

MEMORANDUM

**CONTRIBUTION AND SALE BETWEEN
METROPOLITAN HEALTH CORPORATION
AND
COMMUNITY HEALTH SYSTEMS, INC.**

Submitted by Metropolitan Health Corporation

REVISED: April 6, 2015

I. Introduction

On January 22, 2015, Metropolitan Health Corporation (“Metro Health”), the parent corporation of Metropolitan Hospital (“Metropolitan Hospital”), executed the Contribution and Sale Agreement with Community Health Systems, Inc. (“CHS”) and its subsidiary, Wyoming Michigan Holdings, LLC (“Wyoming Michigan Holdings”), for the contribution and sale of substantially all of Metropolitan Hospital’s assets to a newly formed limited liability company, Metro Health Holdings, LLC (“Company”). Wyoming Michigan Holdings, a Delaware limited liability company, will then purchase an 80% ownership interest in the Company from Metro Health, while Metro Health will retain a 20% ownership interest in the Company. The parties have agreed that the assets have a value of \$260,000,000, plus the net working capital of Metropolitan Hospital and its affiliates as of the effective time and minus the amount of any long-term debt or capitalized leases in respect of the facilities that are assumed by the Company. The purchase price will be adjusted after the closing to reflect the final net working capital.

The proposed transaction is subject to review and approval of the State of Michigan Office of Attorney General. For the reasons described more fully below, Metro Health respectfully requests that the Attorney General approve the proposed transaction with CHS.

II. The Parties

Metropolitan Hospital, a Michigan nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 and located in Wyoming, Michigan, was founded in 1942 by a group of West Michigan physicians and was originally operated under the name of Grand Rapids Osteopathic Hospital. In 1987, in response to the demands of a changing healthcare environment, Metropolitan Hospital organized into a “holding company” model and formed Metro Health, also a Michigan nonprofit corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986. Metro Health’s current service area consists of ten counties and over 1.2 million people. Metro Health operates Metropolitan Hospital, a 208-bed general acute-care osteopathic teaching hospital located in Wyoming, Michigan, that serves patients in Kent County and the surrounding Grand Rapids area. Metropolitan Hospital offers an array of services, including nationally recognized peripheral vascular services, award-winning inpatient and outpatient services, and an emergency department with shorter wait times than other emergency departments in the area.

The Metropolitan Hospital Foundation d/b/a Metro Health Hospital Foundation is a Michigan nonprofit corporation, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1986, that supports Metropolitan Hospital in its charitable work. Metro Health also operates 23 neighborhood physician offices located throughout West Michigan. In addition, Metro Health has a partnership with the University of Michigan’s department of radiation oncology (“West Michigan Radiation Oncology” or “WMRO”) and several joint ventures with other healthcare providers in West Michigan.

Metro Health ASC, LLC d/b/a Metro Health OAM MidTowne Surgery Center, LLC is a joint venture with Orthopedic Associates of Michigan (“OAM”) in which Metro Health owns a 51% interest. In February 2013, OAM and Metro Health expanded their partnership to jointly

develop an orthopedic center of excellence at Metropolitan Hospital. Metro Health also jointly owns Kent/Metropolitan PHO d/b/a Metro Health PHO, a Michigan nonprofit corporation, with Kent Healthcare Physicians Organization. Kent/Metropolitan PHO negotiates contractual arrangements with managed-care plans and other payors on behalf of physicians and is currently comprised of 252 physicians, 86 of whom are employed by Metro Health and 166 of whom are independent.

Metropolitan Enterprises d/b/a Metro Health Medical Group (“MHMG”), a Michigan for-profit corporation, is a physician practice organization that has expanded since its beginning in 1995 to a multispecialty medical group. MHMG has 109 providers who deliver primary and multispecialty care.

In September 2010, Metro Health announced the formation of a new alliance initiative. Together with Trinity Health and the University of Michigan Health System, Metro Health became an owner (currently with a 28.5% ownership interest) in the newly formed Pennant Health Alliance, LLC. Pennant Health Alliance, LLC was formed to combat the pressures of a challenging economy and healthcare reform and to attempt to ensure the independence of community hospitals. Hospitals, health systems, and independent physician practices are all eligible for membership. The organization provides options for access to information technology, revenue cycle services, and group purchasing for both independent physicians and hospitals. Since its launch, Carson City Hospital and Mary Free Bed Rehabilitation Hospital have also joined Pennant Health Alliance, LLC.

Metro Health and Metropolitan Hospital are governed by separate Boards of Directors (collectively, the “Board of Directors”). Doyle A. Hayes is the chairman of the Metro Health Board of Directors and Jacqueline Scott is the chair of the Metropolitan Hospital Board of Directors. Michael D. Faas serves as the President and Chief Executive Officer of Metro Health. Kris Kurtz serves as the Interim Chief Financial Officer of Metro Health. Dr. Jeff Postlewaite is the Interim Chief Medical Officer of Metro Health and Mary Marks is the Interim Chief Nursing Officer. Veronica Marsich serves as General Counsel.

CHS, a for-profit organization headquartered in Franklin, Tennessee, is one of the nation’s leading operators of general acute care hospitals. With 206 hospitals in its organization spanning 29 states, CHS is the largest publicly traded hospital company in the nation, as measured by number of hospital facilities. CHS’s scale is partially due to the acquisition of Triad Hospitals, Inc. in 2007 and Health Management Associates in 2014. Dozens of individual community hospital and small healthcare systems have successfully integrated into CHS’s organization in the past decade, while still maintaining their community ties.

III. History of Metropolitan Hospital

Metropolitan Hospital was founded in 1942 by a group of twenty-three West Michigan physicians who formed the Grand Rapids Osteopathic Hospital. In 1950, a second osteopathic hospital had opened in Grand Rapids and the two hospitals decided to consolidate and construct one facility. Over the next thirty years, the hospital continued to expand and increase its service

lines. In 1985, Grand Rapids Osteopathic Hospital changed its name to Metropolitan Hospital and in 2005 began operating as Metropolitan Hospital.

On September 30, 2007, Metropolitan Hospital opened a state-of-the-art replacement hospital and changed its name to Metro Health Hospital. This 600,000 square-foot, \$150 million replacement hospital is located in the Metro Health Village, and it obtained Leadership in Energy and Environmental Design (“LEED”) certification. Metro Health Village is located in Wyoming, Michigan, at the intersection of M-6 Highway and Byron Center Avenue, which provides easy access to area residents and visitors. This new six-story, all-private-bed facility uses the latest diagnostic and treatment technology, electronic communication and a variety of other innovative technologies and equipment that facilitate the provision of quality medical care to its patients.

There are three other adult acute-care hospitals and one pediatric acute-care hospital in the Grand Rapids metropolitan area. As part of its business strategy, Metropolitan Hospital maintains cooperative arrangements with both Spectrum Health and St. Mary’s Health Care, a member of Trinity Health System. However, Metropolitan Hospital is the only osteopathic institution within a forty-mile radius of Grand Rapids.

IV. The Strategic Review Process and the Selection of CHS

The proposed transaction is the result of a strategic initiative by the Metro Health Board of Directors that began several years ago. This initiative was designed to ensure that Metro Health will continue to provide quality care to the community in a changing healthcare environment.

A. Finances

Through solid revenue growth and careful expense management, Metro Health has consistently achieved EBITDA margins between 11.0% and 12.9% in each of the last four fiscal years. In 2011, Metro Health applied for its first meaningful use payment and received approximately \$3.9 million in fiscal year 2012, \$1.5 million in fiscal year 2013, and \$2.0 million in fiscal year 2014. Additionally, during fiscal year 2012, Metro Health paid off a number of operating leases resulting in \$501,052 of operating expense savings in fiscal year 2012 and an additional \$1,585,255 in fiscal year 2013.

While Metro Health continues to be fiscally stable, it used a significant amount of bond financing to build the new facilities at Metro Health Village. Because of this expenditure, its lender, Bank of America, has limited its use of capital funds. The need for access to capital was a key component of the Metro Health Board of Directors’ interest in finding a strategic partner. Metro Health is dedicated to providing quality care to its patients and recognizes the benefits of working with a strategic partner that can provide additional stability and resources to enable Metro Health to continue its mission in West Michigan.

B. Analysis of Potential Strategic Partnership and the Selection of Ponder

There were four major issues confronting Metro Health as it evaluated the benefits of selecting an operating partner: (i) capital access, (ii) scale and importance in the community, (iii) the aggressiveness of competitors, and (iv) the overall impact of healthcare reform. Beginning in September 2011, the Board of Directors began the process of evaluating the status of the organization, its financial condition, its objectives for the future, and its ability to meet these objectives in a changing healthcare environment. The Board of Directors discussed these concerns and objectives with Keith Moore, Chief Executive Officer of McManis Consulting, who has been a trusted advisor to Metro Health for several years. Mr. Moore explained the forces causing new strategic linkages and the options available to Metro Health.

In order to more specifically address a potential strategic partnership, the Metro Health Board of Directors appointed a Special Committee of the Board of Directors in September 2012, consisting of six Board members: Bill Barkeley, Doyle A. Hayes, Michael H. Price, Jacqueline Scott, Jane Ross, and Dr. Michael Zakem.

The Board of Directors charged the Special Committee with choosing an advisor for the partnership process and providing leadership, guidance, and recommendations regarding a partnership. Metro Health then requested proposals from a number of investment banking firms with healthcare expertise to represent them in the search for a potential strategic partner. The Special Committee interviewed three candidates and ultimately selected Ponder & Co. (“Ponder”) in November 2012. Ponder is a private, employee-owned company that has been providing financial services to healthcare companies for nearly thirty years. They have advised on more than one hundred completed M&A engagements with varying transaction sizes and have become trusted advisors for hospitals, healthcare systems, academic medical centers, senior care facilities, and other healthcare providers. Metro Health also retained special counsel, Drinker Biddle & Reath LLP, Chicago, Illinois, to advise the Board of Directors on potential legal issues arising in its evaluation of a strategic partnership.

The Special Committee met on December 19, 2012, to discuss Ponder’s role in the strategic partnership and the various structures that could be used to achieve Metro Health’s objectives. During this meeting, Ponder provided Metro Health with a valuation that would be used in evaluating future proposals. The Special Committee met again in January 2013 to continue its discussion of a potential strategic partnership. During these presentations and meetings, Metro Health outlined the following targeted outcomes:

- Find a partner whose culture matches the “Metro Way,” a combination of the best patient experience, the best employee experience, the best physician experience and the best community experience;
- Expand medical staff while respecting Metropolitan Hospital’s osteopathic teaching history and Metro PHO;
- Build on and enhance Metro Health’s tradition of quality and its history of recognition, which includes the following awards:

- Top 100 Hospital National Award, awarded by Thomson Reuters;
 - National Best and Brightest Companies to Work For, awarded by the National Association for Business Resources;
 - West Michigans 101 Best and Brightest Companies to Work For, sponsored by Michigan Business and Professional Association;
 - Michigan’s Best and Brightest in Wellness®;
 - Top 20 Most Beautiful Hospitals, selected by Soliant Health;
 - Most Wired Hospital, awarded by Hospital and Health Networks;
 - HealthStream® Research Excellence Through Insight awards: Overall Inpatient Experience in the Medium Hospital category and Top Performance in the Ophthalmology of the Clinician and Group Surveys – Consumer Assessment of Healthcare Providers and Systems Overall Rating in Ophthalmology, or CG-CAHPS to Dr. Douglas Doyle;
 - Michigan Peer Review Organization (MPRO) Governor’s Awards;
 - American Heart Association Mission Lifeline Silver Plus Recognition;
 - 2014 Silver Performance Achievement Award from the American College of Cardiology Foundation’s NCDR ACTION Registry “Get with the Guidelines” program, for heart attack care;
 - 2014 Silver Plus Performance Achievement Award from the Quality Registry “Get with the Guidelines” program for patients with stroke;
 - Women’s Choice Award, awarded by Women’s Certified;
 - 50 Greenest Hospitals in America;
 - 101 Best and Brightest Sustainable Companies, awarded by the Michigan Business and Professional Association; and
 - Michigan’s Clean Corporate Citizens (C3);
- Fuel growth in terms of service lines, physicians and new focus areas;
 - Provide new ways to reduce health delivery costs;
 - Create an effective platform for ACO development;
 - Achieve financial strength and access to additional capital;
 - Continue tradition of commitment to employees and the communities served by Metro Health;
 - Expand reach and network in West Michigan;
 - Enhance position with payors, including BlueCross BlueShield (MI);
 - Build on Metro Health’s current alliances such as Pennant Health Alliance and oncology affiliation with University of Michigan;

- Continue commitment to maintain and expand centers of excellence such as oncology, cardiology, and orthopedics and minimize out-migration; and
- Preserve significant participation in governance and management.

These targeted outcomes remained focal points for Metro Health during the process of selecting a strategic partner.

C. Metro Health Identifies and Evaluates Potential Partners

On behalf of Metro Health, Ponder undertook a controlled competitive process to solicit proposals from potential partners that reflected the target outcomes identified by the Special Committee and Metro Health management. In accordance with the timeline agreed to in meetings with the Special Committee, Ponder contacted parties of interest, and subsequently distributed confidentiality agreements and the First Instruction Letter. Ponder approached a total of seventeen potential strategic partners and received eight proposals as part of Phase 1. Of the proposals received, five were from for-profit organizations and three were from not-for-profit organizations.

In April 2013, Ponder presented a summary of Phase 1 responses to the Special Committee, as well as to the Board of Directors at the Governance Institute Meeting. Later that month, the Board selected four finalists, and with input from the Special Committee and Metro Health management, Ponder prepared a Second Instruction Letter for Phase 2 requesting revised proposals focusing on joint venture partnership structures. On May 15-16, 2013, Metro Health's management presented to each Phase 2 participant. These presentations provided an overview of Metro Health and the goals and objectives of partnership, as well as information on the operations and strategy of Metro Health. Phase 2 participants were also able to tour Metro Health's facilities.

At the end of May, Metro Health received two revised Phase 2 proposals, one of which was from CHS. One of the other Phase 2 participants withdrew due to concerns that they did not have the size and scale in West Michigan to meet their market strategy. Another Phase 2 participant declined to submit a proposal due to market share opportunity concerns. The two revised Phase 2 proposals were reviewed with the Special Committee in mid-June and the prospective partners made presentations to the Special Committee. Later in June, a Third Instruction Letter was sent to one of the Phase 2 participants in order to gain clarity on the proposed structure between the party and Metro Health, Metro Health's role following the proposed transaction, and what specific services and benefits the partnership would provide to Metro Health. A response was received to this Third Instruction Letter, including additional clarification on financial terms and structure.

As part of its reverse due diligence process, Metro Health conducted site visits at two of CHS's facilities, including its largest system, both of which are located in the Midwest. These reverse due diligence meetings were aimed at giving Metro Health a better understanding of CHS's operations.

The Special Committee met again on August 8, 2013 to discuss the site visits to two of CHS's facilities. On August 20, Ponder sent a Third Instruction Letter to CHS requesting additional details. Specifically, the Third Instruction Letter requested information regarding commitments to supporting medical education and final offers in terms of valuation of Metro Health's assets. At this time, Metro Health also submitted a letter with suggested terms to the University of Michigan Health System, which had expressed interest in partnering with Metro Health earlier in the partner selection process. The University of Michigan Health System submitted a proposal in response to Metro Health's letter.

D. Metro Health Selects CHS

In September 2013, Ponder presented a review of the revised offers to the Special Committee and the Board of Directors at the Metro Health Board Retreat. This presentation outlined the timeline of the strategic partnership and focused on comparing the proposals from the three finalists, including a comparison of the following factors:

- Transaction structure;
- Governance structure;
- Board duties;
- Reserve powers;
- Financial terms of the transaction structure;
- Capital commitment;
- Alliance partner structure, if any;
- Details and benefits of alliance partner;
- Strategic vision; and
- Services commitment.

At this time, the Board of Directors also discussed CHS's announcement of its acquisition of Health Management Associates. The transaction value was estimated at \$7.6 billion and with this acquisition CHS surpassed HCA Holdings, Inc. to become the largest hospital operator in terms of the number of facilities. CHS confirmed that it was still authorized to move forward with the strategic partnership with Metro Health.

The Board of Directors selected CHS as the best choice as a strategic partner for Metro Health because of CHS's clear, focused approach, as well as its strength and resources as one of the largest systems in the country. After extensive deliberation and careful consideration of its options, Metro Health determined that a partnership with CHS would enable Metro Health to continue its mission of serving its patient population while also enabling Metro Health to utilize the resources and knowledge base of this large system.

On November 8, 2013, Metro Health and CHS executed a Letter of Intent summarizing the key terms of their proposed partnership and at that time, the parties began their due diligence in earnest. In the course of this due diligence, the parties identified several federal regulatory issues related to certain hospital and physician and/or medical group compensation relationships. In response to these findings, Metro Health and CHS conducted an extensive review and analysis of the compensation relationships at issue. This additional step in the partnership process delayed the execution of the Contribution and Sale Agreement until January 22, 2015 as the parties worked to ensure that they appropriately addressed such issues.

Additionally, as a result of this regulatory review and the uncertainty of a timely resolution with the Centers for Medicare and Medicaid, an escrow of the purchase price was required by CHS. The parties also agreed that the escrow amount would cover other potential indemnification claims arising from the Contribution and Sale Agreement. Despite this outstanding matter, Metro Health and CHS continue to work diligently toward a strategic partnership and expect to close this transaction.

V. Conclusion

Metro Health believes that the process followed by the Board of Directors and the Special Committee, with the guidance of Ponder, for evaluating the need for a strategic partner and selecting CHS was an informed, deliberate, and fair process. Metro Health's interests in seeking a strategic partner were in the best interest of Metropolitan Hospital and the Grand Rapids community and population. CHS's commitment to preserving Metropolitan Hospital as a community hospital while providing access to capital, economies of scale, and expertise will benefit its patients and West Michigan as a whole.

The process was systematic and thorough, in furtherance of the ultimate goals of improving Metro Health's delivery of healthcare and ensuring its continued presence in the community. The controlled and competitive process used by Ponder yielded a result that can be defended as fair market value. Additionally, a valuation was conducted by Stout Risius Ross, Inc. to support the purchase price for the transaction. The end result is a strategic partnership between a community hospital with a long-standing tradition and dedication to the Grand Rapids community and a focused and experienced organization that is committed to helping community hospitals succeed in the changing healthcare environment.