LHP Hospital Group, Inc.

Indication of Interest for
Salinas Valley Memorial Healthcare System

March 7, 2012
March 7, 2012

Cain Brothers & Company, LLC
601 California Street, Suite 1505
San Francisco, California  94108
Attention: Jim Moloney & Elizabeth Kim

Re:  LHP Indication of Interest Concerning Salinas Valley Memorial Healthcare System

Dear Mr. Moloney & Ms. Kim:

LHP Hospital Group, Inc. (“LHP”) has reviewed the Offering Memorandum concerning Salinas Valley Memorial Healthcare System (“SVMHS”) dated January 2012 and is pleased to submit this Indication of Interest as directed therein. We believe that LHP’s strategic joint venture (“JV”) partnership model would be an ideal fit for SVMHS. The basis for this strategy is for LHP to forge a relationship with a strong, existing regional network provider (“Regional Partner”) and acquire the assets of SVMHS through a newly formed JV between LHP and said Regional Partner.

As previously discussed with Cain Brothers, we have begun discussions with one Regional Partner and have gained significant interest in pursuing this JV strategy. We anticipate the need for several additional weeks of diligence and negotiations to solidify the terms and structure of this JV arrangement. At that time, the JV would be able to submit a revised, joint indication of interest regarding SVMHS.

Being operated by a JV formed between LHP and a Regional Partner brings several unique benefits to a community and an organization such as SVMHS. Because of the involvement of the Regional Partner, this model would facilitate the inclusion of SVMHS in a strong regional network for marketing and managed care contracting purposes. Because of the involvement of LHP, this model assures that SVMHS would receive top priority in relation to capital spending, management focus, physician recruitment, and new program development. LHP, as majority owner and manager, provides assurance that services will continue to be provided to the community and not simply referred to other network facilities of the Regional Partner.

Due Diligence

LHP will need to conduct additional due diligence and gather more information on SVMHS to complete this transaction. 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 between the JV and SVMHS. 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.
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>

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 the JV partners and SVMHS.

We are excited by the possibility of continuing to improve and expand upon the strong historical commitments that SVMHS 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, 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

LHP Executive Management

Dan Moen, President & CEO
Mr. Moen started his healthcare career with Humana in 1977 and worked there in positions of increasing responsibility for 14 years. At Humana, he managed hospitals in Virginia, West Virginia, Florida, and Mexico and was responsible for Humana’s Florida managed care division. Mr. Moen worked for Columbia Hospital Corporation (now HCA) from 1991 to 1998, first as president of the South Florida Division. In 1994, he was named president of the Florida Group, and in 1996, he assumed the role of president of the Columbia Sponsored Network Group and was responsible for the company’s managed care subsidiaries. From 1998 to 2000, Mr. Moen worked in the healthcare consulting field, and in 2001, he returned to managed care as CEO of HIP Health Plan of Florida before becoming Triad Hospitals, Inc.’s executive vice president of development. He holds B.S. and Master of Public Health degrees from Oklahoma University and an M.B.A. from Southern Methodist University. Mr. Moen has more than 30 years of healthcare experience.

Jim Shannon, EVP Development
Mr. Shannon began his healthcare career with Humana in 1986 before taking on various financial management positions in hospitals in Virginia, Kentucky and Texas. Mr. Shannon also served as division chief financial officer and a group controller for Columbia/HCA until he was named division CFO for Triad Hospitals, Inc., with responsibility for facilities in Arkansas, California, Oregon, Texas and West Virginia. He later became Triad’s vice president of acquisition and development and was responsible for exploring and assessing growth opportunities for Triad, including the acquisition of existing facilities, joint ventures and de novo projects. Mr. Shannon holds a Bachelor of Science in finance from Liberty University in Lynchburg, Virginia, and has more than 23 years of healthcare experience.

Rebecca Hurley, EVP General Counsel
Before joining LHP as general counsel and secretary, Ms. Hurley was an attorney in private practice in Dallas, Texas, for almost 20 years. Prior to entering private practice, she served as law clerk to the late Honorable Warren E. Burger, Chief Justice of the United States (1983–1984), and to the late Honorable Irving L. Goldberg, United States Court of Appeals for the Fifth Circuit (1982–1983). In 2002, Ms. Hurley joined Triad Hospitals, Inc., and during her tenure at Triad, served in the capacities of associate general counsel, chief compliance officer and senior vice president, general counsel and secretary. She is a 1982 summa cum laude graduate of Southern Methodist University School of Law and a 1976 summa cum laude graduate of the University of Texas at Austin. Ms. Hurley has more than 25 years of experience in tax; mergers and acquisitions; business transactions; and corporate, partnership and healthcare law.

Tom Frazier, EVP Administration
Before joining LHP, Mr. Frazier held hospital chief financial officer positions at National Medical Enterprises (now Tenet) and HCA, where he held a variety of administrative roles in hospitals and practice management organizations. In 1999, Mr. Frazier joined Triad Hospitals, Inc., serving first as division CFO with responsibility for 13 hospitals. As senior vice president of administration, Mr. Frazier was responsible for several Triad corporate functions, including compliance, design and construction, real estate and medical office building development, information and technology services, human resources, and marketing and public affairs. He also oversaw Quorum Health Resources, the company’s hospital management subsidiary and Triad’s international operation in Ireland. He holds a Bachelor of Science in business administration from the University of North Carolina and received his master’s in business administration from the Babcock Graduate
School of Management, Wake Forest University. Mr. Frazier has more than 20 years of healthcare experience.

Bill Hibbett, EVP CFO
Now serving as executive vice president and CFO of LHP Hospital Group, Mr. Hibbitt is a retired partner of KPMG LLP and a licensed CPA in New York and Texas. He sat on the board of directors for Triad Hospitals where he served as an independent director and audit committee member for a Fortune 500 company. As a member of a special committee, Mr. Hibbitt was charged with examining strategic corporate alternatives which resulted in the company successfully being sold to a strategic buyer. Previously, he was vice chairman of tax operations for a $1.3 billion tax practice and was responsible for overall business operations. Mr. Hibbitt managed and motivated the leadership team and worked with them to develop and execute practice strategy. He also managed partner-level personnel matters and was responsible for forecasting, budgeting and driving financial results for the practice. Mr. Hibbitt has a bachelor’s in accounting, with honors, from the University of Louisville; a J.D., with honors, from the University of Louisville School of Law; and an L.L.M. in taxation from New York University School of Law.

Paul Kappelman, FACHE, Division President
Before joining LHP Hospital Group, Mr. Kappelman was chief executive officer at Northwest Medical Center in Tucson, Arizona. There, he was responsible for operations and strategic management of the 300-bed facility where he helped reduce turnover and improve employee, physician and patient satisfaction. Previously, Mr. Kappelman also served as chief executive officer of the new 96-bed Northwest Medical Center Oro Valley, for which he oversaw planning and development. In 2007, Mr. Kappelman was awarded the Outstanding Achievement Award for Leadership at Oro Valley. Mr. Kappelman began his healthcare career in New Orleans as an undergraduate at Tulane, where he also earned a Masters in Healthcare Administration and completed a fellowship with Tulane University Hospital and Clinic. Mr. Kappelman is a Fellow with the American College of Healthcare Executives and has over 15 years of healthcare experience.

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).

![Graph showing joint venture involvement]

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 five other hospital projects currently under development. The first is a project under contract in northern New Jersey that is waiting 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.

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 1 - 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 Hawthome, THR CEO</td>
<td>817-462-7915</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 II - Previous Triad Hospitals 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>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.
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.

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.
Physician Considerations

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.

Operational Considerations

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
- Accreditation & Licensure
- Quality & Outcomes
- Resource Management
- Finance & Accounting
  - Budgeting/Financial Planning
  - Treasury
  - Tax
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

We are 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 our JV is selected by SVMHS.

<table>
<thead>
<tr>
<th>Estimated Time</th>
<th>Action</th>
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<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 all 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>
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 provider (the “Regional Partner”) created to acquire, own and operate the existing SVMHS Facilities.

As previously stated, this JV model has the benefit of allowing SVMHS to join a preferred network resulting in the inclusion of SVMHS in a strong regional network for marketing and managed care contracting purposes. Because of the involvement of LHP, this model assures that SVMHS would receive top priority in relation to capital spending, management focus, new program development, and physician recruitment. LHP, as majority owner and manager, provides assurance that services will continue to be provided to the community and not simply referred to other network facilities of the Regional Partner.

In addition, this model would allow SVMHS the opportunity to convert its equity position in the facilities to cash rather than simply assigning that equity to another not-for-profit provider. 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 Partner would be acquiring the assets for cash. Therefore, the equity in SVMHS would go into a local foundation controlled by SVMHS to be used for other good works in the community.

**SVMHS Assets Involved in the Proposed JV**

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

- Salinas Valley Memorial Hospital
- Pulmonary Medicine Center of the Central Coast (PMCCC)
- Salinas Valley Memorial Assisted Living, LLC
- Joint venture interests in the following entities:
  - Doctors on Duty (85.0%)
  - Level 3 NICU (50.0%)
  - Salinas Surgery Center (50.0%)
  - Salinas Valley Imaging (50.0%)
  - Vantage Surgery Center (20.0%)
  - Central Coast VNA & Hospice, Inc. (50.0%)
  - Subject to additional due diligence, Five Mandeville Court, LLC, (25%)
- Net Working Capital, 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.
• Any other assets not listed below as “Assets Retained by SVMHS”, including but not limited to, associated hospital ancillary businesses, real estate, brand names, trademarks, copyrights and other intellectual property

**Excluded Assets from the Proposed JV**

SVMHS would retain the following assets:

• Cash, cash equivalents and investments
• Certain non-assumable current assets such as prepaid insurance, etc.
• Assets in the SVMHS Hospital Development Foundation, Inc.
• Pension Plan and Postretirement Health assets

We would like to reserve the right to conduct additional due diligence on the proposed excluded assets as noted in the Offering Memorandum.

• Annual property tax revenues
• Ownership interest in Five Mandeville Court, LLC
• Off-campus real estate

Currently it is unclear how imperative these assets are to the operations of the system or the financial impact of excluding these assets.

**Liabilities Retained by SVMHS**

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, post-retirement health 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 the JV, there would be a corresponding reduction in the final purchase price.

**Transaction Value**

Due to our intent to submit a revised, joint indication of interest with our JV partner in the near future, we would like to defer our submission of the transaction value.

**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.
• Regional Partner capitalizes the JV with a cash contribution.
• SVMHS keeps its existing cash, investments and debt.
• The JV acquires the Facilities from SVMHS for cash.
• 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.

**Ownership**

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

![Diagram of ownership structure]
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.

**JV Governance Chart**

- **Joint Venture Board of Directors**
  - LHP 50%
  - RNP 50%

- **Hospital Board of Trustees**
  - 6 local physicians
  - 6 local community leaders

- **Regional Network Provider (Regional Partner)**
  - 5 Directors appointed by Regional Partner
  - 5 Directors appointed by LHP (including 2 local physicians)
  - Block voting
  - Strategic decisions
  - Meets quarterly
  - Partner has reserve powers
  - LHP has no reserve powers

- **Board of Directors’ Powers**
  - 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

* 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 Regional Partner
- 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 Regional Partner 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 Regional Partner 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

**Management**

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.
**Capital Expenditure Commitments**

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 Partner will have an equal say.

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
- 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

**Other Issues**

**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 SVMHS personnel will become employees of LHP. They will be leased back to the JV for a fee equal to LHP’s cost.

**Insurance Coverage**

SVMHS 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.

**Physician Recruitment & Retention**

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 to SVMHS**

- SVMHS 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

- SVMHS maximizes its cash proceeds from the transaction. SVMHS 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 Partner) 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.
  • Benefit Administration
• Marketing/Public Affairs
  • Government Relations
  • Marketing
  • Public Relations
  • Customer Satisfaction
• Materials Management
  • GPO Contracting
  • Equipment Purchasing

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