Legacy DMC

May 30, 2012

Ms. Katharyn Barron, Division Chief
Consumer Protection Division and
Charitable Trust Section
Department of Attorney General
State of Michigan

Dear Ms. Barron:

The purpose of this letter is to provide Legacy DMC's first annual report covering VHS of Michigan's compliance with respect to certain Post-Closing Covenants contained in the Purchase and Sales Agreement among the Department of Attorney General, Legacy DMC, VHS of Michigan, Inc. and Vanguard Health Systems, Inc. (PSA). Legacy DMC is required to report annually on the status of these commitments by Article 3 (Item E) of the Monitoring and Compliance Agreement among the Department of Attorney General, Legacy DMC, VHS of Michigan, Inc. and Vanguard Health Systems, Inc.

Article 12 of the PSA, Post-Closing Covenants of Buyer, defined 20 Post-Closing Covenants, which are provided for reference in Attachment 1. A list of these Covenants along with the related reporting and monitoring responsibilities is provided in Attachment 2. As shown by underline, VHS of Michigan is required to report annually on 15 of the 20 Covenants. Its first annual report (the VHS Report) provides information regarding the status at the end of 2011 for each of the 15 covenants for which status reporting was required. Note that Legacy DMC is required to monitor seven of the Covenants – all of which are included in the VHS Report.

SUMMARY OF COMPLIANCE MONITORING

During 2011, Legacy DMC established interim-period reporting relating to four critical Covenants: the two capital spending commitments, the commitment to implement and publicize the more benevolent charitable care policy, and the commitment to maintain the seven hospitals and their key lines of service. Information relating to these four commitments has been reviewed with Legacy DMC's Board of Trustees as made available, usually two months after each quarter-end. Other compliance matters, such as the hotline process, escrow transactions, and the confidentiality agreement have also been reviewed at these meetings.

As required, VHS of Michigan submitted its Report on time and met with Legacy DMC's Trustees to discuss its content. All first year commitments have been met with the exception of capital spending for routine capital. Attachment 3 provides a summary of the status of the critical Covenants. Attachment 4 provides a list of the hospitals and key lines of service.

Based on this discussion, Legacy DMC requested the Department of Attorney General to extend the report submission deadline to provide time for VHS of Michigan to include additional information in its Report, particularly on indigent and low income care. The request was approved and VHS of Michigan supplemented its Report. Attachment 5 is the VHS of Michigan, Inc. 2011 Annual Report.

Legacy DMC's observations on the monitored Covenants are provided below.

INDIGENT AND LOW INCOME CARE

The VHS Report discusses the change to its Charity Care Policy made in January 2011 and the processes it has established to provide patients with the most advantageous classification for financial support. It also describes the publication of both its policy and the process patients can use to appeal outcomes. (The Legacy DMC hotline provides an additional opportunity for patients to request an independent review of these decisions.) The VHS Report also provides financial information on the cost of charity care in 2011; additional information referenced in the VHS Report is classified as confidential.

During 2011, Legacy DMC interviewed VHS of Michigan managers responsible for deploying the new policy and supervising the employees responsible for working with patients to obtain information for accurate financial classification and for responding to billing questions. It also collaborated with VHS of Michigan to develop the processes for publicizing its financial assistance and bad debt policies, particularly on the web, and developing the Ombudsman position and related responsibilities and reporting. Based on these interviews, reviews of information provided, and collaboration on the new or revised processes, Legacy DMC believes that the policy and publication commitments have been accomplished.

Going forward, Legacy DMC views its challenge to be obtaining information from VHS of Michigan on an ongoing basis that adequately demonstrates their effectiveness in the treatment of and proper financial assistance for qualifying individuals. The hotline is helpful in this regard, however, the minimal volume on the hotline has provided only negative assurance that there is no systemic denial of care. The confidential information recently included in the VHS Report may serve as a foundation for better understanding of these matters.

Having only recently obtained this confidential information, Legacy DMC looks forward to additional communication on this topic with VHS of Michigan. Legacy DMC will also encourage VHS of Michigan to provide more public information on this critical commitment to ensure appropriate recognition for its historic and continuing role in providing health services to the low income and indigent.

HOSPITALS AND CORE SERVICES

The VHS Report reiterates its commitment to maintain the existing hospitals and their lines of service. (See Attachment 4)

CAPITAL EXPENDITURES

The VHS Report discusses its 2011 capital investments for Routine Capital ($36.4 million) and Specified Capital Projects ($38.2 million). Both amounts fell short of PSA commitments. As provided in the PSA, VHS of Michigan deposited $41.8 million relating to the Specified Capital Projects in Escrow, an alternative for accomplishing the $80 million spending objective. The PSA does not provide a similar remedy for the Routine spending commitment. The VHS Report makes the important point that funds were available and allocated to support the investment program and that the spending delays were the result of timing changes.

As a result of its quarterly reviews, Legacy DMC had been aware for some time that a substantial escrow deposit relating to the "Specified Capital Projects" would be required and that spending relating to "Routine Capital" could fall short of the 2011 objective. Legacy DMC recognizes that plan revisions to avoid disruption of daily operations and minimize inconvenience to patients and visitors are certainly appropriate. VHS of Michigan has assured Legacy DMC that spending for both categories will recover last year's shortfalls in 2012. It is also noteworthy that the PSA provided not only a five-year period to accomplish the Specified Capital Projects investment, but also a two-year extension period.

An independent certified public accounting firm reviewed the information provided in this section pursuant to the agreed upon procedures included in the PSA. Legacy DMC was provided with a copy of the report, which did not note any exceptions to the capital expenditure figures. Also, VHS has agreed to inform Legacy if financial statement control deficiencies are identified during the Sarbanes – Oxley review, which will be available later in 2012.

Legacy DMC appreciates that VHS of Michigan has provided useful project updates in its Report. VHS of Michigan's confidentiality classification for the referenced exhibits diminishes the public's understanding of progress on these important and highly visible commitments. Legacy DMC assisted with the design of these exhibits; they are similar to the reports reviewed by the Board of Trustees quarterly.

SALE OF HOSPITALS

The VHS Report confirms that no sale has occurred.

DETROIT BASED SYSTEMS and NATIONAL SUPPORT CENTERS

The VHS Report confirms that Detroit continues as its regional headquarters for DMC operations and that Vanguard did not establish any National Support Centers during 2011.

OTHER COMMITMENTS

As mentioned above and shown on Attachment 2, the VHS Report provides the status for additional commitments; all of which are positive. Legacy DMC has also reported separately to the Department of Attorney General on the status of responsibilities contained in the Monitoring Agreement. Modifications to two categories (Required Reports and the Hotline) may be proposed in 2012.

CONCLUSION

VHS of Michigan's success in Detroit is critical to the goal of meeting the PSA commitments. Last year was the first of ten for which these commitments will be in effect and reports will be required. It has been a "launch year" for both VHS of Michigan and Legacy DMC. The PSA created new responsibilities and reporting requirements for both entities. The processes to support all commitments are now in place. The current year will provide opportunities for improvement and efficiency, and Legacy DMC will play a constructive and collaborative role.

Joe Walsh
President

Richard Widgren
Chairman

ARTICLE 12

POST-CLOSING COVENANTS OF BUYER

12.1 Buyer Advisory Board; Hospital Advisory Board.

(a) As of Closing, VHS of Michigan shall establish an Advisory Board (the "VHS Michigan Advisory Board") which shall be comprised of up to 11 members, a majority of whom shall be appointed by VHS of Michigan and the remainder of whom shall be appointed by DMC. Subject to the overall control and direction of the board of directors of VHS of Michigan, the VHS Michigan Advisory Board will oversee the conduct of the business of the Hospitals and the Hospital Businesses after Closing, will nominate members for each of the Hospital Advisory Boards, and will report to, and generally provide advice and make recommendations to, VHS of Michigan concerning the conduct of the business of the Hospitals, the Hospital Businesses, and the operating and capital budgets thereof. DM C may remove, with or without cause, any individual appointed by DMC to the VHS Michigan Advisory Board. VHS of Michigan may remove, with or without cause, any individual appointed by VHS of Michigan to the VHS Michigan Advisory Board. If, as a result of death, disability, retirement, resignation, removal or otherwise, there shall exist any vacancy on the VHS Michigan Advisory Board, the Person entitled under this Section 12.1 (a) to appoint such individual whose death, disability, retirement, resignation or removal resulted in such vacancy may appoint another individual to fill such capacity and serve as a member of the VHS Michigan Advisory Board. As of Closing, the VHS Michigan Advisory Board shall adopt bylaws that more precisely articulate the relationship between VHS of Michigan and the VHS Michigan Advisory Board and that govern its internal structure, activities and meetings (including the frequency thereof) that are in form and substance reasonably satisfactory to DMC and VHS of Michigan. The VHS Michigan Advisory Board will remain in existence for a period of at least ten years.

(b) Immediately after the Closing, the members of the current executive management team of Seller (comprising for this purpose the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Nursing Officer, the Chief Legal Officer and the Chief Medical Officer of DMC and the President of each of the Hospitals), who accept Buyer's offer of employment pursuant to Section 6.3(a), will be employed to manage the Hospitals and the Hospital Businesses in such respective capacities, subject to the terms of any applicable employment agreement and the authority of the applicable Buyer's board of directors.

(c) As soon as practicable following Closing, VHS of Michigan, acting in concert with or through the VHS Michigan Advisory Board, will appoint and maintain separate advisory boards for each of the Hospitals (each, a "Hospital Advisory Board"). Subject to applicable Legal Requirements, each Hospital Advisory Board will advise the Hospital with which it is associated on quality assurance and accreditation matters. In its advisory capacity, each Hospital Advisory Board shall also review and advise Buyer on management's recommended capital and operational budgets for the Hospital with which it is associated. The membership of each initial Hospital Advisory Board shall be agreed upon by Buyer and Seller on or prior to the Closing Date.

12.2 Indigent and Low Income Care. Buyer acknowledges that the Hospitals have historically provided significant levels of care for indigent and low-income patients and have also provided care through a variety of community-based health programs. For at least ten years after the Closing, Buyer will adhere to the more charitable and benevolent of: (a) Seller's historic charity care policy, a copy of which is attached as Schedule 12.2 ; or (b) Vanguard's corporate-wide charity care policy in place on June 10, 2010, Reference No.11-0801 as revised January 23, 2009, titled "Charity Care Financial Assistance, and Billing & Collection Policies for Uninsured Patients", a copy of which is attached as Schedule 12.2-a , as such corporate-wide charity care policy may be amended from time to time. Upon request of Seller at any time during the 180 day period prior to the tenth anniversary of the Closing Date, Buyer and Seller shall negotiate in good faith prior to the tenth anniversary of the Closing Date to determine whether Buyer should extend its commitment to provide charity care at the Hospitals as set forth above in Section 12.2(a) or 12.2(b), it being understood that such negotiations shall be limited in scope to the extension of the provision of charity care policy at the Hospitals as set forth above in Section 12.2(a) or 12.2(b) after the tenth anniversary of the Closing Date. During such time as this Section 12.2 is in effect, Buyer shall prominently publish on its website and prominently publicize at the Hospitals: (i) the availability of financial assistance to uninsured and underinsured patients on terms at least as generous as the applicable charity care policy, (ii) the availability of assistance in applying for Medicaid coverage, (iii) the availability of access to a patient-care ombudsman, a patient-car e hotline, and other measures to facilitate resolution of billing and treatment issues, (iv) the patients' rights and all current publicly available survey results in accordance with state and federal regulations and (v) its debt-collection policy, which shall comport with all federal and state collection practices laws.

12.3 Commitments to Maintain the Hospitals and Provide Core Services.

(a) For at least ten years from and after the Closing Date and unless otherwise agreed by Seller, Buyer shall maintain each of the Hospitals as a general acute care hospital licensed in the State of Michigan, or as a re habilitation hospital licensed in the State of Michigan in the case of Rehabilitation Hospital of Michigan. The Parties acknowledge that the Hospitals provide a large share of the State of Michigan's graduate medical education and care to beneficiaries of the Medicaid program and to the uninsured. Reductions in state or federal funding and reimbursement that apply proportionately to the Hospitals and all other general acute care hospitals in the State of Michigan shall not constitute a basis for Buyer to request approval from Seller to close any Hospital. The Parties also acknowledge that this provision is not intended to preclude Buyer from requesting approval from Seller to close a Hospital in the event of discriminatory reductions in state or federal funding and reimbursement for graduate medical education or services provided to beneficiaries of the Medicaid program or to the uninsured.

Reductions in state or federal funding and reimbursement to the Hospitals that are materially disproportionate to reductions in funding and reimbursement to all other general acute care hospitals in the State of Michigan and that cause one or more of the Hospitals to suffer material declines in EBITDA, shall constitute a basis for Buyer to request the approval of Seller to close such affected Hospitals, which approval shall not be unreasonably withheld. Upon such time as Buyer, if at all, is permitted to cease maintaining the operation of any Hospital prior to the date which is ten years from and after the Closing Date, notwithstanding any provision to the contrary contained in this Agreement, once Buyer has initiated the process of c easing the operation of such Hospital, Buyer shall be relieved of its obligations under each of Sections 12.1, 12.2, 12.3, 12.4 and 12.7, but in each case only with respect to such Hospital.

(b) For at least ten years from and after the Closing Date and unless otherwise agreed by Seller, Buyer shall provide at each Hospital, at a minimum, those services described on Schedule 12.3 for such Hospital (the "Core Services"). Notwithstanding the foregoing, if as a consequence of any facts or circumstances that are in existence or occur prior to Closing, Buyer is not able to provide a Core Service after Closing, Buyer shall be relieved of its obligation to provide such Core Service until such time as the facts or circumstances that prevent Buyer from providing such Core Services have been remedied by Buyer. Buyer shall use Commercially Reasonable Efforts to remedy any such facts and circumstances as soon as reasonably practicable after Closing (but only to the extent such remedy is economically feasible, as determined in the good faith reasonable discretion of Buyer). Additionally, if a casualty has occurred prior to Closing which has not been fully repaired as of the Closing Date that prevents Seller from providing a Core Service, Buyer shall not be obligated to provide such Core Service until such time as Buyer has repaired the casualty (but only to the extent such repair is economically feasible, as determined in the good faith reasonable discretion of Buyer) that prevents Buyer from providing such Core Service after Closing. Buyer shall use Commercially Reasonable Efforts to repair any such casualty as soon as reasonably practicable after Closing (but only to the extent such repair is economically feasible, as determined in the good faith reasonable opinion of Seller).

<u>12.4 Capital Expenditures.</u>

(a) During the five year period immediately following the Closing Date, Buyer shall make routine capital expenditures in respect of the Hospital Businesses in an average amount of at least $70,000,000 per year, but not less than $50,000,000 in the first year after Closing, and not less than $50,000,000 on average per year for each of the next four years thereafter taking into consideration all routine capital expenditures made by Buyer in all prior years since Closing, and in the amount of at least $350,000,000 in the aggregate over that period. For purposes of this Section 12.4(a) , routine capital expenditures shall include (i) capital expenditures for any capital project that is not a Specified Capital Project, (ii) capital expenditures made pursuant to Section 12.4(b) in excess of the CapEx Commitment (but only to the extent that all Specified Capital Projects have been completed), and (iii) capital expenditures described in Section 12.4(f) , but shall exclude (iv) capital expenditures for Specified Capital Projects and (v) capital expenditures for capital projects that are in progress as of the Closing Date and that are identified on Schedule 12.4 . Additionally and for purposes of this Agreement, the term “capital expenditure” shall mean an expenditure which is required to be capitalized in accordance with generally accepted accounting procedures as applied in the United States.

(b) In addition to Buyer’s obligations under Section 12.4(a), (i) during the five year period immediately following the Closing Date Buyer will Expend funds for the Specified Capital Projects in the aggregate amount of at least $500,000,000 (the “CapEx Commitment”), and (ii) as of each anniversary of the Closing Date, Buyer will have Expended not less than the Anniversary Date CapEx Commitment required to be so Expended by such date. Schedule 12.4 sets forth (1) Seller’s current estimated cost of each Specified Capital Project described therein, (2) the anticipated time schedule for the commencement and completion of each Specified Capital Project, and (3) the estimated amount of capital to be Expended by Buyer on each Specified Capital Project. Buyer will in good faith undertake and diligently pursue to completion each of the Specified Capital Project s within the time schedule for such project specified on Schedule 12.4 . Buyer may make modifications to a Specified Capital Project that constitute more than a ten percent reduction in the scope of, or a $5,000,000 reduction in, such Specified Capital Project, in each case, only with the consent of DMC, other than modifications that expand the scope of a Specified Capital Project; provided, however, DMC’s approval of any requested modification to a Specified Capital Project shall not result in a reduction of Buyer’s overall $500,000,000 CapEx Commitment. In the event that Buyer requests reduction in the scope of a Specified Capital Project by more than ten percent in order for such project to be completed on the budget for such project set forth on Schedule 12.4 , Buyer and DMC shall reasonably and in good faith determine the manner in which such project is to be completed. Buyer shall have no obligation to Expend more than $500,000,000 in the aggregate for all of the Specified Capital Projects. The amount of any capital expenditures made by Buyer to an Affiliate of Buyer shall not be included in any determinations of whether Buyer has satisfied its obligations under Sections 12.4(a) or 12.4(b) .

(c) Subject to Force Majeure, if at the end of any CapEx Year after Closing other than the fifth CapEx Year Buyer has failed to Expend the Anniversary Date CapEx Commitment required to have been Expended at the end of such CapEx Year, then within 30 Business Days after the expiration of such CapEx Year, Buyer will deliver to the Escrow Agent by wire transfer of immediately available funds an amount equal to the CapEx Shortfall as of the end of such CapEx Year. Pursuant to the terms and conditions of an escrow agreement that is in form and substance satisfactory to each of Seller and Buyer in its good faith reasonable discretion (the “CapEx Shortfall Escrow Agreement”), the Escrow Agent shall thereafter disburse such funds solely for the purpose of funding capital Expended by Buyer in respect of the Specified Capital Projects.

(d) Within 30 Business Days after the expiration of the fifth CapEx Year after Closing, subject to Force Majeure, Buyer will deliver to the Escrow Agent by wire transfer of immediately available funds an amount, if any, equal to (i) the CapEx Commitment minus (ii) the aggregate amount of capital Expended by Buyer pursuant to Section 12.4(b) during the five CapEx Years after Closing (including amounts disbursed by the Escrow Agent pursuant to the CapEx Shortfall Escrow Agreement to fund capital expenditures for Specified Capital Projects), minus (iii) any funds held by the Escrow Agent pursuant to the CapEx Shortfall Escrow Agreement (or otherwise held in an escrow account with an escrow agent and pursuant to an escrow agreement, each of which is reasonably satisfactory to Seller and Buyer, which escrow has been restricted for use only for the CapEx Commitment) as of the end of the fifth CapEx Year. Subject to Section 12.4(e), the Escrow Agent shall thereafter disburse such funds solely for the purpose of funding capital Expended by Buyer for the Specified Capital Projects, so long as Buyer is diligently pursuing in good faith the construction and completion of any Specified Capital Projects which had not yet been completed as of the end of the fifth CapEx Year after Closing.

(e) On the sixth anniversary of the Closing Date, subject to Force Majeure, the Escrow Agent shall continue to retain all funds held by the Escrow Agent up to (but not in excess of) $50,000,000 and shall disburse such funds solely for the purpose of funding capital Expended by Buyer for the Children's Hospital tower project, so long as Buyer is diligently pursuing in good faith the construction and completion of the Specified Capital Project constituting the Children's Hospital tower, and, subject to Section 12.4 (f) , shall immediately disburse all funds held by the Escrow Agent in excess of $50,000,000 to the order of DMC. On the seventh anniversary of the Closing Date, subject to Section 12.4 (f), the Escrow Agent shall immediately disburse all remaining funds held by the Escrow Agent to the order of DMC. Additionally and notwithstanding anything herein to the contrary, in the event that Buyer ceases to diligently pursue in good faith the construction and completion of any Specified Capital Project after the expiration of the fifth CapEx Year, the Escrow Agent shall disburse all funds held for such Specified Capital Project pursuant to the CapEx Shortfall Escrow Agreement, together with any earnings thereon, to the order of DMC. Notwithstanding any provision to the contrary contained in this Agreement, upon DMC's receipt of all remaining funds held by Escrow Agent, Buyer shall have no further obligations under Sections 12.4(b) through 12.4(f) (other than any of such obligations that are in dispute on such date) and, to the extent it remains outstanding, the Warrant Certificate shall be immediately returned to Vanguard and immediately cancelled.

(f) If, prior to the date the Escrow Agent is required to disburse any funds to the order of DMC pursuant to Section 12.4(e), Buyer completes all of the Specified Capital Projects but has not fully Expended the CapEx Commitment, then notwithstanding the provisions of Section 12.4(e) , Escrow Agent shall retain all funds held by the Escrow Agent and shall disburse such funds solely for the purpose of funding capital Expended by Buyer for additional capital projects or capital expenditures recommended by Buyer and approved by Seller in its good faith reasonable discretion, until all such funds are fully Expended.

(g) The CapEx Shortfall Escrow Agreement shall provide that the Escrow Agent shall invest all funds held pursuant to the CapEx Shortfall Escrow Agreement in investments described in the CapEx Shortfall Escrow Agreement pursuant to the instructions of Buyer. All earnings on funds held by the Escrow Agent shall be disbursed to the Party to whom such funds are disbursed. Buyer shall pay all cost s and expenses of the Escrow Agent.

(h) At Closing and as collateral to secure Buyer's CapEx Commitment described in Section 12.4(b), Vanguard will deliver to the Escrow Agent (without any consideration from DMC) a warrant certificate in substantially the form of Exhibit A (the "Warrant Certificate") providing for a warrant issuable to DMC to purchase 400,000 shares of common stock of Vanguard. From and after the Closing Date and until such time as the Warrant has been exercised or the Warrant Certificate has been cancelled in accordance with the terms of this Agreement, Vanguard shall deliver to DMC all valuations of Vanguard prepared by the Independent Appraiser, or such other valuation expert as may be retained by Vanguard in place of the Independent Appraiser, within ten Business Days after their delivery to Vanguard. The Escrow Agent shall hold and disburse the Warrant Certificate pursuant to the terms of Section 12.5 and an escrow agreement that is in form and substance satisfactory to each of DMC and Vanguard in its good faith reasonable discretion (the "Warrant Escrow Agreement").

(i) In the event of discriminatory reductions in state or federal funding and reimbursement for graduate medical education or services provided to beneficiaries of the Medicaid program or to the uninsured that are applicable to the Hospitals, that are materially disproportionate to reductions in such funding and reimbursement to all other general acute care hospitals in the State of Michigan and that cause one or more of the Hospitals to suffer material declines in EBITDA, and Buyer provides Seller written notice thereof, notwithstanding any provision to the contrary contained in this Section 12.4 or in Sections 1.1 or 12.5 , without further action of the Parties: (i) the Anniversary Date CapEx Commitment shall be modified so that such commitment is (A) $400,000,000 as of the fifth anniversary of the Closing Date, (B) $480,000,000 as of the sixth anniversary of the Closing Date and (C) $500,000,000 as of the seventh anniversary of the Closing Date, but without any change or modification to the obligation of Buyer to Expend funds in accordance with Sections 12.4(b) and (c) in the first four CapEx Years after Closing; (ii) the "five year period" described in Section 12.4 (b) shall thereafter be interpreted to mean the period ending upon the expiration of the seventh CapEx Year; (iii) references in each of Sections 12.4 (c), 12.4 (d) and 12.5 to the "fifth CapEx Year" where it appears therein shall be references to the "seventh CapEx Year;" (iv) the reference to the "five CapEx Years after Closing" in Section 12.4 (d) where it appears therein shall be references to the "seven CapEx Years after Closing;" (v) Section 12.4 (e) shall no longer be applicable (other than the last sentence thereof); (vi) on December 31, 2017, the Escrow Agent shall disburse all funds held by the Escrow Agent pursuant to the CapEx Shortfall Escrow Agreement, together with all earnings thereon, to the order of DMC; and (vii) the anticipated time schedule for undertaking each Specified Capital Project shall be deemed to be extended to take into consideration the additional period of time within which Buyer has to Expend the full amount of the CapEx Commitment.

12.5 The Warrant.

(a) At Closing, Vanguard shall deliver to the Escrow Agent an initial Warrant Certificate for the Warrant. Within 30 Business Days after the expiration of each CapEx Year after the Closing Date, up to and including the date which is 30 Business Days after the expiration of the fifth CapEx Year after the Closing, Vanguard may deliver to the Escrow Agent a new Warrant Certificate (in exchange for the return of any Warrant Certificate previously delivered to the Escrow Agent) for a warrant issued to DMC to purchase a number of shares of common stock of Vanguard equal to the product of the Warrant Shares and the Remaining CapEx Ratio as of the expiration of the applicable CapEx Year after the Closing (the "Adjusted Warrant Shares") with an exercise price of $.01 per share. At such time as the amount of the Adjusted Warrant Shares equals zero, Vanguard shall provide notice thereof to Escrow Agent and Escrow Agent shall immediately return to Vanguard any Warrant Certificate previously delivered to the Escrow Agent. Upon DMC's receipt of the Warrant Certificate, Buyer shall be relieved of its obligations under Sections 12.4(b) through 12.4(f) to the extent of the then value of the shares understood that such determination shall be made as of the date of DMC's receipt of the Warrant Certificate, and shall not be subject to further adjustment, including as a result of any subsequent change in the valuation of Vanguard's common stock), based on the valuation of Vanguard's common stock prepared by the Independent Appraise r as of the date of the exercise of the Warrant, which appraisal shall be obtained by Vanguard, at its sole cost and expense, within a reasonable period of time after the date the Warrant is exercised. If such value of the shares of common stock upon exercise of the Warrant is greater than the Remaining CapEx Commitment, DMC shall surrender to Vanguard, after exercise, a number of shares of common stock of Vanguard having an aggregate value equal to the value of the common stock in excess of the Remaining CapEx Commitment (it being understood that such determination shall be made as of the date of DMC's receipt of the Warrant Certificate, and shall not be subject to further adjustment, including as a result of any subsequent change in the valuation of Vanguard's common stock).

(b) If Buyer shall fail at any time to timely deposit any required CapEx Shortfall amounts with the Escrow Agent (provided that Buyer has not otherwise deposited cash amounts in an escrow account with an escrow agent and pursuant to an escrow agreement, each of which is reasonably satisfactory to DMC, Buyer and Vanguard, which escrow account has been restricted for use only for the CapEx Commitment, which cash amounts equal or exceed the amounts which were required to have been so deposited to satisfy any CapEx Shortfall), then, after 30 days notice of such default to Vanguard by Seller, and subject to Vanguard's failure to cure such default during such 30-day period (each a "CapEx Shortfall Default"), DMC shall be entitled to obtain from the Escrow Agent the Warrant Certificate then in the possession of the Escrow Agent and the Warrant Shares or Adjusted Warrant Shares, as applicable, shall be immediately exercisable in accordance with the terms of the Warrant Certificate upon DMC's receipt of such Warrant Certificate.

(c) Provided that Buyer has deposited any required CapEx Shortfall with the Escrow Agent (or Buyer has otherwise deposited cash amounts in an escrow account with an escrow agent and pursuant to an escrow agreement, each of which is reasonably satisfactory to DMC, Buyer and Vanguard, which escrow has been restricted for use only for the CapEx Commitment, which cash amounts equal or exceed the amounts which were required to have been so deposited to satisfy any CapEx Shortfall), if Vanguard should wish to consummate an initial public offering of its common stock at any time while the Warrant Certificate remains outstanding (whether the Warrant Certificate is then held by Escrow Agent or DMC), in order to provide for the cancellation of the Warrant Certificate to facilitate such initial public offering, then at any time after Vanguard files its S-1 Registration Statement with the SEC, but prior to its initial public offering of its common stock: (i) Vanguard may, but is not required to, deliver to the Escrow Agent or DMC (in exchange for the Warrant Certificate then in the possession of the Escrow Agent or DMC, which Warrant Certificate shall be immediately cancelled) a subordinated unsecured promissory note in substantially the form of Exhibit B payable to DMC in a principal amount equal to the Remaining CapEx Commitment at such time (the "Note"), and the principal amount of such Note shall be automatically reduced on a continuous basis by the amount of any reduction in the Remaining CapEx Commitment; or (ii) DMC and Vanguard shall enter into such other satisfactory arrangements in respect of cancellation of the Warrant Certificate as shall be agreed to by DM C and Vanguard, in their sole discretion.

(d) In the event Vanguard delivers the Note in exchange for the Warrant Certificate as set forth in Section 12.5(c), the Escrow Agent shall release the Note to DMC upon the occurrence of a CapEx Shortfall Default; provided that upon a CapEx Shortfall Default, the Note shall be in default upon delivery thereof to DMC (the "Note Delivery Date"). The Note will accrue interest from and after the date of the CapEx Shortfall Default at a market rate of interest for debt of its kind, with payment terms to be determined on the Note Delivery Date so as not to cause Vanguard to default under its then principal credit agreement or any indenture relating to debt securities that are publicly -held or are traded in the Rule 144A market. Notwithstanding any provision to the contrary contained in this Agreement, upon DMC's receipt of the Note, Buyer shall have no further obligations under Sections 12.4(b) through 12.4(f).

(e) In the event the Warrant Certificate remains outstanding on the date which is 60 Business Days after the expiration of the fifth CapEx Year after the Closing, the Warrant Certificate then in the possession of the Escrow Agent shall be delivered to DMC and shall be immediately exercisable in accordance with the terms of the Warrant Certificate upon DMC's receipt of such Warrant Certificate; provided, however, in the event Buyer has fully complied with its obligations set forth in Section 12.4(e) and in the first sentence of Section 12.4(d), the Warrant Certificate shall be of no force or effect, shall immediately be returned to Vanguard and immediately cancelled.

12.6 Retention of Medical Staff. As of the Closing, Buyer shall permit all members of the Hospitals' medical staffs, whether active, honorary, temporary or otherwise, to retain their current medical staff appointments until the expiration of their current appointments. The foregoing will not limit the ability of Buyer's board of directors or Buyer's medical executive committee to suspend medical staff appointments or clinical privileges in accordance with the terms and provisions of the medical staff bylaws of Buyer. From and after Closing, Buyer will work with the medical staffs of the Hospitals to evaluate, and where feasible, pursue opportunities for medical staff/clinical integration where doing so offers opportunities for advancement in quality and cost-effectiveness of care.

12.7 No Sale of Hospitals. For at least ten years from and after the Closing Date and without the consent of Seller, Buyer shall not, directly or indirectly, sell or otherwise transfer all or substantially all of the assets constituting one or more of the Hospitals or all or substantially all of Buyer's equity interest in any Subsidiary of Buyer that owns one or more of the Hospitals to any Person, other than in connection with a transfer to a Permitted Transferee. Nothing in this Section shall limit or impair the ability of Buyer (a) to operate and conduct the business of the Hospitals as Buyer sees fit in its sole discretion, subject to its obligations in this Agreement or (b) to sell any assets or property comprising any of the Hospitals so long as Buyer continues to maintain each Hospital as a general acute care hospital that provides the Core Services required to be provided by such Hospital, all as required by Section 12.3.

12.8 Commitment to Education Mission. After Closing, Buyer is committed to supporting fully Seller's historic education mission for undergraduate and graduate medical education, nursing education, and allied health services education.

12.9 Commitment to Research Mission. Buyer is committed to supporting Seller's historic research mission. To this end and as of Closing, Buyer will assume Seller's obligations and commitment to Wayne State University pertaining to Wayne State University's arrangements with the National Institutes of Health for the Perinatal Research Branch operation.

12.10 Karmanos Cancer Center. Buyer is committed to supporting Seller's historic partnership with the Karmanos Cancer Center. To this end and as of Closing, Buyer will assume all Contracts between Seller and Karmanos Cancer Center.

12.11 Health and Wellness Initiatives. After Closing, Buyer shall enhance current health and wellness initiatives, community outreach and prevention programs, and quality improvement programs of Seller.

12.12 Supplier Diversity Program. After Closing, Buyer will support fully the Supplier Diversity Program of Seller, a copy of which is attached as Schedule 12.12, in an effort to provide opportunities for minority-owned, women-owned, and Detroit-based businesses to work with and provide goods and services to Buyer and the Hospitals.

<u>12.13 Project Genesis</u>. After Closing, Buyer will support the Project Genesis summer employment/internship program for Detroit Public High School students.

<u>12.14 Detroit Based Systems</u>. For a period of at least ten years after Closing, Buyer will operate the Hospitals as a Detroit-based system, and will maintain its regional headquarters in Detroit, Michigan.

<u>12.1 National Support Centers</u>. If after Closing Vanguard seeks to establish national centers for system support services, the City of Detroit will be given a full opportunity to present to Vanguard proposals for basing such centers in Detroit before Vanguard makes a final decision on where to locate such centers.

<u>12.16 Naming Conventions</u>. After Closing, Buyer will honor all donor agreements for the naming of buildings, facilities or programs at the Hospitals.

<u>12.17 Annual Reporting Requirements.</u>

(a) For at least the first six years from and after the Closing Date, on or before 60 days after each anniversary of the Closing Date, Buyer shall prepare and deliver to DMC a written report that describes in reasonable detail and demonstrates Buyer's performance under and compliance with the covenants of Buyer set forth in Section 12.4. Such report will be reviewed pursuant to the agreed upon procedures set forth in Schedule 12.17 by an independent certified public accounting firm that is mutually acceptable to Seller and Buyer; provided, however, that such independent certified public accounting firm will only review Buyer's compliance with Section 12.4 . Seller (and its agents and others acting on behalf of Seller) and such independent certified public accounting firm shall have access to the books and records of Buyer and Vanguard for purposes of verifying the information contained in the annual report submitted by Vanguard.

(b) For at least the first ten years from and after the Closing Date, on or before 60 days after each anniversary of the Closing Date, Buyer shall prepare and deliver to DMC a written report that describes in reasonable detail and demonstrates Buyer's performance under and compliance with the covenants of Buyer contained in Sections 12.2, 12.3, 12.5, 12.7 12.8, 12.9, 12.10, 12.11, 12.12, 12.13, 12.14, 12.15 and 12.16, to the extent any such covenants continue in effect during such ten year period.

(c) During the first ten years from and after the Closing Date, Buyer shall make available to DMC those certain reports described on Schedule 12.17(c), and provide copies thereof upon DMC's request. Until such time as the information reported is publicly available, DMC shall keep the contents of such reports confidential, in accordance with the terms of a confidentiality agreement between DMC and Buyer on terms reasonably acceptable to each of DMC and Buyer. Buyer shall not be required to provide DMC such reports unless and until such confidentiality agreement is fully executed by DMC and Buyer.

(d) Within 30 days after the delivery of each annual report contemplated by Sections 12.17(a) and 12.17(b) above, Vanguard shall make a presentation to the board of trustees of DMC regarding such annual reports and Vanguard's plan for and position in the Detroit, Michigan market

12.18 Post Closing Assistance to Seller.

(a) Notwithstanding any of the other provisions of this Agreement, at any time after Closing upon reasonable notice and during normal business hours, Buyer will make its records pertaining to the operation of the Hospital Businesses prior to Closing available to Seller in a timely manner. In addition, Buyer will (i) provide reasonable assistance in the gathering and providing of financial information to Seller's accountants as reasonably requested for the preparation of financial statements and Tax Return s for Seller and its Affiliates for periods prior to Closing and (ii) provide such other assistance as Seller may reasonably request in the winding up of its business and affairs as the owner and operator of the Hospital Businesses.

(b) For 12 months after the Closing Date, Buyer will provide Seller with a reasonable amount of office space and comply with the provisions of Section 12.17(a) at no cost to Seller other than reimbursement of out-of-pocket expenses, if any. From and after the first anniversary of the Closing Date, Seller shall reimburse Buyer for its actual reasonable costs of complying with Section 12.17(a). Buyer shall provide such information, cooperation and assistance without warranty of any kind to Seller, including a warranty about the reliability of the contents of such information.

(c) Additionally and as of the Closing Date, DMC and Buyer shall enter into a Transition Services Agreement pursuant to which Buyer will (i) employ the employees who will provide services to DMC after Closing for up to 12 months after Closing and DMC will have the right to utilize such employees and will reimburse Buyer for all costs and expenses incurred by Buyer in connection with the employment of such employees (salaries, wages and benefits), (ii) at no cost to Seller, provide ministerial services in respect of the DMC Non-ERISA 403(b) Plan at a level currently provided by Seller, and (iii) provide such other services as DMC and Buyer may mutually agree. The Transition Services Agreement will otherwise be upon such terms and conditions as are mutually acceptable to DMC and Buyer.

12.19 Renaissance Subzone. During the term of the Development Agreement, VHS of Michigan shall provide DMC with copies of any reports which VHS of Michigan provides to the applicable Governmental Authorities under section 4 of the Development Agreement. Until such time as the information reported is publicly available, DMC shall keep the contents of such reports confidential, in accordance with the terms of a confidentiality agreement between DMC and Buyer on terms reasonably acceptable to each of DMC and Buyer. Buyer shall not be required to provide DMC such reports unless and until such confidentiality agreement is fully executed by DMC and Buyer. To the extent VHS of Michigan provides any legal notice under the Development Agreement to the Michigan Strategic Fund, VHS of Michigan shall provide DMC a copy of any such notice. Concurrent with the Closing, DMC shall provide a notice to the parties to the Development Agreement, with a copy to the Attorney General, which notice sets forth the address where DMC shall thereafter receive notices from the other parties to the Development Agreement.

12.20 Donor Restricted Funds. Buyer understands and acknowledges that Seller might seek one or more judicial determinations that certain "donor restricted" funds held by Seller should be re-characterized or determined to be "unrestricted" funds. To the extent the Seller is successful in obtaining such judicial relief (and Seller provides prompt written notice to Buyer of any judicial proceeding that is instituted prior to Closing), such funds shall continue to constitute Exclude Assets hereunder and such funds shall not be included within the funds or balance sheet accounts of Seller described in Section 2.5(a)(ii), and Buyer shall have no claim in respect of, or right to receive, any such funds as of Closing or at any time thereafter.

POST CLOSING COVENANTS

(15 Vanguard Reporting Requirements Underlined)

Section	PSA Commitments	Monitoring References		
12.1	Buyer Advisory Board, Hospital Advisory Board			
12.2	Indigent and Low Income Care	E	M	Q
12.3	Commitment to Maintain Hospitals and Core Services	E	M	Q
12.4	Capital Expenditures	E	M	Q
12.5	The Warrant	E		
12.6	Retention of Medical Staff			
12.7	No Sale of Hospitals	E	M	Q
12.8	Commitment to Education			
12.9	Commitment to Research			
12.10	Karmanos Center			
12.11	Health and Wellness Initiatives			
12.12	Supplier Diversity Program			
12.13	Project Genesis			
12.14	Detroit-based Systems	E	M	
12.15	National Support Centers	E	M	
12.16	Naming Conventions			
12.17	Annual Reporting Requirements	E	M	
12.18	Post-Closing Assistance to Seller			
12.19	Renaissance Sub-zone			
12.20	Donor-restricted Funds			

Purchase and Sale Agreement – Article 12 identifies 20 Post Closing Covenants

E – Enforcement Agreement – supplemental agreement among Vanguard, DMC and Attorney General (AG) where parties recognize enforcement right by AG to certain remedies beyond those specified in the PSA (identified by "E" above). PSA remedies for any disagreement are primarily mediation/arbitration.

M – Monitoring Agreement – supplemental agreement among Vanguard, DMC and AG specifying responsibilities for Monitoring certain covenants (identified by "M" above) and information necessary to support Monitoring, as well as requiring identification of any potential conflict of interest and defining aspects of Legacy Board structure and operation.

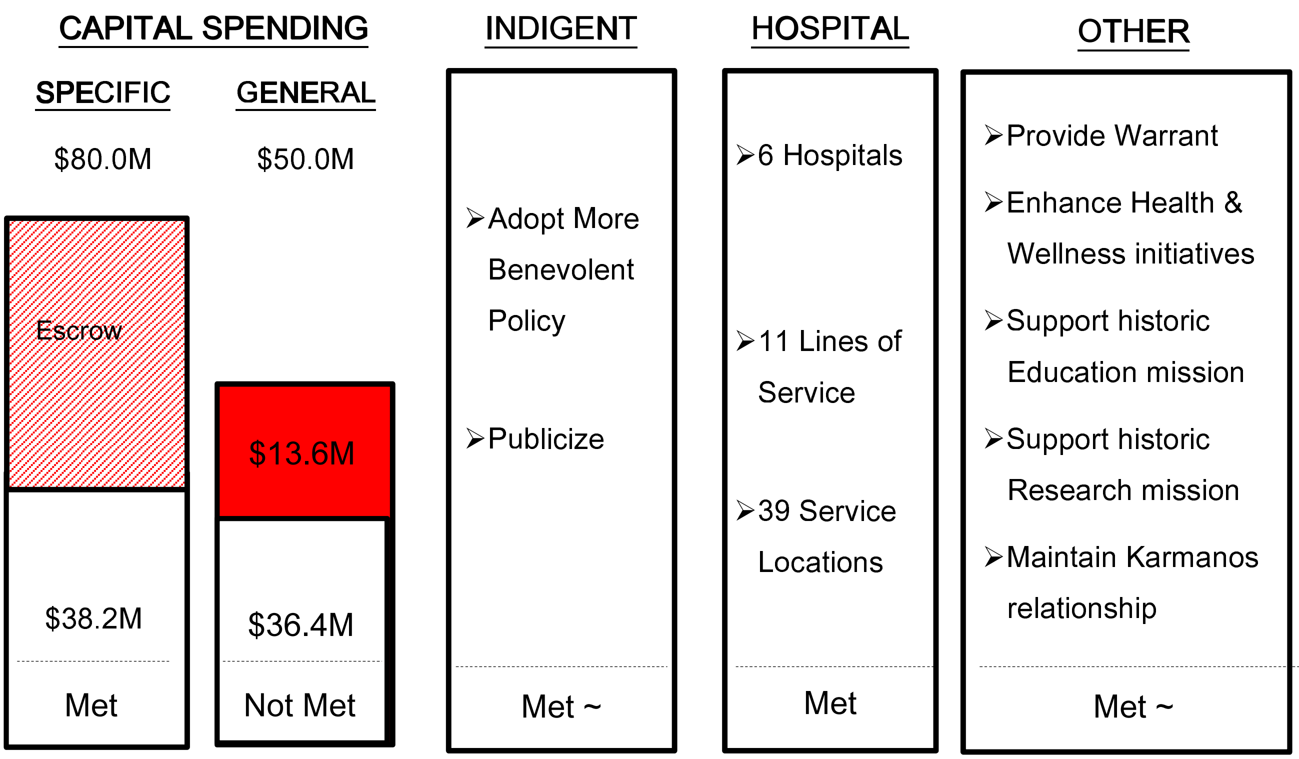
Q – Interim Quarterly Status Report – Legacy DMC and VHS-M have agreed to certain Interim Quarterly Status Reports (identified by "Q" above), in part to carry out Monitoring Agreement responsibilities.

May 30, 2012

Legacy DMC

VANGUARD COMMITMENTS

FIRST YEAR STATUS



- Escrow deposit ($41.8 million) received on schedule– Feb 14th
- Vanguard Annual Report received on schedule – Feb 29th

May 30, 2012

Legacy DMC

COMMITMENT TO MAINTAIN HOSPITAL CORE SERVICES

	Detroit Receiving	Harper Hutzel	Sinai-Grace	Huron Valley Sinai	Rehabilitation Institute of Michigan	Children's Hospital of Michigan
SERVICE						
Emergency Department Services	X	X	X	X		X
Trauma-designated Emergency Department	X		X			X
General Medical Services	X	X	X	X		X
Inpatient and Outpatient Surgery	X	X	X	X		X
Radiology and Diagnostic Services	X	X	X	X		X
Obstetrics		X	X	X		
Neonatal Intensive Care unit		X				X
Comprehensive Cardiology Services		X	X	X		X
Intensive Care Services	X	X	X	X		X
Inpatient Rehab Services					X	
Outpatient Rehab Services					X	

May 30, 2012

VHS of Michigan, Inc.
2011 Annual Report

DMC

DETROIT MEDICAL CENTER

May 29, 2012

Dear Friend of the Detroit Medical Center:

Two years ago Mr. Charlie Martin, the Chairman and CEO of Vanguard Health Systems, Mr. Michael Duggan, President and CEO of the Detroit Medical Center, Mr. Steven D'Arcy, Chairman of the Detroit Medical Center Board of Directors, Mr. David Bing, Mayor of the City of Detroit and Mr. Robert Ficano, Wayne County Executive gathered together in the Children's Hospital of Michigan auditorium and made a very important announcement. That morning, residents of the City of Detroit, Southeastern Michigan citizens, Michiganders and the rest of the country learned that Vanguard Health System had committed to purchase all Detroit Medical Center (DMC) assets and liabilities and further committed to spending $850 million on new and upgraded DMC facilities. The March 2010 announcement changed forever the entire City of Detroit, uplifted all of Southeastern Michigan and preserved the jobs and pensions of more than 13,000 men and women.

Vanguard Health System and DMC leadership teams worked together for the next 10 months constructing a contractual agreement. The contractual development process regularly required consultation with City of Detroit, Counties of Wayne and Oakland, and State of Michigan governmental officials. The final contract document is hundreds of pages long and sought to among other things: preserve the public's open relationship with the DMC while recognizing Vanguard Health System's need, as a publicly traded company to keep proprietary and competitively important information confidential. The parties worked diligently to maintain a fair balance fully appreciating how complex the financial environment within which publicly traded companies operate.

This report contains much tremendous good news. Every promise made by Vanguard Health System has been kept. Projects are on time, largely under budget and promised jobs have materialized. Committed dollars are carefully managed and report readers will note that in 2011 careful planning delayed some project starts and slowed the speed of committed dollars spent. That frankly is good news. Responsible stewardship of community assets has long been the hallmark of Mike Duggan's DMC leadership. Vanguard Health System has been a wonderful senior leader/partner and the DMC's 2011 financial performance is proof positive.

The entire community will soon receive Vanguard/DMC's community report. Part of the good news transmitted in that document is capsulized in this report. In this report, we focus on our indigent care delivery program, capital project progress and the careful management of required expenditures.

Vanguard/DMC's executive leadership is pleased to deliver this report to the Legacy Board of the Detroit Medical Center. Vanguard/ DMC celebrates with the entire community our first year as a member of the Vanguard Health System family and we look forward to delivering similar reports to the Legacy Board for the next 10 years.

Sincerely,

Vanguard/DMC Executive Leadership

VHS of Michigan, Inc. Annual Report

VHS of Michigan is pleased to present to the Legacy DMC Board of Directors its first annual report. This report has been prepared and is being delivered for the calendar year period ending December 31, 2011 in accordance with section 12.17 of the Purchase and Sale Agreement by and among the Detroit Medical Center, Harper-Hutzel Hospital, Detroit Receiving Hospital and University Health Center, Children's Hospital of Michigan, Rehabilitation Institute of Michigan, Inc., Sinai Hospital of Greater Detroit, Huron Valley Hospital, Inc., Detroit Medical Center Cooperative Services, DMC Orthopedic Billing Associates, LLC, Metro TPA Service, Inc., Michigan Mobile PET CT, LLC, DMC Primary Care Services II and Healthsource, as Seller, and VHS of Michigan, Inc., VHS Harper-Hutzel Hospital, Inc., VHS Detroit Receiving Hospital, Inc., VHS Children's Hospital of Michigan, Inc., VHS Rehabilitation Institute of Michigan, Inc., VHS Sinai-Grace Hospital, Inc., VHS Detroit Businesses, Inc., VHS Detroit Ventures, Inc., VHS University Laboratories, Inc., VHS Physicians of Michigan and CRNAS of Michigan, as Buyer, and Vanguard Health Systems, Inc. dated as of December 31, 2010 (Purchase and Sale Agreement).

Indigent and Low Income Care (Section 12.2)

In conjunction with the closing DMC adopted the Vanguard Health Systems, Inc. "Charity Care Financial Assistance and Billing & Collecting Policies for Uninsured Patients" policy. The VHS policy, provides more opportunity for higher income level patients to qualify for financial assistance under the Federal Poverty Guidelines. Eligibility guidelines are updated and changed periodically and Vanguard/DMC is working under the most recent and more benevolent VHS published 2012 guidelines.

To make sure patients are aware that financial assistance ("charity care") is available to uninsured and underinsured, Vanguard/DMC posts patient-care hotline signage at all of its hospitals and at outpatient clinics and the patient accounting office. The patient-care hot line is a toll free number which patients can call to obtain information about financial aid or assistance applying for financial aid. This includes assistance with completing Medicaid applications. In addition to the signage, a toll free number is displayed on patient bills and found on the Vanguard/DMC Public Web-Site.

Vanguard/DMC continues to provide significant levels of care for indigent and low-income patients. During 2011 DMC recorded providing $ 64.5 million in charity care for patients that qualified under the charity care guidelines. In addition, DMC recorded $179.3 million in uncollectible expense in 2011, representing unpaid charges for self pay patients, co-pays and deductibles that have not been paid, and 92% of the charges related to uninsured patients with Medicaid applications pending. At the approximate denial rate of 50-60%, it is reasonable to assume that $27.3 to $32.8 million of the total accounts receivable reserved as uncollectible expense at December 31, 2011 for Medicaid applications pending will eventually become additional charity care.

To ensure patients have access to both Medicaid and financial aid, Vanguard/DMC continues to follow the process of taking both Medicaid and Vanguard/DMC Charity Care applications at an in-patient's bedside or upon admission. Obtaining the application up front assists the patient in the financial aid process. In the event Medicaid denies patient coverage and the patient chooses to pursue access to financial assistance, the patient application is completed and the patient is made aware of what requirements and information is essential to be eligible for Vanguard/DMC's Charity Care program. By calling the patient care hot line number printed on every bill, patients that are seen on an out-patient basis also have access to assistance with the Medicaid and Charity Care application process.

Additional assistance is provided to patients who have been denied coverage or have experienced problems with their care. Vanguard/DMC has a team of patient care representatives that assist patients who call with problems or complaints. We have also officially appointed an independent Ombudsman to personally assist patients with any complaints or unresolved problems. The Ombudsman serves as the patient's advocate and will assist eligible patients acquire financial aid. Both the patient care representatives and Ombudsman review patient cases and work to resolve issues. The Vanguard/DMC Ombudsman reports to the Compliance/Governance Officer, responsible for the oversight of the patient call log.

The Vanguard/DMC Public Web-Site also provides a Patient Financial Assistance/Patient Rights & Responsibilities web page with a link to a patient rights statement for adult patients and a link to Vanguard/DMC Children's Hospital of Michigan web-page for the "kid-friendly" version. Posters are located in each of our facilities and patients have access to copies of our Patient Rights and Responsibilities document. Additionally, each patient is required to sign a Vanguard/DMC General Consent for Admission and Treatment form which describes how patients can obtain additional patient rights information.

With the exception of the Vanguard/DMC patient rights hot line and the official designation of the patient Ombudsman all of the processes described above were in place in 2010, 2011 and are practiced today. Vanguard/DMC's commitment to provide care to all of our patients regardless of ability to pay has not wavered nor has it in any respect been compromised. Attached please find a series of charts that show in patient volume 2010 vs.2011; bad debt 2010 vs. 2011; uncompensated care 2010 vs. 2011 and our case mix index 2010 vs. 2011. Again, these charts show clearly Vanguard/DMC's moral and ethical commitment to provide quality care to all Southeastern Michigan citizens regardless of ability to pay reamins unchanged.

Commitments to Maintain the Hospitals and Provide Core Services (Section 12.3)

Vanguard/DMC continues to maintain each of its Hospitals as a general acute hospital licensed in the State of Michigan, with Rehabilitation of Michigan licensed as a rehabilitation hospital licensed in the State of Michigan.

We continue to provide the Core Services as listed on Exhibit D. Each calendar quarter Vanguard/DMC affirms to Legacy DMC that Core Services remain operational at its hospitals. These services are essential to the patients and citizens of metropolitan Detroit and we have no intention or desire to discontinue providing Core Services.

Routine Capital (Section 12.4)(a)

VHS of Michigan is expected to make routine capital expenditures in an average amount of at least $70 million per year, but not less than $50 million in the first year. The capital budget for the 18-month period ending June 30, 2012 is $98.1 million. For the calendar year, $70 million of routine capital expenditures were budgeted. Certain portions of that amount were dedicated to specific capital projects and other amounts were made available for discretionary capital needs. During the period January 1 through December 31, 2011, $53.5 million of routine capital expenditures were requested to be funded, of which $36.4 million was spent (Exhibit A). This was $13.6 million lower than the first anniversary year minimum allocation of $50.0 million and $33.6 million lower than the budget authorized. Capital spending was slow during the first-quarter while the system and hospitals compiled its capital needs and project planning ramped up. Spending requests increased over the last three quarters and averaged $5.0 million per month compared to the first quarter of 2011 average of $2.3 million per month. The actual rate of routine capital spending has also increased with more than $17 million dollars spent in the first quarter of calendar year 2012 and $40 million to be spent in the 2nd quarter of 2012. We believe and Vanguard Health Systems agrees that routine capital spending will exceed $100 million dollars by the end of calendar year 2012. If we achieve that rate of spending we will come into full compliance with the spending directions contained in this section. Exhibit A shows the routine capital spend rate for the first quarter of 2012. The chart presented shows the significant numerical up tick in the spend rate.

Please understand, certain projects required a greater amount of planning and lead time then initially predicted. Delaying launch on IT and construction projects specifically, ensured project scope was thorough and complete. This included projects such as the $3.5 million Central Lab Master Plan which has been expanded. As a result, spend was slower than originally projected and deferred by approximately 3 months.

Other projects directly impacting the 2011 spend rate are specialty clinics. To ensure Vanguard/DMC is strategically and correctly positioning itself in the market the location of planned specialty clinics have been modified resulting in deferred project start dates.

Vanguard/DMC provides calendar quarter reports to Legacy DMC reporting both committed and actual spend on routine capital. Each report also includes projections indicating the anticipated spend over the next calendar quarter. Spending is based on receipt of equipment and/or invoice from vendor or supplier, which directly impacts the period in which the spend is recorded.

Requests change throughout the year due to changing hospital needs or unexpected equipment replacement which directly impacts the timing of routine capital spend. Vanguard/DMC is working with the hospitals to better define and refine its capital requirements starting with the next budget year which begins July 1, 2012. Management communicated the need to have all FY 2012 capital budget requests processed no later than April 1, 2012 to capture as much spend as possible by June 30, 2012. Capital budget planning kicked off before second quarter and has produced a more refined process for FY 2013 Capital Budget.

Specified Capital Projects (Section 12.4)(b)

Vanguard/DMC spent the first part of 2011 finalizing the project scope and plans of each Specified Capital Project. Project time lines have been developed to avoid disruption to daily operations and on-going patient care at each facility. The overall central campus projects were reviewed to successively roll out the projects with minimal inconvenience to patients and visitors. As a result, modifications from the original scope, cost and schedule presented in Schedule 12.4 of the Asset Purchase Agreement are attached as Exhibit B.

Vanguard/DMC provides calendar quarter updates to Legacy DMC reporting actual spend and known changes to scope and project time lines. A brief summary on the status of each Specified Capital Project follows. Also, attached Exhibit C summarizes the full-year spend for CY 2011 and projected CY 2012 expenditures on each Specified Capital Projects.

Sinai-Grace ED/ICU/FAÇADE/Radiology:

The changes to the scope of these various projects are not substantial and do not have an impact on overall cost. The time line however has been revised and the completion date has been extended to February 2015 from its most recently reported date of December 2014. The extension is primarily due to upfront project planning and design.

RIM 6th Floor Renovation:

No substantial change to the scope or the time line to RIM floor renovations. Construction began in January 2012 and is projected to be completed by September 2012.

HVSH Private Room Renovations:

This project is complete. Renovated rooms were made available to patients in October 2011. This project met the original time line and came in under budget by approximately $700,000. Savings were realized primarily from lower construction and equipment costs. Spend will continue into the first quarter 2012 for payment of outstanding vendor invoices totaling approximately $1.2 million.

HVSH Additional ICU Beds:

Huron Valley Sinai Hospital is undergoing a Master Plan review for its facility. As a result, the additional ICU Beds project has been delayed. Completion originally planned for February 2012 has been moved out to January 2013. At this time there are no plans to change the scope or overall cost of this project.

Detroit Receiving Patient Care Unit Renovations:

Construction for this project began in March 2012. Due to the massive number of construction projects planned for the Vanguard/DMC Central Campus it was necessary to review project plans to limit the disruption of patient care at each facility. The patient care units are anticipated to be completed by May 2014, approximately 13 months later than the original completion date.

Detroit Receiving Additional OR with Pre & Post Op:

This project broke ground on February 16, 2012. No change to scope or project time line has been made. At this time the project is schedule to be completed by May 2013.

Children's Pediatric Specialty Center:

Project construction is complete and will open in June 2012. The scope of the project was modified. The structure has one more additional floor and is constructed to allow for an additional floor of vertical expansion not originally included in the original project specifications. These modifications added cost of approximately $9.7 million dollars to the overall project.

Children's New Tower & Carl's Backfill

Renovations to the Carl's building began in April 2012. Preparatory, or make ready work, for the new tower will follow in July of this year. The overall project schedule was modified to coordinate moves to the new Pediatric Center without disruption to patient care and services. While the overall scope has not been modified the schedule was extended with construction expected to be completed in August 2016.

HUH Surgical Services Renovation

Further investigation revealed a better method to configure the surgery program, which allowed construction of two additional OR's, (for a total of 5 OR's rather than the 3 OR's called for in the current scope) within the project budget. The time line has been revised, with completion date extended to October 2013 from the original completion date June 2013. The extension is primarily due to upfront project planning and design.

HUH Unified Lobby

There has not been any change to the scope of the Unified Lobby project at this time. The time line however has been revised. The completion date has been extended to October 2014 from its original date of May 2012. The extension is primarily due to coordination of all Harper University Hospital Projects along with the Vanguard/DMC Central Campus projects. Coordination and timing have been revamped to ensure patient care is continued at the highest standard. Access to the Vanguard/DMC Central Campus facilities is being taken into consideration to minimize patient inconvenience.

HUH Ground Floor Master Plan

There has not been any change to the scope of the Ground Floor Master Plan project at this time. The construction completion date remains September 2015.

HUH Cardiovascular (CVI) & Outpatient Services Bldg (a/k/a Heart Hospital)

The construction of the New Vanguard/DMC Heart Hospital, which will house the Cardiovascular Institute, broke ground on January 17, 2012. Construction will be in full force during 2012 and 2013 with the completion date scheduled for January 2014. The original program has been expanded to include one additional future cath lab space for an ultimate total of 10 EP & Cath Labs.

HUH Harper Unit Renovations

Harper Unit Renovations are in line from a budget and scheduling standpoint. 10 Webber South was completed late February 2012. 9 Webber South will be complete by October 2012. Invoicing on this project is coming in much slower than anticipated impacting the spend time line. The spend time line will be refined as the project progresses.

HUH ED Expansion

Both the scope and time line of Harper's Emergency Department expansion have been increased. Harper has increased the number of treatment rooms (to a new total of 45 bays) and added additional support space. As a result the construction completion date has been moved out to January 2013. The additional cost for the treatment rooms and support space is estimated at $6.3 million.

Corporate Relocation of Mack Parking Deck

No change to project scope or time line. The construction for this project is scheduled to begin in June 2012 and is projected to be completed in December 2013.

Specified Projects CapEx Shortfall

On February 14, 2012 Vanguard Health Systems wire transferred $41,758,159 to the BNY Mellon, in its capacity as Escrow Agent. These funds represent the CapEx Shortfall for the first year Anniversary Date.

CapEx Shortfall was determined in accordance with generally accepted accounting procedures:

Anniversary Date Cap Ex Commitment for First Year	$ 80,000,000
Less: Capital Expended for 12 months ended December 31, 2011	$ 38,241,841
Specified Capital Project CapEx Shortfall:	**$ 41,758,159**

None of the funds deposited relate to the Children's Hospital tower project.

Ernst and Young LLP has been engaged by Vanguard Health Systems, Inc. to perform an independent review as required under Section 12.17. The review is limited to the agreed upon procedures set forth in Schedule 12.17 and Buyer's compliance with Section 12.4. This review is anticipated to be completed no later than February 29, 2012.

Warrant (Section 12.5)

At Closing, Vanguard delivered to the Escrow Agent an initial Warrant Certificate for the Warrant. In connection with Vanguard's initial public offering of its common stock in June 2011, Vanguard delivered to the Escrow Agent (in exchange for the Warrant Certificate then in the possession of the Escrow Agent) the Note in the original principal amount of $500,000,000. In accordance with Section 12.5 of the Purchase and Sale Agreement, the principal amount of the Note is automatically reduced on a continuous basis by the amount of any reduction in the Remaining CapEx Commitment.

No Sale of Hospitals (Section 12.7)

VHS did not sell, transfer directly or indirectly assets which constitute one or more of the Hospitals or any equity interest in any Subsidiary of VHS to any person during 2011.

Commitment to Education Mission (Section 12.8)

Vanguard/ DMC trained more medical and osteopathic residents in 2011 (1054 FTEs) than during any prior year. We maintained our prior commitment to train students of medicine, osteopathy and allied health at the same level as prior years. In addition to medical education Vanguard/DMC continues its support of nursing education. We had 625 clinical placement groups in 2011, which is higher than the 2010 level by 31. Each clinical group represents approximately 8 nursing students. Placements come from over 35 nursing training programs within Southeast Michigan.

Commitment to Research Mission (Section 12.9)

Vanguard/DMC continues to work closely with Wayne State University (WSU) in connection with ongoing groundbreaking research taking place at the Perinatal Research Branch located in Hutzel Women's Hospital. The importance of this research is highlighted by the following excerpt, released in April 2011:

> "For years, Detroit has been known to have a high rate of premature birth and infant mortality. To address these important problems, Dr. Roberto Romero and Dr. Sonia Hassan, along with a team of brilliant researchers, conducted a groundbreaking study as part of the Perinatology Research Branch of the National Institute of Child Health and Human Development of the National Institutes of Health on the campus of the Detroit Medical Center at DMC Hutzel Women's Hospital and Wayne State University.
>
> "On Wednesday, April 6, 2011, the world learned the results of a groundbreaking clinical study of a new method for preventing premature birth in millions of women each year. Published in the authoritative *Ultrasound in obstetrics & Gynecology*, the study shows that the rate of early preterm delivery in women (<33 weeks) can be reduced by 45 percent – simply by treating pregnant women at risk for preterm delivery with a low-cost natural progesterone gel" during the midtrimester of pregnancy until term. This breakthrough will become a care protocol for all applicable DMC patients." *See* the website for the Perinatal Research Branch.

We continue to actively conduct, and work cooperatively with WSU in its conduct of, research activities at Vanguard/DMC facilities. In total there are more than 900 active and ongoing clinical research projects.

Karmanos Cancer Center (Section 12.10)

Vanguard/DMC continues its relationship with Karmanos Cancer Center which has not materially changed since closing of the deal.

Health and Wellness Initiatives (Section 12.11)

Vanguard/DMC continues its support and commitment to the community. Initiatives and accomplishments during 2011 include the transfer of ownership of a building located near the DMC Central Campus to the Detroit Community Health Connection (DCHC).

New initiatives for DMC during 2011 included marching in the Cinco de Mayo Parade held in Southwest Detroit; feeding 400 families through the Kem- Feed the Homeless Food Drive and coordinating and for the first time participating in dressing dolls for the Goodfellows Doll Giveaway. We provided 324 dolls for distribution to underprivileged children in Detroit.

In addition to the Corporate Community Affairs, each hospital provides its own programs and events. Attached as Exhibit F is a description of hospitals "Community Affairs/Outreach Annual Report."

Supplier Diversity Program (Section 12.12)

Vanguard/DMC continues to support "Seller's Supplier Diversity Program"; there were no amendments or changes made to the Supplier Diversity Program Policy since closing. Overall diversity spending for FY 2011 was $40.6M, as compare to FY 2010 spending of $27.5M.

Project Genesis (Section 12.13)

During the summer of 2011 Vanguard/DMC completed its 6th year sponsoring Project Genesis. We employed 100 students from the Detroit area high schools and colleges placing students in various departments through out the DMC, both healthcare and non-healthcare fields. Each student worked 30 hours per week for 8 consecutive weeks from June 20 to August.12, 2011. The 2012 program has started with the distribution of applications to high school counselors. Typically more then 500 students apply for the 100 available positions. Project Genesis was created by the Vanguard/DMC in order to give students exposure to hospitals and careers in healthcare.

Detroit Based Systems (Section 12.14)

Vanguard/DMC continues to operate its hospitals as a Detroit-based system with its regional headquarters located in the City of Detroit, Michigan.

National Support Centers (Section 12.15)

Vanguard did not establish any National Support Centers during 2011.

Naming Conventions (Section 12.16)

Vanguard/DMC continues to honor all naming conventions as designated in donor agreements.

This completes VHS of Michigan, Inc. 2011 Annual Report.