RegionalCare is fully aligned with the objectives and outcomes of our hospitals --- each a regional hub of health care, strong and independent.

RegionalCare’s business plan is well-funded and is on target to meet our goals of strong but carefully paced growth – building a family of community hospitals. In two and half years we have formed partnerships with seven hospitals which are discussed later in this proposal. They serve the markets of:

- Ottumwa, Iowa.
- Wilmington, Ohio.
- Florence Alabama.
- Muscle Shoals, Alabama.
- Paris, Texas.
- Waynesburg, Pennsylvania.
- Sharon, Connecticut.

The last three hospitals joined RegionalCare in early November of 2011. All the RegionalCare partner hospitals today and those with whom we will seek to partner with in the future are community based and have strong boards and medical staffs with strategic growth plans that RegionalCare will or has accelerated. This is done through a blending of our systems and a collaboration of leadership, expertise and capital. The service mix and breadth of RegionalCare partner hospitals are always put on a growth track toward ultimately offering all services that can be supported by the population of each area. In each of the markets where we work RegionalCare has no other providers who compete for resources.
As mentioned, RegionalCare’s affiliated hospitals will be governed by local board that is made up of business leaders, civic leaders and physicians that live within the hospital’s service area. Each board, with our support, will continue to develop their unique strategic direction with a focus on improving the quality and growth of its services.

An affiliation with RegionalCare provides expertise to the management team and significant access to capital for the hospital organization to expand services, quality, outreach and reputation on a wide regional basis. RegionalCare hospitals will be interconnected with cost effective group purchasing of supplies and other services, will share best practices and will thrive on leadership interaction. But each will remain as a full service institution with its own unique history and strategic vision.

3. A description of the nature and structure of the proposed Transaction. MCHD has a strong interest in maintaining a meaningful role in the post-transaction governance of the Health System. For any of the structures that you include in your proposal, please provide a description of the role that MCHD would perform, if any, in the governance of MRHS.

RegionalCare is proposing two organizational/transaction structures for consideration. Both are supported by strong governance functions that emphasize local board membership through a community selection process. Both options provide for a governance structure that is driven locally, and that sets the strategic direction for MRHS.

Option I

Community Partnership / Shared Ownership

Assets are leased to RegionalCare

Assets are owned by the Marion County Hospital District (the Lessor)

In this option RegionalCare leases the hospital operations from Marion County Hospital District (“MCHD”). A lease agreement is negotiated between the parties, outlining the commitments between them including requirements that RegionalCare must commit to service and quality standards which include but are not limited to: maintaining all hospital services, obtaining all licenses and accreditation and taking care of all who need it regardless of their ability to pay.

The property, plant and equipment of the hospital will remain under the ownership of MCHD. The length of the lease is 40 years. At the end of the lease, the agreements are either renewed or the property, plant and any equipment not fully depreciated will return to MCHD.

It is important to note that charitable purposes of not-for-profit hospitals have been a guide for the values of RegionalCare through our programs, services, compliance and ethical conduct for our affiliated hospitals.
We have outlined two options for a long-term lease, the first option places a value on the hospital of $120 Million, the second has a value of $145 Million, pre-paid in cash at the closing of the transaction. The acquisition includes an estimated flow of funds (using 9/30/11 Balance Sheet) whereby MCHD will realize approximately **$128.2 Million - $153.2 Million** in net proceeds. In both options RegionalCare will also make a donation of **$20 Million** to Marion County to further the public good.

The chart below summarizes RegionalCare’s partnership with MCHD through leasing the assets and operations. A detailed explanation follows:

**The value of a transaction with RegionalCare 2012-2017:**

<table>
<thead>
<tr>
<th></th>
<th><strong>Option I</strong></th>
<th><strong>Option II</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid Lease (includes working capital)</td>
<td>$120 Million</td>
<td>$145 Million</td>
</tr>
<tr>
<td>Cash up front</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donation to Marion County</td>
<td>$20 Million</td>
<td>$20 Million</td>
</tr>
<tr>
<td><strong>TOTAL CASH UP FRONT</strong></td>
<td><strong>$140 Million</strong></td>
<td><strong>$165 Million</strong></td>
</tr>
<tr>
<td>Plus:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facility and Service Line Growth Capital (over 5 years)</td>
<td>$275 Million</td>
<td>$225 Million</td>
</tr>
<tr>
<td><strong>University</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid at close of transaction</td>
<td>$1 Million</td>
<td>Same</td>
</tr>
<tr>
<td><strong>VALUE TOTAL OVER 5 YEARS</strong></td>
<td><strong>$456.5 Million</strong></td>
<td><strong>$431.5 Million</strong></td>
</tr>
</tbody>
</table>

- The **prepaid lease** including the net working capital (to be adjusted at the closing) will be paid by RegionalCare in full at the time of the transaction closing.
• **$20 Million** donation paid by Regional care at the closing of the transaction, to Marion County to further the public good.

• The **long-term liabilities** of approximately **$117.5 Million** will be defeased or eliminated by the seller from the transaction proceeds at the closing of the transaction.

• **Annual capital expenditures** for maintenance and other projects will be an amount equal to a minimum of **$15 Million** annually. In addition RegionalCare will spend a minimum of **$5 Million** to launch the *People First* program (explained in this proposal) and **$150 to $200 Million** for strategic service line development, including facility and upgrades.

• **$15 Million for the recruitment of up to 30 new physicians** over the next five to seven years. The amount is based on an average of $500,000/physician. We look forward to a review and possible additions to the final list of needed recruits.

• For the set-up, system-wide launch and on-going support of RegionalCare’s *People First* program, RegionalCare will invest a minimum of **$.5 Million**.

• **$1 million donation to the College of Central Florida** - RegionalCare’s research on community partnerships for MCHD revealed a great opportunity to contribute to a dual purpose --- career development and education for much needed health care fields but also an incentive to retain local talent for Ocala.

• The payment of property taxes estimated to be **$2.5 Million** per year.

• The payment of sales taxes, estimated to be **$2.5 Million** per year.

**Seller’s flow of transaction funds:**

<table>
<thead>
<tr>
<th></th>
<th><strong>Option I</strong></th>
<th><strong>Option II</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid Lease – cash up front (including net working capital)</td>
<td><strong>$120 Million</strong></td>
<td><strong>$145 Million</strong></td>
</tr>
<tr>
<td>Plus: Cash</td>
<td><strong>$29.2 Million</strong></td>
<td><strong>$29.2 Million</strong></td>
</tr>
<tr>
<td>Plus: Other Retained Assets</td>
<td><strong>$112.2 Million</strong></td>
<td><strong>$112.2 Million</strong></td>
</tr>
<tr>
<td>NET ASSETS</td>
<td><strong>$261.4 Million</strong></td>
<td><strong>$286.4 Million</strong></td>
</tr>
<tr>
<td>Less: Long Term Liabilities</td>
<td><strong>$117.5 Million</strong></td>
<td><strong>$117.5 Million</strong></td>
</tr>
<tr>
<td>Less: Other Retained Liabilities</td>
<td><strong>$15.7 Million</strong></td>
<td><strong>$15.7 Million</strong></td>
</tr>
<tr>
<td><strong>NET PROCEEDS TO MCHD</strong></td>
<td><strong>$128.2 Million</strong></td>
<td><strong>$153.2 Million</strong></td>
</tr>
</tbody>
</table>

In addition RegionalCare will donate **$20 Million** to Marion County.
**Governance**

Strong community control through governance forms the foundation of RegionalCare partnerships. MRHS will be governed by a board of trustees consisting of civic and business leaders and physicians who live in the service area.

We know that community hospitals thrive when the board establishes and governs the hospital’s strategic direction, especially when their work is supported by the capital needed to respond to community and regional needs.

In a partnership with RegionalCare, the day-to-day management of the hospital is the responsibility of the CEO and his/her administrative team. RegionalCare provides support, expertise and resources. The CEO will have a dual reporting relationship that includes RegionalCare. The CEO’s interface with the board will remain as it is today --- collaborative and interactive concerning all aspects of hospital operations.

Each of our affiliated hospitals remain as an independent and separate full service operation. The hospitals are not merged operationally. The sharing of system-wide services, programs and purchasing contracts are offered to all the hospitals and result in tremendous educational opportunities as well as cost savings. But the unique community contributions and history of each hospital is preserved and honored, one reason why an all-local board is so important to our organization.

RegionalCare provides an annual system-wide educational retreat for all trustees that includes presentations from national health care leaders.

With RegionalCare the hospital board has a crucial role in determining the strategic direction of MRHS, reviews operational activities, quality reports, approval of new medical staff members and budgets. We will foster the same sense of community participation in the hospital that exists today and as such, look at the hospital board as a window to the community.

RegionalCare, as the Lessee, is responsible for funding all operating and capital commitments through the budgeting process determined by the local Board of Trustees.

**Option III**

**Joint Venture / Shared Governance & Profits**

**Assets are owned by MCHD and leased by the Joint Venture**

RegionalCare and MRHS will form a joint venture (JV) company and will lease the assets from MCHD. The prepaid lease payment to MCHD would be $116.4 Million - $140.65 Million (97% of prepaid lease amounts). RegionalCare shares 3% of the annual profits with MRHS. RegionalCare will also make a donation of $20 million to Marion County to further the public good. This shared governance model supports a 50/50 board makeup with 12 members, half MRHS & half RegionalCare. This board drives the strategic direction of the hospital with certain powers reserved for the six members on the board who represent MRHS.
This shared governance model also preserves local control through a “consultative right” for MCHD that facilitates a major review process of a potential new lessee by the MCHD board members and the County Commission in the event of a sale of RegionalCare in its entirety. This consultative covenant gives a broad range of options for the community to interview and have significant input into the plans and capital commitments of any new Lessee of MRHS.

A right of refusal is given in full, if the contemplated sale of MRHS is of MRHS only.

Advantages of the Profits Interest model over the older joint venture options:

- No capital calls and therefore no back door methods that usually result in a dilution of the hospitals ownership percentage.
- No management fees, saving millions that can be deployed for community benefits and hospital growth in equipment and services.
- Not-for-profit entity/Foundation is never in the position of incurring debt due to hospital operations and new capital projects. All of this is covered 100% by RegionalCare.
- The better the hospital performs financially, the more the community benefits financially

The only way the hospital becomes more profitable is through addition of services and physicians and this creates an alignment of objectives for all stakeholders that does not happen in the older model JV.

Those stakeholders include the Medical Staff, the employees, the community and RegionalCare as the capital partner and management resource.

*Please see Tab 4 for Detailed Offer Comparison*

4. The detailed financial structure of your proposed Transaction, including:

   a) Confirmation of the MRHS Facilities subject to the Transaction;

Included Assets would include, all of MRHS rights, title and interest in and to substantially all of the owned and leased assets which are associated with or used in connection with the business or operation of MRHS (other than the Excluded Assets listed in 4d below), including without limitation, equipment, inventories, contracts, leased property, joint ventures, other personal property, land, buildings, certain working capital and other improvements as outlined in the Confidential information memorandum.

   b) The proposed purchase price for the acquired assets or the lump sum lease payment if a lease;

The value placed on the hospital under a long-term lease is **$120 Million - $145 Million**, pre-paid in cash at the closing of the transaction, plus a **$20 Million** donation to Marion County.
c) **Assumed liabilities;**

- Accounts Payable
- Accrued Payroll
- Accrued Employee Benefits
- Real Estate Leases
- Operating Leases

d) **Excluded assets;**

- Cash & cash equivalents
- Certificates of deposits and other short term investments
- Estimated third party settlements
- Assets limited as to use, including those held by trustee and board-designated-donor-restricted assets
- Other long term investments
- All other assets within other assets, except for MRHS’s ownership in its joint ventures

e) **Excluded liabilities;**

- Accrued interest
- State indigent assessment
- Third party-payor settlements
- Bonds payable including the current portion
- Long term debt including the current portion
- Other liabilities not included in working capital

f) **Expected post-closing adjustments to the purchase price or lease payment;**

At least 5 business days from closing MCHD will deliver to RegionalCare a determination of the estimated Net Working Capital of the last day of the most recently ended calendar month prior to the Closing Date for which financial statements are available. This Net Working Capital calculation will be used for purposes of calculating the Prepaid Lease amount to account for changes in RegionalCare’s assumed assets and liabilities from the 9/30/11 Balance Sheet.

In the case of post-closing price adjustment, not more than 180 days after the Closing Date, RegionalCare will deliver to MCHD a determination of the Net Working Capital, as of the closing Date. The amount of Cash at Closing will then be adjusted by the difference between the estimated Net Working Capital, from the 9/30/11 Balance Sheet, and the final calculation based on the closing Balance Sheet.

g) **Other post-closing financial commitments; and**

- 5 year capital commitment of $225 Million - $275 Million
- 5 year physician recruitment commitment of $15 million
- $20 million dollar donation to Marion County
$1 million donation to the College of Central Florida
$.5 million for PeopleFirst
Agree not to terminate any employee except for cause for a period of 1 year

h) Governance structure.

Strong community control through governance forms the foundation of both the RegionalCare partnership models presented in this proposal as described in Section 3 above. MRHS will be governed by an 8-12 member board consisting of Ocala area civic and business leaders and will include physician members.

We know that community hospitals thrive when the board establishes and governs the hospital’s strategic direction, especially when their work is supported by the capital needed to respond to community and regional needs.

In a partnership with RegionalCare, the day-to-day management of the hospital is the responsibility of the CEO and his administrative team. RegionalCare provides expertise and resources. The CEO interface with the board will remain as it is today --- collaborative and interactive concerning all aspects of hospital operations.

RegionalCare’s Shared Governance Model

Quality Care, Healthier Communities

Munroe Regional Health System

Vision, Mission, Strategy

Munroe Regional Board of Trustees

Capital, Expertise, Support

RegionalCare Hospital Partners
5. If the Transaction involves a lease, please provide the major terms of such lease, including the following:

   a) Term;

   Initial term of 40 years.

   b) Lease payment schedule;

   RegionalCare is proposing an initial 40 year lease that will be prepaid at the closing of the transaction.

   c) Renewal options;

   RegionalCare would have the option to extend the Initial Term of the lease for two additional ten (10) year terms.

   d) Other key terms; and

   • Maintain current services.
   • Adopt current charity care policy.
   • Employ all current employees and maintain tenure and no termination except for cause for a period of 1 year.
   • Adopt current physician staff privileges.
   • Other commitments as outlined in this proposal.

   e) Governance structure.

   See 4h above.

6. If the Transaction is a joint venture partnership, please include the following:

   a) Governance structure;

   This shared governance model supports a 50/50 board makeup with 12 members, half MCHD and half RegionalCare. This board drives the strategic direction of the hospital with certain powers reserved for the six members on the board who represent MCHD.

   b) Ownership percentages for each party as of closing;

   RegionalCare:  97%

   MCHD:        3%
c) **Management arrangement and related fees;**

RegionalCare would provide all day-to-day management of MRHS. RegionalCare would oversee the day-to-day operations as it would under the long term lease option. The resources provide Divisional Oversight and Operational Support for: Reimbursement, Purchasing and Supply Chain Services, Business Planning, Quality and Resource Management, Human Resource Support, Facility planning, Legal, Real Estate, Cash Management, Corporate Compliance and more. **There would be no management fee.**

d) **Reserve powers for each party; and**

**Reserved Powers of MRHS board members**

- CEO periodic evaluation (in collaboration with RegionalCare).
- CEO hire and fire.
- Develops the hospital’s strategic direction.
- Reviews and approves all budgets and major capital projects.

**Reserved Powers of RegionalCare board members**

- Participates in CEO evaluation.
- Final approval of budgets.
- Termination of CEO (for certain activities related to criminal ethical violations, patient quality/endangerment).

**Reserved Powers of RegionalCare board members**

- Charity care policies.

e) **How future cash distributions and capital expenditures will be calculated and handled.**

Cash distributions will be made quarterly from excess cash flow in proportion to ownership percentages. 100% of funding for future capital expenditures and other need will be RegionalCare’s responsibility.

7. **A description of the financial and operational strength of the Strategic Partner, including:**

a) **Ability to provide consideration in the form of cash, notes and/or assumed liabilities for the leased assets.** Please provide a description of the expected sources of financing, the anticipated time required to obtain such financing and any contingencies thereto.

RegionalCare’s financial resources and acumen are some of the strongest in the industry. Our tremendous track record and the long term success of our senior officers have secured a future for our company and its hospitals with a high level of financial support. Warburg Pincus, the world’s leading health care investment firm for over 35 years, provides RegionalCare Hospital Partners with capital from its substantial capital equity investment funds. **Our ability to leverage this**
capital provides us with additional financial capacity to invest in the growth of community hospitals.

Our capitalization and financial position is very strong. As of December 31, 2011, RegionalCare’s financial position consists of equity invested of $267 million. Additionally, $35 million of Warburg’s initial equity commitment remains available to the company and there is much more available. The Company has an available $100 million under a recently negotiated revolving credit facility and the ability to expand its existing term loan financing to accommodate acquisitions like the one proposed here. Beyond these currently available and committed funds, we are confident in our ability to attract additional equity capital and to source additional debt financing for strong acquisitions, as needed. There will be no delays caused by access to capital and no contingencies associated with our bid to lease or joint venture the net assets of MRHS.

b) Ability to fund routine (maintenance and upgrades) as well as strategic (major expansions, addition of services, market share expansion) capital expenditure requirements. Please provide evidence of capital expenditures in currently owned facilities.

RegionalCare is profitable and compiling sufficient cash to fund its operations and robust capital needs. For this transaction specifically the company currently has use of a portion of its available equity and debt capacity together with cash on hand. RegionalCare has the expertise as well as the financial backing to offer to hospitals and their physicians the resources for organizational stability and regionally focused growth. In addition, as a partner with RegionalCare the profits from our hospital partners are reinvested back into the hospitals.

Once we have the opportunity to interview hospital board members, physicians and management, we will refine a three-year projection of capital investments so that our financial commitment to MRHS is specific.

RegionalCare is well capitalized through our partner Warburg Pincus and we are fully prepared to meet all the routine and strategic capital commitments made in this proposal.

c) Financial statements:
   i) Audited financial statements for the past three years.
   ii) Interim period (year-to-date) financial statements.

See Tab 8 for most recent audited financial statements.
8. **Your position with respect to the following issues:**

   a) **Maintain and grow the MRMC facilities as a full service acute care hospital.**

      i) **The Strategic Partner should provide assurance that it will continue to operate these facilities as a full service acute care hospital.**

      RegionalCare’s proposal is based on our research and clearly indicates the strongest future for MRHS will come from the expansion of services and locations, upgrades to facilities, more collaborative partnership with physicians and the recruitment of needed physicians. This will result in a larger market presence. A partnership between our organizations will provide the management support and capital to make this a reality. Like all our partnerships with community hospitals, this proposal emphasizes that each hospital board, medical staff and employee leaders work with us toward a goal of:

      (1) Offering all possible medical services and programs that can be clinically validated.

      (2) Expanding those services and providers into a wider market area.

      (3) Providing all hospital services with constantly improving quality and workforce esprit d’corps --- with a renewed sense of clinical excellence and dedication to MRHS’s mission.  

      MRHS’s growth will be accelerated, becoming an even stronger organization because the board, medical staff and employees will be fully supported by RegionalCare’s capital and expertise.

      RegionalCare commits to continue MRHS as a full-service community care hospital that serves all of their expanded market. Any material change in a service must be approved by the board. Our entire proposal is based on the enrichment and growth of your existing services and programs as well as adding new ones in alignment with community needs and in collaboration with the board and medical staff. The goal is to provide all the care appropriate to the regional service area/population base so that referrals to other larger hospitals are only for highly specialized care.

      RegionalCare will be making a significant capital investment in MRHS’s facilities should we be selected to be your partner. The only way the value of that investment is increased is if MRHS has access to the resources for continued growth through new services, technology and physician recruitment.

      ii) **Please identify any alternative strategies that may impact the current services provided at the facilities.**

      In addition to embracing the immediate goals of MRHS, RegionalCare recognizes that meeting the long-term needs of the community requires routine market monitoring to identify services to enhance growth. A strategic planning process will be employed to establish a growth strategy. A detailed market assessment and physician supply data will identify opportunities to add or expand health care services. Working with the local management team and the Hospital Board of Trustees, growth initiatives will be prioritized. As it is our objective to initiate ALL growth strategies for the benefit of MRHS; we seek to offer as many services as possible in every community we serve. Our goal is to deliver the right care in the right place, minimizing patient
travel and expense. Physician recruitment integration and collaboration is vital to successfully maintaining and growing market share. An innovative Information Technology strategy is a key component of our overall strategy in delivering the highest quality care in the most efficient manner. This will be vital in the reform era that faces our industry. Below is a brief description of RegionalCare’s physician collaboration and IT strategies:

**Physician recruitment.**

Successful physician recruitment is the most important factor in distinguishing outstanding mid to small town hospitals from struggling ones. *Physician recruitment achievement is one of the most important aspects that distinguishes RegionalCare from other hospital systems, both for profit and not-for-profit.*

RegionalCare has the resources, the experience and the vision to join with the board and physicians of the MRHS to accelerate organizational plans to continue its goal as a thriving health care organization. **We support MRHS’s intentions to develop a physician-led and governed clinical integration organization.** Clinical integration will continue to be the backbone of a physician alignment strategy for MRHS. *We look forward to learning more about the proposed organization Southwind that is assisting the board, management staff and physician leadership in developing.*

Medical staff development, physician recruitment, retention and integration are key strengths in our organization’s repertoire of expertise. RegionalCare hospitals are surpassing their competition in physician recruitment in all markets and outperforming what most midsize, and even larger, regional not-for-profit hospitals have been able to accomplish. We have the recruitment capabilities and supporting systems for medical staff development and alignment including IT systems, practice management and access to a major amount of capital.

RegionalCare’s business plan and the experience of our senior management have focused on growing hospital services and medical staffs in non-urban markets; this is an important distinction. Only a small percent of newly trained physicians completing American residency programs are selecting small community settings. This is a significant challenge for non-urban hospitals across the country vying for a precious supply of physicians, especially primary care.

RegionalCare’s relationship with MRHS will emphasize your culture and commitments. This fits well with RegionalCare’s track record of medical staff collaboration. Any partnership we have with a hospital is also a partnership with the physicians; therefore, we will expend a great deal of effort into bridging all physician practices with needed hospital support.

**Recruiting physicians to community hospitals is more competitive than at any time in history:**

- Internal medicine is the most difficult specialty to recruit today. About 84% of hospitals and group practices are recruiting actively today.
- There are 5,000 physician recruiters in this country.
- Among medical school graduates finishing training in the last ten years, only 12% selected non-metro markets for their practices.
RegionalCare commits to the recruitment strategy of MRHS that is focused on community needs in the following areas:

- Women’s Health
- General Surgery
- Orthopedics
- Neurology
- Primary Care

Using national averages for recruitment packages (including sign-on bonus, marketing, relocation and income guarantees for the first year or two, depending on the specialty) it costs approximately $500,000 to recruit a physician.

RegionalCare has experienced a significant shift in the mix of employed and independent physicians within our markets, similar to national trends. While the interest in employment among physicians currently in our markets still varies significantly across regions, we are prepared to address the need for employment contracts as demanded.

As mentioned, RegionalCare’s in-house recruitment team and their credentials make us unique in the industry. ALL our recruitment efforts are completely focused and tailored for each hospital in the RegionalCare family and the evidence for the success of this approach can be found in our high retention rate. Our team is led by Mary Ann Smokler and her impressive resume is included in our corporate bios in the back of this proposal.

It is important to note that a huge part of our recruiting success is directly correlated to the hospital and medical staff leadership being included and involved every step of the way. We provide a great deal of support to the hospital to set up an active interviewing process that includes an introduction to the community for the physician and the spouse.

All of MRHS’s current recruitment efforts will be supported. RegionalCare will accept all current physician contracts that follow legal guidelines and statutes of such contracted relationships. We commit to the maintenance of an independent medical staff with credentialing authority.

Growth of the medical staff and hospital services increases the employment base of the medical community, preserving current jobs and creating new professional opportunities. Over time, this type of job growth --- higher income, highly educated --- is one of the most sustainable boosts to a region’s overall economic health.

**Financial impact of physician recruitment:**

Every patient in the MRHS service area who obtains health care services in another market/another hospital that are available at MRHS contributes to a major economic drain away from the services and retail vendors of MRHS. This highlights the crucial need for successful physician recruitment.
Why RegionalCare is so effective at recruitment:

- Our recruitment team is on-staff and experienced in recruitment to small markets.
- We provide the capital needed for recruitment efforts and competitive offers.
- We involve all the stakeholders in the recruiting process, including the medical staff, administration, hospital board and community.
- Start-up assistance and practice management for new physicians is provided.
- We pay attention to community fit for the physician and the family.

In Summary

RegionalCare’s senior leadership has worked in various roles and in the growth of community hospitals over the last 20 years. Our recruitment results are exceptional, having recruited over 1,600 physicians to community hospitals with a 90% retention rate. A shortage of physicians in any hospital’s service area leads to a gradual and destructive drain on hospital services, revenues and community support. Our research and knowledge of the recruitment process is key to the overall maintenance of our partnerships with regional hospitals.

Electronic medical records integration and meeting meaningful use criteria.

The following is an overview of RegionalCare’s Information Systems strategy and support for our partner hospitals.

- **Meaningful Use** – RegionalCare is providing key leadership and resources to our partner hospitals to achieve “Meaningful Use” of Information Technology as defined by CMS to maximize the incentive payments from CMS. The Meaningful Use Program will ensure RegionalCare’s organization compliance with the HITECH ACT and thereby achieve additional improvements in patient care, outcomes, operations, and efficiencies. The Meaningful Use efforts of our company include:
  - Contributing to project planning, estimating and budgeting tools for hospital based project managers.
  - Monitoring the status of individual hospital projects.
  - Providing program-level status summaries, including project dashboards with milestones, budget and issue status.
  - Providing assistance with resolution of issues that are impeding project progress.
  - Defining a scope-management process and coordinating a scope change-management process with project managers.

RegionalCare’s system-wide Quality Committee oversees its Meaningful Use program. The Meaningful Use program leaders on RegionalCare’s team provide day-day support, guidance, and direction to each hospital.

RegionalCare’s IT group is providing evidence-based order sets (Zynx & Provation) for consideration by the health care providers who make the ultimate decision on the care provided
to each individual patient. In addition we are working with each of our partner hospitals to obtain EMR Stage 1 Medicare payments, investing in upgrades for our existing IT systems, and analyzing / assisting in optimal solutions for reporting clinical quality measures. RegionalCare’s central support team works hands-on with all hospitals.

- **Hospital-based Information Systems** – Our strategy is to be a leader in the deployment of clinical and revenue cycle solutions in our hospitals. At RegionalCare, the hospital information system needs are supported in a decentralized manner. This strategy allows the hospital to leverage its existing IT investments (versus “rip & replace”) and to make additional investments that will create the most value for each individual hospital.

- **Corporate Information Systems** – Our strategy is to provide our hospitals leading edge solutions for general administrative functions. We have developed relationship with vendors that provide Software-As-A-Service (SaaS) and Cloud Computing solutions.

- **IT Security and Compliance** – Our goal is to protect our information with proper Information System Security and controls. New regulations under HIPAA have added new requirements for stricter enforcement and penalties for non-compliance. The end goal is have security for all information assets and protected health information (PHI).

- **Business Intelligence and Reporting** - Our Business Intelligence (BI) strategy is to integrate data from disparate sources which gives management a single source of information (financial, operational and clinical). The BI tools and applications allow operational managers to use information to drive decisions. Our BI solution extracts data from disparate source systems, translates data into common terms, and loads into a single repository for meaningful, comparative reporting and analytics.

RegionalCare has partnered with two leading business intelligence vendors:

- **Anthem Health Intelligence** - specializes in health care business intelligence and decision support. Anthem provides RegionalCare a comprehensive suite of web-based BI applications for hospital management, including Daily Indicators, Productivity Management, Service Line Analysis, Revenue Cycle Monitoring, and Financial Analytics. Anthem’s systems include iFocus Executive information dashboards for hospital and corporate executives.

- **The Advisory Board’s Crimson Initiative** - offers a multifaceted approach to physician performance improvement. Combining best-in-class performance monitoring technology with dedicated implementation support and best practice research in physician alignment, the Crimson Initiative helps members advance quality goals and secure total cost savings measured in the millions of dollars.

At the heart of the Crimson Initiative is a technological platform that pulls together physician data from a variety of repositories, including patient billing, scheduling, clinical information systems, data reporting software, care management databases, and more. The Crimson Initiative organizes
this information into a unique Web-based dashboard that offers: intuitive visual design to maximize ease of use, severity-adjusted data, individual and group performance comparisons placed in statistical context, and access to patient-level details for further analysis.

iii) MRMC currently provides certain “safety net” services for the benefit of the communities it serves. Examples include maternity services (labor, delivery and obstetrics) and pediatrics services. Would you be willing to commit to the provision of these services into the future, and/or agree not to close any current service lines without the approval of MCHD?

Yes. RegionalCare would commit to providing these “safety net” services for the benefit of the community. Any service to be added or eliminated would require Board approval.

b) Access to Capital / Strategic Plan

i) MRHS has developed a campus facility master plan. The first phase of the master plan is described in greater detail in the attached Information Memorandum in the section entitled Master Facility Plan. The estimated cost of the first phase totals $150 million. Please indicate whether you are willing to commit to invest capital in the amount required to fund the first phase.

Yes. In keeping with RegionalCare’s partnership philosophy, all capital commitments will be aligned with strategic growth and board-directed initiatives. Capital planning for our partner hospitals is done through collaboration and detailed discussions with the board, administration and medical staff. We have outlined an overall initial commitment to capital expenditures of **$150 Million** over 5 years for the completion of the first phase of the master facility plan.

We look forward to working with you, if we are selected, to discuss the completion of the first phase of the master facility plan with the building of the new West Tower connecting to the existing hospital. The 5 story tower would focus on the four key areas outlined in the Confidential information memorandum follows:

- **Emergency Department.** Relocation and reconfiguration of the ED services into one location and the addition of a 22-bed observation unit to improve flow and free-up patient beds. These efforts would improve ED throughout, reduce wait times and enhance capacity
- **Obstetrics.** A new labor & delivery to provide a more efficient layout, enhance capacity and also provide space for future higher-level neonatal care.
- **Surgical Suites.** Provide state-of-the-art ORs with a streamlined layout.
- **Private Rooms.** Provide for all up-to-date private rooms.
ii) In addition to the strategic capital required to fund the first phase of the master plan, will you commit to investing capital for normal maintenance and replacement costs in an amount not less than $15.0 million per annum?

Yes. In addition to the capital investment in the first phase of the master facility plan, RegionalCare will commit to a minimum annual commitment of $15 Million for maintenance and replacement costs as follows:

- Technology and equipment required to enhance service lines.
- Information Technology needs for the hospital physicians and other off-site facilities.
- Annual routine facility maintenance.

c) Community Benefit / Charity Care

i) Commitment that existing community benefit programs and charity care policies at MRHS facilities will be maintained. Provide evidence of your community benefit programs and expenditures and charity care policies.

Typically, RegionalCare would expect to continue the existing Charity Care policies of MRHS, assuming they are reasonable and customary. As the sole community provider in most of our markets, RegionalCare does not discriminate with regard to a patient’s ability to pay. RegionalCare intends to remain a good community citizen with respect to caring for all the citizens in the community and will pledge to MRHS to remain in compliance with all regulations regarding the uninsured, including EMTALA regulations.

d) Provide Continuing Employment

(i) The Strategic Partner will provide a commitment not to terminate, except for cause, any existing employees for a period of one year following the closing of the Transaction.

Yes. RegionalCare commits to hire all active employees and will not terminate except for cause for a period of one year. Seniority will be honored and wage/salary levels will be routinely adjusted so that MRHS will remain competitive to other area markets. RegionalCare offers an excellent benefits package that is industry competitive and includes a 401(K) retirement plan with a corporate match. As applied to benefits and all other employment transitions, there will be no new wait periods and no new pre-existing condition restrictions on health care coverage.

A major focus of our leadership will be to fully support the development and training of employees and enhance employee recruitment capabilities. With a long-standing history and reputation for putting “People First”, we recognize employees are the lifeblood of a hospital. Our human resource principles include the commitment to aligning HR strategy to the overall goals of the hospital to maximize retention, performance and employee satisfaction.
It is crucial that the hospital:

- Consistently strive to be an employer of choice in the service area and throughout the state market to attract the best talent.
- Emphasize retention, engagement and development of all staff.
- Support technical training programs and degrees at area colleges. RegionalCare has made a significant financial commitment to this in our proposal.

e) Medical Staff and Referral Arrangements

i) The Strategic Partner shall agree to work in good faith with the MRHS’ Medical Staff members and preserve the existing staff membership and the current privileges of each physician.

Yes. RegionalCare agrees to work in good faith with the MRHS Medical Staff members and to preserve the existing staff membership and the current privileges of each physician. The privileges of any physician now or in the future will be determined by the medical staff and the Board of Trustees of each hospital. The medical staff officers will continue in their current positions and its committee structures will remain in place.

RegionalCare expects that the day-to-day operations of the Medical Staff at MRHS hospitals would be substantially unchanged. For example, the following areas would 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)

ii) The Strategic Partner shall agree not to take any actions that mandate the MRHS medical staff to refer patients to hospitals owned by the Strategic Partner.

Yes. RegionalCare agrees not to take any actions that mandate such referrals. Our strategy will be to enhance and deliver as much care in each of the communities as feasible and to identify and remedy any issue that causes physicians to refer patients to competitive hospitals for services that are available within the system.

f) Restricted Gifts

i) The Buyer will agree to honor the terms of all gifts of property previously made to MRHS.

Yes. Subject to due diligence, RegionalCare agrees to honor the terms of all gifts of property previously made to MRHS.
g) Quality and Safety

i) The Strategic Partner should agree to support existing initiatives and provide additional quality and safety expertise and protocols, as necessary, to assure that MRHS is exceeding quality and safety standards.

ii) Please provide evidence of your commitment to providing quality services and tracking outcomes at your existing hospitals.

The Regional Care Hospital Partners Quality Program is committed to assisting our affiliated health systems with creating and maintaining a culture of quality and patient safety that sets the standard for non-urban regional health care in the United States. Our corporate employees, consultants and strategic partners provide abundant resources for the clinician and bedside care givers.

For example, we support the hospital physicians with evidence based medicine tools Zynx and Proation which provide nationally recognized clinical decision support for practitioners. These tools assist them in establishing local protocols reducing risk and variability in care. Scientifically based privileging (Medkinetics) tools are also part of our suite of resources along with field experts (Greeley) to assist local physician’s decision making in the credentialing of new services and or skills.

Each of our hospitals develop affiliations with a leading academic medical school or university with regional proximity. These relationships provide resources to enable our facilities to provide a highly trained workforce necessary to deliver the highest standard of care and to align services to give the greatest scope and continuity of care for patients in the community. Each hospital retains its own unique medical footprint within the greater health care community.

Regional Care further supports the clinicians with measurement tools such as Crimson Clinical Advantage and physician experts through our partnership with one of the nation’s leading health care research and advisory organization--- The Advisory Board Company. Through the Advisory Board and other strategic partners we provide physician speakers and consultants to service the local medical community by providing education and training on a wide variety of topics. This strategic partner provides on-site and telephonic support and provides access to thousands of colleagues with networking opportunities. We support the use of specialty experts to work with local physician leaders so that each local community can develop the best practice and retain their unique character.

Structure

Our Quality Program is designed to empower local leadership at the hospital level, which includes both a Chief Medical Officer and Chief Quality Officer. In light of the rapidly changing health care environment, we recognize the effort to maintain a culture of quality and patient safety. Keeping up with scientific advances is a team effort and no one person can do it alone. The RegionalCare quality program will provide our local quality leaders with tools for decision support and tracking, the experts and staff, and the autonomy to make decisions inherently right for the patients in each community.
Simply stated, quality care must happen at the bedside with caregivers and patients— it cannot be a formula corporate program created in a corporate office.

All of our hospitals receive support through our Executive Quality Committee, which is comprised of RegionalCare executive management and local hospital executive leadership. Through communication of physician needs each leadership team works locally with the physicians to provide the needed resources. Each facility has a physician steering committee that is established to vet and make decisions regarding process changes, products or human resources. Together our collective efforts have reinvented the way local medical care should be...patient centric--driven by the practitioners at the bedside supported by the leadership resources available to them.

Education

Regional Care's Quality Department does not stop there. We provide Board, Medical Executive Committee and Management orientation and training on the newest changes in regulatory quality standards and best practices. Our quality department offers education in risk reduction strategies, legal consultations and process change management.

We also provide a strong ongoing training in customer satisfaction and provide employee rewards and recognition program through RegionalCare’s signature patient satisfaction program People First.

Innovation

The Quality Program at RegionalCare takes innovation a step further with quality and patient safety in mind. Our clinician formed task force is charged with vetting all new bedside care equipment prior to corporate negotiations for pricing. We believe the people working with the equipment are the best ones to judge what works and what doesn't. Once they choose the best option for rendering care, we go to work negotiating contracts for best price. We are conscious of the care needs, pricing and get the right equipment for your patients.

Our philosophy is founded on locally directed care, not prescriptive. The medical staff retains local autonomy over care decisions. What RegionalCare brings to the patient care equation is the provision of nationally recognized decision support tools, field experts and capital to make for safer, better patient care.

RegionalCare’s commitment to providing quality services is shown by the continual improvement in Core Quality Measure scores, both in the aggregate and at each of our partner hospitals. As stated above, we have programs and processes in place to insure these trends continue until all our targets are met.
Our track record is proven by the dramatic change in the scores at Shoals Hospital, in Muscle Shoals, Alabama. Comparing the 1st Quarter of 2010, before Shoals Hospital partnered with RegionalCare, to the 3rd Quarter of 2011, the chart below shows that Shoals Hospital has continually improved in meeting or exceeding the target for each of the Core Quality Measures categories.

**Shoals Hospital**

![Graph showing improvement in core quality measures for Shoals Hospital from Q1 2010 to Q3 2011.](image)

Additionally, since 2010, RegionalCare’s aggregate Core Measure scores have increased by 5% overall, improving in every category.

![Graph showing improvement in core quality measures for RegionalCare from 1st Qtr 2010 to 3rd Qtr 2011.](image)

RegionalCare’s Core Measures Quality Scores for the 3rd quarter of 2011, for each hospital and in the aggregate can be found behind Tab 5.
h) Service Complement / Growth Strategies

i) The Strategic Partner will commit to maintain all existing services for a reasonable period of time.

RegionalCare commits to continue MRHS as a full-service community care hospital that serves all of the expanded market area. All programs and services that are currently offered now will be continued. Any material change in a service must be approved by the hospital’s board. Our entire proposal is based on the enrichment and growth of your existing services and programs as well as adding new ones in alignment with community needs and in collaboration with the board and medical staff. The goal is to provide all the care appropriate to the regional service area/population base so that referrals to other larger hospitals are only for highly specialized care.

RegionalCare will be making a significant capital investment should we be selected to be your partner. The only way the value of that investment is increased is if each hospital has the resources to continue to grow through new services, technology and physician recruitment.

i) Evidence demonstrating the Strategic Partner’s prior experience in meeting or exceeding its commitments, terms and obligations to the sellers or lessors in prior acquisition transactions.

Ottumwa Regional Health Center, Ottumwa, Iowa.

Ottumwa Regional Health Center is a full service acute care hospital plus a trauma and referral center licensed for 217 beds, providing medical care to the residents of southeastern Iowa and northern Missouri. The hospital's emergency service operates as a Level IV Trauma Center. Other services utilizing the latest in technology include a regional cancer center, cardio-pulmonary rehab center, sleep disorder center, wound care and hyperbaric treatment, cardiac catherization services, and a women and family center. There are over 70 highly skilled physicians, representing 30 specialty areas of medicine.

RegionalCare Impact

RegionalCare's impact in Ottumwa and southeastern Iowa includes an initial investment in the hospital of $127 Million used to upgrade the facility, pay off hospital debt and together with hospital cash and savings provide the funding for a multi-million dollar foundation. Today, this foundation holds the proceeds of the RegionalCare partnership transaction of $60 Million and is one of the largest foundations in Iowa.

Eight new physicians were recruited to ORHC in the past 18 months with an additional 12-15 more under active recruitment for significant new health care services, additional jobs and revenue to Ottumwa.

Since joining RegionalCare, there have also been a number of key updates to Ottumwa Regional Health Center including:

- The addition of a cardiac cath lab and cardiac services
- An expanded and renovated Intensive Care Unit
• Development and construction of two new medical office buildings for recruited physicians
• Construction is underway (slated to be completed in April 2012) on a major expansion and renovation of the hospital emergency department

Additional details of RegionalCare’s investments in Ottumwa:

• **$3 Million** for a free-standing cardiac cath lab, completed in early 2011.

• **$2 Million** to remodel of the emergency department.

• **$3 Million** for two new adjacent medical office buildings which are currently under construction on the hospital’s campus.

• **$3.5 Million** to remodel a nursing unit and the ICU.

• **$12.5 Million** for infrastructure and maintenance projects.

• **$228,000** for two new state-of-the-art ambulances.

At the time RegionalCare was selected as ORHC’s partner, patient outmigration for the Ottumwa area was a major problem due to physician shortages. Since May of 2010, we have recruited 13 physicians and are working to achieve at least 15 more recruits over the next five years. This success in adding physicians parallels the addition of the cath lab, expansion of orthopedic services, the cancer center and general surgery.

**Clinton Memorial Hospital, Wilmington, Ohio.**

Clinton Memorial Hospital (CMH) is a 165-bed acute care hospital serving the residents of Clinton County and the surrounding counties in southwest Ohio. The health system offers a full range of medical services, including emergency, cardiology, oncology, surgical services and women's and children's services. CMH employs more than 700 people and has a medical staff of more than 200 in approximately 35 different specialties. The Foster J. Boyd MD Regional Cancer Center, opened in 2007, brings together oncology and radiation services, patient programs and staff expertise.

The Family Medicine Residency Program of CMH Regional Health System is affiliated with the University of Cincinnati and provides on-site training to 12 physicians each year.

**RegionalCare Impact**

RegionalCare’s partnership with Clinton Memorial Hospital includes a commitment to invest 4% of net patient revenues annually in hospital infrastructure upgrades and facility maintenance. Through this and additional capital RegionalCare will build a new medical office building and spend $15 Million over the next 10 years to recruit new doctors in several specialties.

The hospital has also recently added new specialty services including breast reconstruction and plastic surgery and expanded cancer care including gynecologic oncology. They are also adding
digital mammography services to their American College of Radiology Breast Imaging Center of Excellence.

RegionalCare has also served the community by contributing $500,000 to the Clinton County YMCA for community health and wellness programs. RegionalCare has also made a $500,000 contribution to community economic development to promote the growth of industry and job creation in Clinton County.

**Eliza Coffee Memorial Hospital, Florence, Alabama.**

Eliza Coffee Memorial Hospital (ECM) has grown into the largest, most comprehensive medical facility in northwest Alabama, south central Tennessee and northeast Mississippi. The 358 bed facility is the home of northwest Alabama’s only full service cardiac program. ECM’s 24-hour emergency department serves as the primary referral center for Northwest Alabama. Rounding out ECM’s services is a complete line of medical, oncology, pulmonary, ambulatory, endoscopy, laboratory, imaging services and women and children services. There are over 200 physicians on staff representing over 42 specialty areas.

The hospital also has an off-site outpatient center, ECM East, which provides full service radiology, wound healing center, and an accredited Sleep Center.

**RegionalCare Impact**

*New regional medical center design for the market area surrounding Florence and Muscle Shoals, Alabama, a $250 Million commitment from RegionalCare. Construction is expected to begin immediately following state CON approval.*
RegionalCare recently submitted a Certificate of Need application to build a new $250 million regional 300 bed hospital. Construction will begin when the CON is approved. A study by the University of North Alabama said that the five-year economic impact of the new facility, during the construction and initial operation, would be more than $1 billion.

**$250 Million** to construct a new medical center is one of the major reasons that the City of Florence, Alabama and the commissioners of Lauderdale County selected RegionalCare as their hospital partner. The planning and CON application are underway for a new 320-bed regional center for Northern Alabama that will combine the services and operations of two neighboring hospitals. The project will be submitted to the Alabama CON review and approval process in the near future. The new hospital and campus will take approximately three years to complete. An advisory committee made up of local businesses and service leaders, is meeting with the hospital’s design team that includes physicians, administration, board, RegionalCare advisors and architects.

An additional **$33 Million** has been put to work for the two Alabama hospital facilities. This is in addition and prior to, the construction of the new medical center to cover maintenance and upgrades that could not wait --- crucial to the safety of patients in the facilities. Two of these projects are significant to the hospitals today because physician recruitment began immediately.

The two Alabama market areas needed a minimum of 25 new physicians immediately, as many as 50 over the next five years (starting when the two hospitals became part of the RegionalCare system in June 2010). Since then, with the support and direction of the RegionalCare physician development team, the two communities have recruited 22 physicians in just one year including three interventional cardiologists and a cardiovascular surgeon.

At an average cost per physician of $500,000 to recruit (including relocation and income guarantees) the total recruitment investment over time will be approximately **$25 Million**.

**Shoals Hospital, Muscle Shoals, Alabama.**

Shoals Hospital, a sister hospital with ECM, provides a 24-hour Emergency Department, medical oncology, medical/surgical inpatient units as well as intensive care and a short stay surgery unit. Shoals Hospital also houses the J. W. Sommer Rehab Unit, the regions only inpatient acute rehab facility and they also have the areas only gero-psych unit. With more than 100 physicians on staff, representing over 24 specialty areas of medicine, Shoals serves a population of approximately 150,000.

**RegionalCare Impact**

Shoals Hospital was recently recognized by J.D. Power as a Distinguished Hospital for Inpatient Service Excellence. This honor is given to only 25 hospitals nationally. The facility was also just named, one of only two in the state of Alabama, as a Certified Quality Breast Center by the National Quality Measures for Breast Centers. The hospital also recently opened a new accredited sleep center.
Paris Regional Medical Center, Paris, Texas.

Licensed for more than 360 beds, Paris Regional Medical Center provides medical services and specialties for patients of Lamar County and the Northeast Texas/Southeast Oklahoma area. Services include an inpatient rehabilitation unit, wound care center with 3 hyperbaric chambers, a modern cardiac intensive care unit.

Paris Regional Medical Center currently operates with two hospital campuses, the North and South Campus. The Heart Hospital at Paris Regional - which is located on the North Campus, includes a comprehensive cardiac care center. The North Campus is also home to large Women’s and Children’s unit.

Paris Regional Medical Center is currently undergoing a multi-million dollar expansion to better serve the community. With the expansion all acute care services will be housed at one location, providing easier access and quality service.

With over 100 physicians, representing 35 specialties of medicine Paris Regional Medical Center is the region’s center of health care.

RegionalCare Impact

Paris Regional Medical Center joined RegionalCare Hospital Partners in November 2011. Since the merger Regional Care has expanded the scope of the previously announced hospital expansion and committed an additional $6 million to the project which will be completed in October 2012.

In early 2012, the hospital will also open a new clinic in Valliant, OK designed to provide primary services to southeast Oklahoma.

Sharon Hospital, Sharon, Connecticut.

Sharon Hospital is an acute care community hospital dedicated to serving the health care needs of a market that includes portions of Connecticut, New York, and Massachusetts. The hospital is licensed for 78 beds and is accredited by the Joint Commission, along with several other endorsements including the American College of Surgeons Commission on Cancer. With a medical staff of over 65 physicians representing 40 different specialties, Sharon Hospital offers modern facilities, state-of-the-art treatment, and a full range of medical services including a Maternity Unit, Cancer Services, Heart Center, Cardiology/Heart services, and is a named by the state of Connecticut as a Primary Designated Stroke Center.

RegionalCare Impact

Sharon Hospital joined RegionalCare Hospital Partners in November 2011 and the work to strategically grow the hospital is just getting off the ground.

Southwest Regional Medical Center, Waynesburg, Pennsylvania.

Southwest Regional Medical Center is Greene County’s only acute-care hospital. Southwest Regional offers a beautiful, 15-bed Surgical Services Center providing patients with state-of-
the-art, luxurious amenities and is devoted to the treatment and recovery of surgical patients in an atmosphere that is conducive to a quick and comfortable recovery.

With 74 doctors representing over 30 specialties, the hospital continues to provide the community with laparoscopic, orthopedic and vascular services, and urologic surgical procedures. It also includes an intensive care unit, a 26-bed behavioral health program, ER Express Care program, sleep center and home health service.

**RegionalCare Impact**

Southwest Regional Medical Center recently joined RegionalCare Hospital Partners in November 2011.

**9. Please provide a list of items which, based on prior experience with hospitals similar to MRHS, you expect to be able to reduce operating expenses, increase revenues, or otherwise improve profitability of MRHS.**

To address expense management it is important to set the context with several points regarding the commitments RegionalCare is making to ACH.

1) As said over and over, our partnerships are growth focused, not downsizing.

2) RegionalCare will commit to **hire all employees** who are in good standing with the organization.

3) RegionalCare’s partner hospitals all **always provide care to everyone**, regardless of ability to pay.

4) RegionalCare’s partner hospitals seek and obtain **accreditation from the Joint Commission**. We fully subscribe to the guidelines and principles of the Joint Commission that form the foundation for our support to each hospital’s quality assurance and improvement programs.

5) **No departments of the hospital will be merged or centralized** with other RegionalCare hospitals. **Our commitment to each community is to maintain a full service hospital.** As a growing system we remain committed to decentralized access and management.

To affect cost management, RegionalCare will support hospital administration with systems and expertise to lower supply costs, save on new equipment purchases and reduce maintenance expenses by taking advantage of our high volume group purchasing agreements as well as other specific contracted services. State of the art IT and quality programs will improve costs and support expense reductions in such areas as case management, charge capture, record keeping and billing procedures.

RegionalCare has a group purchasing partnership with HealthTrust Purchasing Group (HPG). This partnership guarantees RegionalCare’s family of hospitals some of the **best pricing in the**
industry.  Well known by vendors and hospitals throughout the country, HPG’s programs provide significant cost savings.  Our group program includes equipment, supplies, food, pharmacy and laboratory.  HPG has implemented a new energy management program that works with local utilities on energy saving measures for health care facilities.  HPG has a wide variety of benefits including their own advisory boards that perform product testing and release recommendations to their clients.

The hospital CEO and CFO continue to be responsible for the day-to-day operations with RegionalCare’s support as outlined throughout this proposal.  All capital and operating budgets start with the hospital’s department managers with input and review by administration and significant input from the hospital board and the medical staff.  After all reviews, final approval of budgets comes from RegionalCare’s board.

The owners of RegionalCare are not paid dividends.  The profits are reinvested back into the continuous expansion and growth of our hospitals.

10.  A list of any necessary regulatory, corporate or other approvals required to consummate a Transaction, along with a statement indicating your ability to secure such approvals in a timely manner.

RegionalCare is experienced and fully prepared with the operational and legal expertise in the activities and requirements for closing a hospital transaction, either lease or joint venture.  This includes the application and process for the state’s regulatory approval on this transaction.

Our due diligence process will take place simultaneously with the drafting and negotiating of the final agreements.  If we are selected, we can begin the closing process immediately.  All activities that are under our management will be completed within 90 days of the signing of a Letter of Intent.  In addition, we have the operational and legal expertise to work aggressively to obtain regulatory approvals including any Florida requests or regulations including CON.  We are also prepared for federal approvals and requirements including a Hart-Scott-Rodino (HSR) filing if required.

Although a filing with federal agencies will be required under the Hart-Scott-Rodino law, since RegionalCare owns no other hospitals in the area, we do not anticipate that RegionalCare’s Lease of MRHS will raise any antitrust concerns.  Accordingly, we believe that the applicable “waiting period” required by law will expire without extension and there will be no delay to the closing of the transaction as a result of this filing.

RegionalCare is familiar with and fully prepared to manage the Florida Attorney General’s conversion process for hospital conversions.

a)  Describe any federal or state limitations that might prohibit the Strategic Partner from entering into an arrangement with MCHD.

RegionalCare does not anticipate any state or federal limitations in forming a partnership with MCHD.
11. Your acknowledgement that neither MCHD, MRMC, MRHS or Ponder will be liable to you for any damages or expenses of any kind or type, unless you are the successful Strategic Partner and then, only to the extent set forth in the definitive agreement between MCHD and the Strategic Partner.

RegionalCare understands that until such time as a definitive agreement is reached, the parties’ relationship will be governed by the confidentiality agreement between the parties. Accordingly, each party, including RegionalCare is responsible for its own fees and expenses.