

**Report on DLP Marquette Holding Company, LLC  
Compliance with Asset Purchase Agreement**

**July 1, 2016**

**Pursuant to:**

**Monitoring, Compliance and Enforcement Agreement**

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Marquette Holding  
Company, LLC  
Compliance with Asset  
Purchase Agreement**

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## I. Overview and Background

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### Compliance Monitoring Overview

1. This Compliance Monitoring Report represents Stout Risius Ross, Inc.'s ("SRR") assessment of whether DLP Marquette Holding Company, LLC ("DLP Marquette") is in compliance with specific provisions of the Asset Purchase Agreement ("APA") that DLP Marquette executed in acquiring substantially all of the assets of Marquette General Hospital, Inc. d/b/a Marquette General Health System ("MGH"). SRR has assessed DLP Marquette's compliance with each of its APA commitments as detailed in the Monitoring, Compliance and Enforcement Agreement (the "Monitoring Agreement").

### Background of SRR's Monitoring of DLP Marquette

2. In early 2012, DLP Marquette submitted a bid to acquire substantially all of the assets of the non-profit Marquette General Hospital Inc. (the "Transaction"). In connection with its review of the transaction, the Michigan Department of Attorney General (the "AG") entered into the Monitoring Agreement with DLP Marquette and SRR. The Monitoring Agreement is intended to increase the transparency of the transaction by authorizing the AG and SRR to collect information and report on DLP Marquette's compliance with specific provisions of the APA. This includes monitoring DLP Marquette's compliance with APA commitments regarding indigent care, capital expenditures, physician recruitment expenditures, continuation of services, and restrictions on sale or closure of the hospital ("APA Commitments"). The Monitoring Agreement also provides for Superior Health Foundation's (the "Foundation") consultation with SRR related to the Foundation's previous role as Monitor and any ongoing concerns or issues it has regarding DLP Marquette's APA Commitments.



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## II. Compliance with Specific APA Commitments

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3. In 2016, SRR requested information and documents relevant to DLP Marquette's APA Commitments subject to monitoring. SRR reviewed and analyzed the information submitted by DLP Marquette, requested clarification of certain aspects of the information, as necessary, and considered DLP Marquette's responses to any subsequent requests, among other things. Based on our procedures performed related to the monitoring period of calendar year 2015, SRR concludes that DLP Marquette is currently in compliance with its APA Commitments, which contain ongoing provisions.
4. In connection with our analysis, we have made such reviews, analyses, and inquiries as we have deemed necessary and appropriate under the Monitoring Agreement. The principal sources of information used in performing our analysis included, but were not limited to:
  - The APA dated June 28, 2012;
  - The revised Monitoring, Compliance and Enforcement Agreement – September 2014;
  - DLP Marquette's Financial Assistance Policy (100-087);
  - Financial Assistance Application files;
  - The Foundation Proceeds Certificate dated August 31, 2012;
  - Capital expenditure listings and related invoices;
  - Summary of expenditures resulting from physician recruitment activities, and related payroll records, invoices, and general ledger reports;
  - DLP Marquette charge reports and performed procedures listings;
  - A review of available information regarding the services offered to the community; and
  - LifePoint Health, Inc.'s Annual Report.
5. We address DLP Marquette's compliance with each of the specific APA Commitments below.

### Indigent Care

6. The APA included a commitment by DLP Marquette to institute and maintain the indigent care policy in effect at the hospital immediately prior to the acquisition, included as Exhibit 9.9 to the APA. SRR's review of the current policy for indigent care assistance, active at DLP Marquette for the 2015 testing period, shows that it is consistent with the pre-acquisition policy.
7. As part of the indigent care testing, SRR has also reviewed DLP Marquette's adherence to the policy guidelines in its handling of financial assistance applicants. Based on our testing of a random representative sample of financial assistance applicants, we have determined that DLP Marquette is operating in compliance with its indigent care policy.



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8. Additionally, DLP Marquette has historically reported on its annual charity care under the aforementioned policies and guidelines. Through our review of this information, SRR has determined that DLP Marquette's charity care expenditures for 2015 are in line, in all material respects, to its pre-acquisition levels.

#### Capital Commitment

9. The APA included a commitment that DLP Marquette would spend or commit to spend the specified minimum amount of \$300 million in capital improvements or related expenditures, with \$180 million of that to be spent within the first five years following the APA Closing. DLP Marquette has reported substantial investments in its delivery system infrastructure through projects undertaken or planned, and thus appears to be on track with its Capital Plan to meet its APA commitment regarding capital expenditures.
10. In its Compliance Certificate filed with the AG, DLP Marquette represented that it spent \$59,768,711 toward its capital commitment, of which \$15,307,818 was spent in 2015. Upon review of the documents provided in support of these expenditures, SRR has confirmed DLP Marquette's reported level of capital expenditure for the year-ended 2015.
11. Based on SRR's review of the Capital Plan, at the current rate of expenditures, DLP Marquette appears to be behind schedule to comply with its five-year and full-term capital expenditure commitments. This is largely due to substantially lower construction expenditures than outlined in the Capital Plan under the Replacement Facility (construction) line item. However, as none of the initial deadlines have been reached, SRR cannot draw a conclusory opinion as to DLP Marquette's compliance with this APA Commitment until those testing years. Therefore, this Report verifies and highlights expenditures and demonstrates investment by DLP Marquette in 2015 toward the stated commitment, but does not assess whether any of the spending commitments have yet been satisfied.

#### Physician Recruitment Commitment

12. The APA included a commitment that DLP Marquette would spend or commit to spend the specified minimum amount of \$50 million in physician recruitment or related expenditures to address community needs and increase the level of services offered at the hospital, with \$30 million of that to be spent within the first five years following the APA Closing. Based on discussions with personnel from DLP Marquette and our review of the final Foundation Proceeds Certificate, there is a \$28.3 million off-set to the total \$350 million commitment in accordance with APA section 9.18. It appears that DLP Marquette will elect to apply the off-set to the \$50 million physician recruitment commitment, thereby reducing it to approximately \$21.7 million. In light of this change, DLP Marquette appears to be on track to meet its APA commitment regarding physician recruitment expenditures.



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13. In its Compliance Certificate, DLP Marquette represented that it has spent \$15,183,508 toward its physician recruitment commitment, of which \$6,817,629 was spent in 2015. Upon review of the documents provided in support of these expenditures, SRR has confirmed DLP Marquette's reported level of physician recruitment expenditure for the year-ended 2015.
14. Additionally, SRR has reviewed the new physician recruitment activity by DLP Marquette during the monitoring period in its assessment of DLP Marquette's compliance with Schedule 9.11.
15. DLP Marquette appears to be on track to comply with its five-year and full-term physician recruitment and recruitment expenditure commitments given the aforementioned off-set pursuant to APA section 9.18; however, as none of the initial deadlines have been reached, SRR cannot draw a conclusory opinion until those testing years. Therefore, this Report does not assess whether any of the spending commitments have been fully satisfied.

#### Continuation of Service

16. The APA included a commitment that DLP Marquette would continue to provide and enhance the Core Services, identified on APA Schedule 9.15, offered prior to the acquisition by Marquette General Hospital to the community throughout the Commitment Period.
17. Based on our review of DLP Marquette's reported procedures performed and related charges for the four-year period from 2012 through 2015, as well as the publicly available information regarding its services offered to the community among other documentation, SRR has determined that DLP Marquette has continued to provide and enhance the Core Services delineated on Schedule 9.15 in accordance with the APA. Therefore, DLP Marquette is in compliance with this APA Commitment for the 2015 monitoring period.

#### Restrictions on Seller Transfers

18. While the Restriction on Seller Transfers outlined in Section 9.16 of the APA is a post-closing covenant, it does not place any restrictions or obligation on the part of DLP Marquette. Therefore, SRR makes no report on this APA Commitment.

#### Restrictions on Sale of Hospital

19. Upon review of LifePoint Health, Inc.'s Form 10-K, it is apparent that LifePoint continues to retain ownership and operation of the Marquette General Hospital assets through its Duke LifePoint Healthcare joint venture. Therefore, DLP Marquette is compliant regarding the restriction on the sale of assets of the hospital.



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### III. Assumptions and Limiting Conditions

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20. We have not been requested to assess, and our Report does not in any manner address, DLP Marquette's compliance with any portion or covenant of the APA, except as specifically set forth herein and described in greater detail in the Monitoring Agreement. Furthermore, no opinion, counsel or interpretation provided herein is intended for use in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. SRR's conclusions are based on the information received from DLP Marquette personnel through the date of this report.
21. No one that worked on this engagement has any known financial interest in DLP Marquette or the outcome of the monitoring. Further, SRR's compensation is neither based nor contingent on the results of the analysis.
22. SRR's conclusions are applicable for the stated date and purpose only, and may not be appropriate for any other date or purpose. This report is solely for use in the cited monitoring, for the purpose stated herein, and is not to be referred to or distributed, in whole or in part, without prior written consent.

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Jeffrey J. Mordaunt  
Managing Director  
Stout Risius Ross, Inc.

