SUPERIOR Health Foundation

September 15 , 2014

William R. Bloomfield
Assistant Attorney General
Michigan Attorney General's Office
Charitable Trust Section
G. Mennen Williams Bldg.
525 W. Ottawa St.
Lansing, MI 48913

Dear Mr. Bloomfield:

The purpose of this letter is to provide Superior Health Foundation's Second Annual Report for calendar year 2013 on DLP Marquette Holding Company, LLC's ("DLP") compliance with the Post-Closing Covenants contained in the Asset Purchase Agreement dated June 28, 2013. This report is issued pursuant to the requirement of the Monitoring Compliance and Enforcement Agreement ("MCE Agreement") among the Department of the Attorney General, Superior Health Foundation ("SHF"), DLP, and MGH Wind Down, Inc. ("MGH").

Under this MCE Agreement, SHF is tasked with monitoring the compliance of DLP, MGH with the six Post-Closing Covenants contained in the Asset Purchase Agreement dated June 28, 2012 (a copy of the Post-Closing Covenants are attached as Exhibit 1). This monitoring consists of reviewing DLP's compliance on a quarterly basis and generating an annual written report which is to be published on SHF's website by April 15th of the following year.

SHF, however, did not receive from DLP sufficient documentation to verify compliance with several of the Post-Closing Covenants by the April 15th due date for the Compliance Report. As a result, SHF requested and received a number of extensions from the Michigan Attorney General to complete discussions with DLP and to obtain the necessary documentation. During these discussions, DLP, SHF and MGH agreed upon a defined calculation to determine expenditures allowed to be included in the Physician Recruitment Commitment; obtained documentation to substantiate expenditures under the Capital Commitment; and clarified the reports that would demonstrate compliance with the Post-Closing Covenants.

The parties have also negotiated a revised Monitoring Compliance and Enforcement Agreement, in which Stout Risius and Ross, Inc. ("SRR") will assume the ongoing responsibilities to monitor compliance with the Post-Closing Covenants and generate an annual report. SHF will continue to be involved in the monitoring process by reviewing SRR's Annual Report and communicating to SRR and the Attorney General areas of deficiencies in the Post-Closing Covenants to which it may have substantiated knowledge. DLP's obligations under the Post-Closing Convents have in no way been diminished under the new Monitoring Compliance and Enforcement Agreement.

The following is a summary of SHF's observations on the Post-Closing Covenants.

Indigent Care

Section 9.9 of the APA requires that DLP institute and maintain the same policy for the treatment of indigent patients that was in place prior to closing. The indigent care policy of MGH prior to the closing is memorialized as Exhibit 9.9 to the Asset Purchase Agreement. Any changes to this policy within five years after closing requires the approval of SHF's Board.

DLP has retained the indigent care policy of Marquette General Hospital (Policy Number 100-087 last updated June 22, 2011). While DLP is in the process of transitioning the Hospital's policies to be consistent with Duke Lifepoint, DLP has committed to retaining this policy in its current form.

SHF also operates an email hotline to receive complaints of citizens about the indigent care policy. SHF has received no relevant complaints on this hotline.

Capital Commitment

Section 9.10 of the APA requires that DLP "commit or cause to be committed for the benefits of the Hospital Facilities and the development of other facilities" at least \$300,000,000 in aggregate capital investment. Of this amount, \$180,000,000 must be spent within the five (5) year period immediately following the closing. In addition, within 180 days of closing, MGH and DLP are to develop a strategic capital plan that will address timing and amount of the capital expenditures.

As of December 31, 2013, DLP reports capital expenditures of \$34,478,214, \$11,740,794 of which occurred in calendar year 2013. SHF conducted a random sampling of invoices supporting the claimed expenses in 2013 and have concluded that these expenses appear to be accurate.

In addition, during 2013, DLP did not complete the Capital Plan, as required by the Asset Purchase Agreement. DLP stated this delay was a result of its efforts to determine whether to select a location for a new hospital or renovate the existing hospital. On Monday, September 9, 2014, however, DLP announced it will be constructing a new hospital located at the Roundhouse/MSC property located south of Washington Street, west of 7th Avenue and north of US-41 in the City of Marquette. DLP then proposed, and MGH approved, a Capital Plan projecting to spend between \$280,000,000 and \$340,000,000 by 2017. A copy of this Capital Plan is attached as Exhibit 2. This Capital Plan, along with the projected expenditure to spend at least \$180,000,000 within the five (5) year period immediately following the closing, satisfies DLP's Post-Closing Covenant obligation under Section 9.10 of the APA.

Physician Recruitment Commitment

As indicated above, DLP, MGH, SHF and the Attorney General have agreed to a Physicians Recruitment Methodology that SHF believes allows for accurate reporting of the costs of recruiting by DLP. This clarified methodology has been incorporated in the revised Monitoring Compliance and Enforcement Agreement. A copy of the revised methodology is attached as Exhibit 3.

Under the revised methodology, DLP has spent $3,507,766 during 2013 for a total of $4,593,054. While under Section 2.1(e) of Asset Purchase Agreement, DLP is entitled to adjust up to $28,282,000 from either the Physicians Recruitment Commitment or Capital Commitment based on the Purchase Price Adjustment Agreement, DLP has yet to elect to which commitment it will apply this adjustment.

Furthermore, the offset of the total commitment does not reduce DLP's obligation to expend $30,000,000 (or $21,718,000 if the entire $28,282,000 adjustment is applied to the Recruitment Commitment) during the five (5) year period following the closing on the Asset Purchase Agreement. Therefore, even though DLP is currently still in compliance with the Recruitment Commitment, at the current rate of expenditures, DLP will not satisfy its obligations under the Asset Purchase Agreement.

Continuation of Services

DLP continues to offer the core services identified on Schedule 9.15 of the APA. SHF observes though that Section 9.15 of the APA requires DLP to "continue to provide, in all material respects, and enhance important healthcare services and programs described in Schedule 9.15" (emphasis added). SHF remains optimistic the construction of a new facility will retain and recruit practitioners to enhance these important healthcare services. During 2013, however, a number of key practitioners left the Marquette community. Therefore, recruitment efforts needed to replace and enhance these services must continue to ensure DLP's continued compliance with this Post-Closing Covenant.

Restrictions of Seller Transfer

The Monitoring Compliance and Enforcement Agreement provides that SHF shall monitor DLP's compliance with the Post-Closing Covenants of the Asset Purchase Agreement. While the Restriction on Seller Transfers contained in Section 9.16 of the Asset Purchase Agreement is a Post-Closing Covenant, it does not place any restrictions or obligation on the part of DLP. Therefore, SHF makes no report on this Post-Closing Covenant.

Restriction of Sale of Hospital

DLP has represented no assets of the hospital have been transferred to a third-party, and SHF has found no evidence to contradict this assertion.

Conclusion

SHF received significantly more information from DLP this year to substantiate its compliance with the Post-Closing Covenants, and believes DLP's obligations under the revised Monitoring Compliance and Enforcement Agreement will further enhance reporting on compliance with the Post-Closing Covenants.

During 2013, DLP was in compliance with its obligation under the Post-Closing Covenants of the Asset Purchase Agreement. The rate of spending on physician recruitment, however, is below what is necessary to meet DLP's physician recruitment obligation during the five (5) year period following the closing on the Asset Purchase Agreement. This trend creates a risk of future non-compliance in both physician recruitment as well as the obligation to continue and enhance core services.

If there are any questions regarding the review of the Post-Closing Covenants by SHF, please contact Jim LaJoie, Executive Director of Superior Health Foundation, at 906-225-3431 or jlajoie@superiorhealthfoundation.org.

Respectfully Submitted

SUPERIOR HEALTH FOUNDATION

Daniel Arnold, MD.
President

John F Marshall

John Marshall
Chairman of Compliance Committee

Exhibit 1

POST-CLOSING COVENANTS OF BUYER

9.9 Indigent Care. Buyer agrees it shall cause the Hospital to institute and maintain Seller's policies for the treatment of indigent patients prior to Closing and attached as Exhibit 9.9, subject to any changes necessary to comply with applicable Legal Requirements and the implications of healthcare reform legislation. Any changes to such policies during the five (5) year period immediately following Closing would require the approval of the Board of the Foundation and thereafter, changes to such policies would require the approval of the Board of Trustees (as hereinafter defined), except at any time changes may be made by Buyer that are necessary to comply with applicable Legal Requirements and the implications of healthcare reform legislation.

9.10 Capital Commitment. Subject to an offset in accordance with Section 10.7 and Section 9.18, during the 10 year period immediately following the Closing (the "Commitment Period"), Buyer will commit or cause to be committed for the benefit of the Hospital Facilities and the development of other facilities in an amount not less than $300,000,000 in the aggregate (the "Capital Investment Commitment"), at least $180,000,000 of which shall be spent within the five (5) year period immediately following the Closing and the remaining amount of which shall be spent during the remaining Commitment Period. Within 180 days following the Closing, Buyer and Seller shall develop and agree upon a strategic master capital plan (the "Capital Plan"), including repayment of capitalized lease obligations, new construction, renovation, repairs, maintenance, equipment and information technology listed on Schedule 9.10, which capital expenditures and the anticipated time periods for such capital expenditures. In the event that Buyer and Seller determine that the Commitment Period should be extended because they are not able to reasonably identify and implement the full Capital Investment Commitment during the Commitment Period, they may agree to extend the Commitment Period, provided that such extension is approved by the Board of Trustees of Seller, if Seller is still in existence at such time, and if not in existence, then to the Board of Trustees of Foundation. Notwithstanding the foregoing, the Capital Investment Commitment shall not be used to buy any other hospitals in the Upper Peninsula of Michigan.

9.1 Physician Recruitment Commitment. Subject to an offset in accordance with Section 10.7 and Section 9.18, during the Commitment Period, Buyer shall recruit and support new physicians in connection with the business or operations of the Hospital Facilities in accordance with Schedule 9.11 (the "Physician Recruitment Commitment"). Buyer will use commercially reasonable efforts to satisfy the Physician Recruitment Commitment. Buyer will commit an aggregate of $50,000,000 toward the Physician Recruitment Commitment, at least $30,000,000 of which shall be planned and committed during the five (5) year period immediately following Closing and the remaining amount of which shall be planned and committed during the remainder of the Commitment Period.

9.15 Continuation of Services. Buyer will continue to provide, in all material respects, and enhance important healthcare services and programs described on Schedule 9.15 (the "Core Services"). In the event that Buyer decides to eliminate or reduce any Core Services at the Hospital during the Commitment Period, such elimination or reduction must be approved by the Board of Trustees of Seller, if Seller is still in existence, and if not in existence, then to the Board of Trustees of Foundation. Following the expiration of the Commitment Period, such elimination or reduction of any Core Services must be approved by the Board of Trustees.

9.16 Restrictions on Seller Transfers. Seller shall not dissolve, liquidate, reorganize, merge, sell all or substantially all of its assets, make any distribution of the proceeds received pursuant to this Agreement or enter into or consummate any other similar organic transaction, unless (a) Seller's obligations under this Agreement, including those contained in Article 10, have terminated or have otherwise been fully performed; (b) the transferee or surviving or resulting entity in any such organic transaction delivers to Buyer written evidence (in form and substance reasonably acceptable to Buyer) that it has (i) fully and irrevocably assumed all of Seller's obligations under this Agreement; and (ii) such transferee or surviving or resulting entity has net assets equal to or greater than Seller's net assets (measured immediately after the Closing Date). Notwithstanding the foregoing, effective after the Closing Date and upon written notice to Buyer, the parties agree that Seller may transfer to Foundation all assets of Seller (provided that Foundation agrees to assume all obligations of Seller contained herein and in any other documents or agreement contemplated by this Agreement). Notwithstanding anything contained herein to the contrary, Seller or Foundation may only be permitted to distribute the Estimated Excess Proceeds Amount, as adjusted by Section 2.6 (the "Excess Proceeds Amount"), as well as any earnings on such Excess Proceeds Amount, in accordance with the terms of the Purchase Price Adjustment Agreement. Additionally, Seller and Foundation agree to use commercially reasonable efforts to substantially wind down the business affairs of Seller within 36 months following the Closing Date. For the avoidance of doubt, nothing contained in this Section 9.16 shall entitle Seller to assign this Agreement to any person or to otherwise avoid (or seek to avoid) its obligations under this Agreement.

9.17 Restriction on Sale of the Hospital. During the Commitment Period, Buyer shall not sell the assets of the Hospital to a third party; provided, however, that this restriction shall not prohibit Buyer from transferring the Hospital, its business or assets to (i) any affiliate of Buyer, LifePoint Hospitals, Inc. or DUHS or (ii) any acquirer or successor, by merger, asset purchase, stock purchase, lease or otherwise of all or substantially all of the ownership interests in or assets of DLP or LifePoint Hospitals, Inc.

Exhibit 2

DLP Marquette General Hospital
Capital Expenditure Estimate – Completed and Proposed Projects
As of 1/28/2014

2012: (Prior to Closing pursuant to Schedule 9.10) **$19,311,358**

2013:

1. CAMS Capital projected spend:
    a. Renovation of Surgery and ICU Waiting: $249,667
    b. Replacement Facility (Master plan): $219,219
2. FAC Capital projected spend: $417,177

2013 Subtotal = $886,063

During 2013, the parties collaboratively developed two projects for consideration: 1) a large renovation of the entire campus, including removing older buildings and adding new buildings, and 2) the construction of a new hospital. Final decision based on the attached description and current estimated capital expenditures for the project are described below. The site for the new hospital campus will be the Roundhouse/MSC property located south of Washington Street, west of 7th Avenue and north of US-41. By approval of this capital plan, the parties have agreed that the Core Services may be relocated to the new campus in compliance with Section 9.15 of the Asset Purchase Agreement.

2014:

1. CAMS Capital projected spend:
    a. Renovation of Surgery and ICU Waiting
    b. Replacement Facility (design)
2. Rollover of projects approved in 2013: $0.8M
3. Additional capital projects – normal spend: $3.5M

2014 subtotal (estimated) = $10,000,000 - $15,000,000

2015:

1. CAMS Capital projected spend:
    a. Replacement Facility (design): $2M
    b. Replacement Facility (construction): ($73-88M)

2015 subtotal (estimated) = $75,000,000 - $90,000,000

2016:

1. CAMS Capital projected spend:
    a. Replacement Facility (design): $0.9M
    b. Replacement Facility (construction): $176,000,000
    c. MOB (construction): $40,000,000

2016 subtotal (estimated) = $175,000,000 - $215,000,000

Total through 2016 (estimated) = $280,197,421 - $340,197,421

Per the capital commitment section (Section 9.10) of the Asset Purchase Agreement between Marquette General Health System and Duke LifePoint, Duke LifePoint is required to spend at least $180,000,000 in the first five years and a total of $300,000,000 over ten years. The above capital plan is expected to meet both requirements set forth in the agreement.

Program Information:

Hospital total area estimated between 450,000 to 500,000 SF consisting of:

1. Estimated approx 120,000SF of diagnostic and therapeutic services including:

    A. Comprehensive cancer center
    B. Heart and vascular center
    C. Brain and spine center
    D. Medical imaging / diagnostics
    E. Emergency department
    F. Surgical suite with approx 12 ORs

2. Estimated approx 170,000 SF of patient care services with an initial bed compliment of 200 to 250 beds with shell space to expand and including:

    A. Critical care unit
    B. Comprehensive heart unit
    C. Ortho / neuro patient unit
    D. Medical / surgical / oncology patient units
    E. Perinatal / neonatal / neonatal intensive care units
    F. Rehabilitation patient care unit
    G. Behavioral health unit.

3. Estimated approx 60,000 SF operational and administrative support services
4. Medical offices – size and content to be determined

Exhibit 3

PHYSICIAN RECRUITMENT COMMITMENT METHODOLOGIES

The following expenses shall be included in determining the amount which may be claimed against the Physician Recruitment Commitment under Section 9.11 of the Asset Purchase Agreement. The numbers and specialties of physicians to be recruited as initially described in Schedule 9.11 may be updated annually, to meet the changing needs of the community:

Physician Recruitment Department Direct Expenses, including salaries, benefits (calculated as a standard percentage of salary), supplies, purchased services, dues, rents, advertising, direct expenses (e.g., agency fees, etc.), loan amortization (signing bonus of new physicians is a loan, a portion of which is forgiven each month the physician continues to work in the community, and which is treated as a departmental expense as the loan is forgiven), depreciation (relates to equipment and other assets directly used by recruitment personnel), and legal expenses of the department.

Cost of Newly Hired Physicians, including salary, benefits (calculated as a standard percentage of salary), relocation expense, (signing bonus is reflected in loan amortization above) and ACTUAL Incremental Costs (space, equipment and personnel) attributable to the newly hired physician are included. For physicians newly recruited to independent practices, “Incremental Costs” will equal the costs specified in and actually paid out under the contracts and will be reduced by any sum repaid by the physician, e.g., for leaving prior to end of signing bonus earn-out. For newly recruited employed physicians, “Incremental Costs” be calculated the same way they are for purposes of determining income guarantees for non-employed physicians. E.g., includes the cost of support staff designated for use by a physician newly hired into an existing four-physician practice, but does not include 20% of the cost of the receptionist shared by all five physicians. Costs of the newly hired physician shall be offset by the physician’s Net Revenue. For purposes of this calculation, “Net Revenue” is defined as the Gross Charges of the physician’s practice less Contractual Adjustments and Bad Debts per GAAP consistently applied.

Income guaranty or other recruitment agreement with private practices. To the extent funds are expended, such funds will be counted toward the physician recruitment commitment. In the case of an income guaranty or other recruitment promise, which puts funds at risk, such commitment or promise will not be counted toward the physician recruitment commitment until and unless expended.

Contractual Payments for Physician Services. To the extent that a market cannot sustain the services of a full-time employed physician, Buyer’s purchased physician services in the community will be counted toward this commitment (e.g., Specialty Clinics for Children’s Services). Locum tenens physician costs, including temporary physician services hired to meet a need because of an unexpected loss of provider or recognized unmet need in the community, but not including locum tenens coverage required because of vacation or CME absences of physicians. Such expense shall be offset by the physician’s Net Revenue, as defined above, during the period of the contract. This provision does not include expenses incurred as a result of extensions or renewals of contracts in existence as of the Closing of the Purchase Agreement.