

Bill Schuette

Attorney General



Report on the Proposed Sale of Marquette General Hospital to Duke Lifepoint, LLC

August 29, 2012

STATE OF MICHIGAN
DEPARTMENT OF ATTORNEY GENERAL



P.O. Box 30212
LANSING, MICHIGAN 48909

BILL SCHUETTE
ATTORNEY GENERAL

August 29, 2012

I have reviewed the proposed sale of Marquette General Hospital to Duke Lifepoint, LLC and approve the sale.

Early this year, I learned that Marquette General Hospital was accepting bids from potential buyers. By March, Marquette had selected a buyer—Duke Lifepoint, LLC, a joint venture between nonprofit Duke University Health System and for-profit Lifepoint Hospitals, Inc.

The Attorney General has a unique responsibility over charitable assets. Recognizing this, the parties conditioned the sale on my approval.

I formed an eight-person review team to consider the reasons for the sale, the fairness of the sale, and the protection of charitable assets and interests. We examined documents and interviewed relevant persons. We accepted comments from the public and from government officials.

I also required Duke Lifepoint to fund a valuation expert to work at my direction. I directed the expert to review the adequacy of the purchase price and the fairness of the amount proceeding to the charitable foundation.

The review is now complete. Marquette's board of directors had sound reasons both for selling the hospital and for choosing Duke Lifepoint. They obtained fair market value for the hospital's assets and obtained other satisfactory terms of sale. With a total value of \$483 million, the sale allows the hospital to pay off its significant liabilities—over \$100 million in long-term debts and unfunded pension liabilities. It provides \$23 million to the Marquette General Foundation, which will be re-named as Superior Health Foundation.

The sale also provides hundreds of millions for hospital projects over the next ten years. This allows the hospital to improve facilities, recruit physicians, preserve core services, and improve quality. Superior Health Foundation will monitor and enforce Duke Lifepoint's promises.

The attached report more fully explains our review process and my reasons for approving the sale.

Bill Schuette
Attorney General

Table of Contents

- I. Introduction
 - A. Transaction Overview
 - B. Review Process
- II. Findings
 - A. Why is Marquette General being sold?
 - B. How did Marquette search for a buyer?
 - C. Was the process fair?
 - D. Why did Marquette select Duke Lifepoint?
 - E. Did Marquette obtain fair market value for its charitable assets?
 - F. Will Duke Lifepoint continue charitable care and core services?
 - G. What do employees and the public think of the sale?
 - H. How much will the resulting charitable foundation receive and will it be able to enforce Duke Lifepoint's promises?
- III. Conclusion
- IV. Appendix
- V. Exhibits

I. Introduction

Under Michigan law, the Attorney General represents the public in protecting charitable interests, which include the state's nonprofit hospitals. In June 2012, Duke Lifepoint, LLC¹ agreed to purchase nonprofit Marquette General Hospital (Marquette). Recognizing the Attorney General's authority in this area, the parties requested the Attorney General's review and approval before closing.² This report discusses the general terms of the sale and the review process. It also explains the findings that support the Attorney General's approval.

A. Transaction Overview

The terms of the sale are detailed in the Asset Purchase Agreement.³

Significant terms include:

1. Duke Lifepoint will pay roughly \$125 million⁴ in exchange for substantially all of Marquette's health-care assets;

¹ Duke Lifepoint is a joint venture between nonprofit Duke University Health System and Lifepoint Hospitals, Inc., a publicly traded for-profit company.

² For the Attorney General's authority over charitable assets and interests, see Appendix A.

³ The Attorney General has posted the Asset Purchase Agreement and many other important sale documents for the public's review at www.michigan.gov/mgh.

⁴ The purchase price allows Marquette to discharge its liabilities; thus, the actual purchase price depends on Marquette's liabilities at Closing—subject to a final calculation and adjustment post-Closing. As calculated just before Closing, Marquette's liabilities were higher than anticipated, resulting in an actual purchase price of roughly \$147 million. See Exhibit 3, SRR Report.

2. Duke Lifepoint will spend \$300 million⁵ in capital improvements over ten years;
3. Duke Lifepoint will spend \$50 million⁶ on physician recruitment;
4. Duke Lifepoint will offer employment to current employees;
5. Duke Lifepoint will continue core services for at least ten years;
6. Duke Lifepoint will continue Marquette's charity care policy for at least five years;
7. Duke Lifepoint will not sell the hospital for at least ten years;
8. At least \$23 million⁷ of the purchase price will fund the Marquette General Foundation, to be re-named Superior Health Foundation; and
9. Superior Health Foundation will monitor and enforce Duke Lifepoint's promises.⁸

B. The Review Process

In March 2012, the Attorney General assembled a team to review the proposed sale.⁹ The Attorney General also required the parties to pay for a

⁵ The purchase agreement allows Duke Lifepoint to offset certain unanticipated liabilities—discussed in footnote 4, above—by correspondingly reducing its capital improvements or physician recruitment commitments. Just before Closing, the offset amount was roughly \$28 million, thus leaving a \$322 million total commitment for capital improvements and physician recruitment.

⁶ See footnote 5, above.

⁷ The purchase agreement originally set this amount at \$15 million. Through the negotiation of the Attorney General, this was later increased to \$23 million. For discussion, see Section II.E., below.

⁸ The Foundation's enforcement role is explained more fully in the Monitoring, Compliance, and Enforcement Agreement. See Exhibit 1.

⁹ The Attorney General's team included: Chief Deputy Attorney General Carol Isaacs; Assistant Attorneys General: Robert Ianni, Chief, Consumer and Environmental Protection

valuation expert to work at the Attorney General's exclusive direction. The Attorney General chose Stout, Risius, Ross (SRR) to value Marquette's assets, to examine the sale process, and to consider the fairness of the consideration.¹⁰

The Attorney General's team focused on the due diligence of Marquette's board of trustees and on the overall fairness of the sale. More specifically, the review team considered these questions:

1. Why is Marquette General being sold?
2. How did Marquette search for a buyer?
3. Was the process fair?
4. Why did Marquette select Duke Lifepoint?
5. Did Marquette obtain fair market value for its charitable assets?
6. Will Duke Lifepoint continue charitable care and core services?
7. What do employees and the public think of the sale?
8. How much will the resulting charitable foundation receive and will it be able to enforce Duke Lifepoint's promises?

Section II., below, answers these questions.

Bureau; Katharyn Barron, Chief, Consumer Protection Division; William Bloomfield, Charitable Trust Section; Bridget Smith, Licensing and Regulation Division; Joseph Potchen, Health, Education and Family Services Division; Thomas Marks, M.D., Corporate Oversight Division; and, Joseph Kylman, Charitable Trust Section Auditor.

¹⁰ The Attorney General requested bids from multiple valuation experts. The review team interviewed three valuation experts before selecting Stout, Risius, Ross (SRR)—a national valuation firm headquartered in Southfield, Michigan. For a copy of the SRR expert contract, see www.michigan.gov/mgh. For SRR's valuation report and fairness opinion, see Exhibits 3 and 4.

II. Findings

A. Why is Marquette General being sold?

In simplest terms, Marquette General is being sold because of poor fiscal health. Marquette has large debts and aging facilities. A sale will permit Marquette to retire debt and improve facilities, thereby preserving quality and scope of services.

1. *History and financial struggles*

The city of Marquette's hospitals began in the late 1800's. For a more complete history, see Appendix B. The current Marquette General Hospital formed in 1973 from a merger between St. Luke's and St. Mary's hospitals. The current hospital is a 307-bed acute care hospital serving the city of Marquette and the surrounding region. It is the largest hospital in the Upper Peninsula. It is also the largest employer in the City of Marquette.¹¹

In recent years, Marquette General has struggled to meet its bond covenants. And any earnings quickly went to funding existing pension liability—exacerbated by years of lean investment returns—and paying other long-term debts.¹²

¹¹ According to 2010 data from the American Hospital Association Annual survey, Marquette General employed roughly 5,500 direct employees and supported another 4,000 indirect jobs. This resulted in a total economic impact of nearly \$600 million.

¹² Marquette General has roughly \$60 million in long-term debt and \$100 million in total pension liabilities. The sale allows Marquette to eliminate these liabilities.

With high debt and low earnings, Marquette deferred facility maintenance and improvements. Its facilities aged. Marquette's current age of plant is roughly twenty years; the industry average is less than ten. As facilities age, patient expectations cannot be met. Patients go elsewhere. In recent years, Marquette has lost market share as patients have traveled to Wisconsin and Minnesota for care.

2. Recent history and attempted turnaround

Responding to these challenges, in 2007, Marquette hired Wellspring as a consultant. Marquette implemented many of Wellspring's ideas. Marquette's finances improved—but not enough. Marquette still lacked sufficient capital to improve its facilities or fully fund its pension plan. In 2010, Marquette's board began considering other options, including mergers, partnerships, and asset sales.

B. How did Marquette search for a buyer?

In 2011, Marquette hired Juniper Advisory to find a partner or buyer.¹³ Juniper educated the Board on the possibilities and tested the market for interest. Juniper contacted twenty-six possible partners and buyers. Eighteen expressed interest. Ten bid to buy Marquette. Eight of these bidders—including the best offers—were for-profits.

Marquette's board selected five finalists. Each finalist came to Marquette and presented a second bid—which was typically higher than the first bid—to

¹³ Marquette's board chose Juniper from among six consultants it had considered. Juniper is an independent investment banking firm from Chicago that specializes in nonprofit hospital mergers and acquisitions.

Marquette’s board. For its second bid, Lifepoint Hospitals, Inc. partnered with Duke University Health System. Juniper attempted to match the other finalists with regional nonprofit health care systems, but with no success. From the five finalists, Marquette selected three for site visits. Ultimately, the Board unanimously chose Duke Lifepoint.

C. Was the process fair?

A fair market process is the best way to obtain value for a hospital’s assets.

To test the fairness of Marquette’s process, the Attorney General:

- requested and examined documents;¹⁴
- interviewed Marquette board members and executives; and
- hired valuation expert Stout, Risius, Ross (SRR)—funded by the parties and *not* the taxpayer—to review the process and evaluate the consideration received.

The Attorney General concludes that the sale process was fair.

D. Why did Marquette select Duke Lifepoint?

Duke Lifepoint was not the highest bidder. And yet, Marquette’s board unanimously selected Duke Lifepoint. Why?

First, Duke Lifepoint offered a purchase price within the range of values—even above the range—that Marquette’s board considered as fair. Next, Marquette’s board considered other factors—quality, local governance, corporate culture, brand name, nonprofit partnership, risk in execution, and long-term

¹⁴ See Appendix E.

financial stability. The board found that Duke Lifepoint surpassed the field in all these areas. Lastly, Duke Lifepoint promised a minimum contribution to the foundation and promised not to sell the hospital for at least ten years. Other bidders were unwilling or unable to make these important promises.

Considering all these factors, following the final bids and site visits, Marquette's board unanimously selected Duke Lifepoint.

E. Did Marquette obtain fair market value for its charitable assets?

The Attorney General retained valuation expert Stout, Risius, Ross (SRR) to verify that Marquette received fair consideration for its charitable assets. Based on a review of SRR's report and consultation with SRR, the Attorney General concludes that Marquette received fair consideration.

SRR used three independent methods to value Marquette's assets: (1) capitalized cash flow, (2) guideline public company, and (3) merger and acquisition. Those methods revealed a range of fair market value between \$107 and \$134 million. Duke Lifepoint's purchase price of \$123.96 million¹⁵ is within that range.

¹⁵ The *total value* of the sale—including the additional \$8 million for the foundation negotiated by the Attorney General—is roughly \$483 million. This was the second highest of the five finalist bidders. But SRR concluded that the most accurate way to calculate the *purchase price* was to exclude Duke Lifepoint's long-term capital commitments. In its initial written report, SRR concluded that the purchase price was \$123.96 million. Just before Closing, SRR revised the purchase price to reflect the recently submitted Estimated Foundation Proceeds Certificate and Purchase Price Adjustment Agreement. SRR concluded that the purchase price had risen from \$123.96 million to roughly \$147 million. This increase resulted from (1) higher than anticipated liabilities for Marquette and (2) the extra \$8 million negotiated by the Attorney General. This amount now *exceeds* the range of fair market value.

SRR also concluded that Juniper, in guiding Marquette through the sales process, appeared to have conducted a thorough market clearing process that likely yielded reasonable offers.

Lastly, SRR examined the \$15 million proceeding to the foundation. Was this amount fair? Both the Attorney General and SRR scrutinized this question, noting that other Marquette bidders had proposed larger amounts for the foundation. Though other bidders offered more to the foundation, the Marquette board determined that Duke Lifepoint's bid was superior in other respects. See Section D., above. SRR ultimately concluded that, given the worth of the hospital's assets, at least \$15 million for the charitable foundation was a fair amount.¹⁶ Because Marquette's board obtained a fair amount for the foundation, Marquette's board fulfilled its fiduciary duties in selecting Duke Lifepoint's bid.

But the Attorney General also has a responsibility to the public to protect and defend charitable interests. The Attorney General concluded that the \$15 million proceeding to the foundation—which was the lowest of the five finalists—was not enough. Thus, the Attorney General negotiated with Duke Lifepoint to pay an additional \$8 million to the foundation. This extra payment will *not* affect Duke Lifepoint's capital improvement or physician recruitment commitments. With a total of \$23 million now going to the foundation, the Attorney General is satisfied that Marquette has received fair market value for its charitable assets.

¹⁶ For SRR's complete report, see Exhibit 3.

F. Will Duke Lifepoint continue charitable care and core services?

Yes. The purchase agreement requires Duke Lifepoint to maintain Marquette's charitable care policy for at least five years.¹⁷ This provides an important service to the public.

G. What do employees and the public think of the sale?

1. *Public Forum*

The Attorney General hosted a public forum on July 17, 2012 in Marquette to allow the public to comment on the sale.¹⁸ Twenty-four individuals commented; none opposed the sale. A few commenters expressed caution about enforcing Duke Lifepoint's promises. Others wanted more details about the role and structure of the resulting charitable foundation. The Attorney General shares these concerns and has required the parties to address them in a monitoring and enforcement agreement. This enforcement agreement and the foundation's role are discussed more thoroughly in Section H., below.

2. *Community and Employee Comments*

The Attorney General's review team interviewed select Marquette doctors, nursing staff, and other employees. The review team met with City of Marquette officials. For a complete list of those interviewed, see Appendix C. The review team

¹⁷ See Section 9.9 of the purchase agreement at www.michigan.gov/mgh. For Marquette's current charity care policy, see Exhibit 9.9 of the purchase agreement at www.michigan.gov/mgh.

¹⁸ For a full transcript of the public forum, see www.michigan.gov/mgh.

also received written comments, including several letters from both federal and state representatives. See Appendix D. Overall, as with the comments from the public forum, these comments were either wholly supportive or cautiously supportive.

3. *Other Upper Peninsula Hospitals*

The healthcare industry is a major component of the Upper Peninsula economy. It provides 18,000 direct jobs, generates \$345 million in tax revenue, and has a total economic impact of \$1.5 billion.¹⁹ The closing of any one hospital can devastate a local economy. Recognizing this, and the important role that Marquette General plays, the Attorney General's review team met with representatives of other U.P. hospitals.²⁰ Common themes from these meetings included:

- Recognition that Duke Lifepoint's presence could benefit the U.P.;
- Concern that Duke Lifepoint's presence may pull patients away from other U.P. hospitals;
- Concern regarding market predation by a large, for-profit entity;
- Concern regarding for-profit reduction of less profitable core services;
- Concern over geographical use of foundation proceeds, i.e., will the foundation proceeds be used throughout the U.P or just in Marquette?
- Concern over patient steorage to for-profit Marquette; and
- Concern over respecting patient choice for location of services.

Although some of these concerns exceed the scope of the Attorney General's review,

¹⁹ American Hospital Association Annual Survey (2010 data).

²⁰ For a list of these hospitals, see Appendix C.

the Attorney General fully appreciates and will continue to consider them—especially if Duke Lifepoint expands its presence in the U.P.

H. How much will the resulting charitable foundation receive and will it be able to enforce Duke Lifepoint’s promises?

The purchase agreement specifies that at least \$15 million will go to the charitable foundation. As discussed above in Section II.E., the amount going to the foundation has been increased to \$23 million. Both the Attorney General and SRR concluded that the amount going to the foundation is fair.²¹

Because Marquette’s hospital will be for-profit after the sale, the resulting charitable foundation can no longer support the hospital. Thus, with the Attorney General’s review and approval, the current Marquette General Foundation will modify its articles of incorporation and by-laws; it will name new directors and will also have a new name. The new Superior Health Foundation will have a broad, primary purpose “to improve healthcare in the greater Marquette community and underserved areas of the Upper Peninsula of Michigan.”²²

The Foundation will also have a secondary purpose—to enforce Duke Lifepoint’s promises under the purchase agreement. In other words, for ten years,

²¹ See Exhibit 3, SRR Report; see also Exhibit 4, SRR Fairness Opinion.

²² For Superior Health Foundation’s articles of incorporation and by-laws, see www.michigan.gov/mgh.

the Foundation will monitor and enforce Duke Lifepoint's long-term capital commitments, charitable care policies, physician recruitment, and other promises.

To reach these ends, the Attorney General required the parties to sign a Monitoring, Compliance, and Enforcement agreement. See Exhibit 1. This agreement details the responsibilities of the parties. It requires Duke Lifepoint to provide certain reports so that the Foundation can properly monitor Duke Lifepoint's compliance; it also requires the Foundation to keep \$1 million in reserve for enforcement purposes. By this agreement, the parties also recognize the Attorney General's continuing authority to enforce Duke Lifepoint's promises.²³

III. Conclusion

The Attorney General and his expert, SRR, have thoroughly reviewed the proposed sale. Marquette General needs capital to restore its fiscal health, continue quality care, and improve its facilities. A sale to Duke Lifepoint meets these goals. In searching for a buyer, Marquette's board of trustees fulfilled its fiduciary duties, thereby preserving the hospital's charitable assets and interests. Because the sale properly protects the public interest, the Attorney General consents to the proposed sale.

²³ In support of the Attorney General's enforcement authority, the Enforcement Agreement allows the Attorney General to designate a board member to the Superior Health Foundation.

IV. Appendix

- A. The Attorney General's Authority
- B. History of Marquette General Hospital
- C. Interviews
- D. Letters from Government Officials
- E. Documents Reviewed

Appendix A

The Attorney General's Authority

Supervision of Trustees for Charitable Purposes Act

The Supervision of Trustees for Charitable Purposes Act¹ empowers the Attorney General to protect charitable interests on behalf of the public.

Charitable Gifts Act

The Charitable Gifts Act² authorizes the Attorney General to enforce charitable trusts on behalf of the public and all indefinite and uncertain beneficiaries of charitable gifts. Also, the law liberally protects the intentions of charitable donors.

Revised Judicature Act

The Revised Judicature Act gives the circuit court power over corporate fiduciaries, including the power to remove corporate fiduciaries for abuses of trust.³ The Attorney General may prosecute actions on behalf of the people.

Nonprofit Corporations Act

The Nonprofit Corporations Act allows the Attorney General to seek dissolution of a nonprofit organization that willfully exceeds its authority or otherwise acts fraudulently or unlawfully.⁴ The law also prevents charitable assets from being used for noncharitable purposes.⁵

Common Law

The common law also recognizes the Attorney General's authority to protect charitable assets.⁶ This authority is liberally construed.⁷ The Attorney General's authority under common law also is derived from the *parens patriae* doctrine.⁸

¹ MCL 14.251 *et seq.*

² MCL 554.351 *et seq.*

³ MCL 600.3605.

⁴ MCL 450.2821.

⁵ MCL 450.2301.

⁶ See *e.g.*, Restatement of Trusts 2d, § 391.

⁷ *Michigan State Chiropractic Ass'n v Kelley*, 79 Mich App 789, 791 (1977) (citations omitted); see also *Attorney General v Michigan Public Service Commission*, 243 Mich App 487, 497 (2000), and *State of Mich ex rel Kelley v C.R. Equipment Sales, Inc*, 898 F Supp 509 (WD Mich, 1995); *Humphrey v Kleinhardt*, 157 FRD 404 (WD Mich, 1994).

⁸ *Kelley v Carr*, 442 F Supp 346, 356 (WD Mich, 1977), *aff'd in part, rev'd in part*, 691 F2d 800 (CA 6, 1980).

Appendix B

History of Marquette General Hospital

The brief history that follows was prepared by Marquette General.

The History of MGHS
By - Ed Litwin
Staff Development Coordinator

The Marquette area has a long history of providing health care for the citizens of Michigan's Upper Peninsula. By 1850, Marquette had the reputation of having "healthful air" for asthma, tuberculosis, and hay fever patients. Early hospitals were established in the homes of concerned citizens. Marquette General Hospital got its start as the Marquette City Hospital, organized in July 1896 by Dr's. Northrop, Foster, Youngquist, Harkin, and Hornbogen. It quickly outgrew its 12 bed facility on 152 E. Prospect Street, and moved to a site on Front Street where the public library now stands. The 15 to 25-bed hospital was on a street car line to make patient transfers easier. A January 1, 1897 Marquette Mining Journal article boasted that the hospital "contains every convenience - hot and cold water, bathrooms, etc." However, it had no elevator and the superintendent, Mr. Frank Stolpe, had to carry patients up and down the stairs on his back. In June 1897, the hospital moved to 123 W. Ridge Street, and its name was changed to St. Luke's Hospital later that year. The hospital was named St. Luke's (quoting a newspaper of the time) because St. Luke was named by St. Paul "the beloved physician" and because he was a close observer of health and disease.

By 1907 it became apparent that the growing city needed a larger and more modern hospital. Funds were raised through private donations, hospital ticket sales, and benefit fundraiser's. The largest fundraiser was attended by more than 1500 people and was "the" social event of the decade. The Longyear family contributed the property on which the new hospital was built. The new St. Luke's Hospital opened in 1915 with a capacity of 50 to 60 beds. A local newspaper proclaimed it to be state-of-the-art for its day, including "the latest electronic elevator operated by a push button control" and "two bath and toilet rooms for each floor."

Many improvements and expansion projects followed over the years. In 1931 the Northern Michigan Children's Clinic was built adjacent to the hospital. Senator James Couzens had established a philanthropic trust to promote the health and welfare of children in Michigan, and several clinics were built throughout the state. The clinic brought specialty physicians to the area, and played an important role during the severe polio epidemics of the 1940's.

The Wallace Building, constructed in 1935, was originally a dormitory for students of the hospital's School of Nursing. Established in 1899, the school graduated more than 700 registered nurses before closing in 1974. The Wallace Building now holds most of the administrative services for the hospital. The James Couzens Memorial, or JCM Building, was constructed in 1938. An addition was built in 1956. Along with a renovation of the St. Luke's Building, this raised the hospital's capacity to 186 beds. The hospital's first Intensive Care and Coronary Care units were in this building. Several departments now have their offices in the JCM Building.

Another expansion project occurred in 1969. This included a new physical plant, Obstetrics Unit, and a five-floor patient care building. A generous grant from the Mott Foundation allowed a Pediatric Unit to be included in the construction.

In 1973 St. Luke's merged with Marquette's other hospital, St. Mary's, to become Marquette General Hospital. This eliminated duplication of practices and allowed the upgrading of the community's medical services. Ownership of St. Mary's was eventually transferred to the State of Michigan. The building was extensively renovated and today serves as the D.J. Jacobetti Home for Veterans.

The 81 addition, or South Tower, was the centerpiece of a major renovation and expansion project started in 1979. The eight story structure was designed to hold 194 patient beds, and included a new Emergency Department, Laboratory, and Operating Room suites.

The 1984, or East Building, was built on the site of the old Children's Clinic. It houses the Radiation Therapy Department, Hemodialysis and Endoscopy Units, Medical Library, Conference Center, Education Department, Digestive Health Institute, Surgical Weight Loss Center, Vein Clinic, Interventional Institute, and Superior Medispa.

In 1992, Marquette General Hospital opened the North or Robert C. Neldberg Building and parking ramp. The Neldberg Building houses both In- and Outpatient Admitting, three Cardiac Catheterization labs, Outpatient Cardiac Unit, CCU, Rehabilitation Services, The Family Birthing Center, Neonatal Intensive Care Unit and Behavioral Health Services. A Skywalk connects the north complex with the South Tower on the third floor level.

In 2000, Marquette General Hospital opened the Bridge Building with ICU on the 4th floor. The Upper Michigan Neuroscience Center occupies the third floor.

In 2004 Positron Emission Tomography (PET) scanning became available at Marquette General.

In 2005 a new Emergency Department and Level II Trauma Center, with computerized patient charting and the only hyperbaric chamber north of Milwaukee, were added.

Marquette General Hospital is not all buildings and equipment, though. We live in a unique area with a distinctively active and outdoors oriented population. Camping, skiing, hiking, and fishing are all just minutes from the hospital's door. Marquette General Hospital is proud of its long history in Michigan's Upper Peninsula. We will continue to develop our services to meet the changing needs of our citizens, and to complement the many community hospitals by providing regional services.

Appendix C

Individuals Interviewed

Aho, Mark	Treasurer, Marquette General Foundation; Former MGH Board Member
Baldini, Thomas	Vice-Chair, Marquette City Charter Commission
Bartlett, John M.D.	Member, MGH Board of Trustees; Board Member, Marquette General Foundation; Former Chief Of Staff
Blotter, Robert M.D.	Chief of Staff, MGH Board Member; Member, Marquette General Foundation
Canale, Mark	Chairperson, Marquette General Foundation
Carpenter, William	CEO, Lifepoint Hospitals
Cory, Brad	Chair, Marquette General Hospital (MGH) Board of Trustees; Special Committee Member
Dank, Joel M.D.	Chair, MGH Family Medicine
Ghiardi, Greg M.D.	Secretary/Treasurer of MGH Medical Staff; Chair, Surgery
Graser, David	MGH Sr. Vice President, Chief Operating and Information Officer
Hardie, Daniel M.D.	Incoming MGH Chief of Staff, Family Practice Physician
Hillman, Jan	MGH Vice President, Chief Integration Officer
Kivela, John	Mayor of Marquette
LaPlant, Gary	Member, MGH Board of Trustees
Lewis, Larry M.D.	Member, MGH Board of Trustees; Trauma Department Medical Director; Former Chief of Staff
Muller, Gary	MGH President and Chief Executive Officer; Special Committee Member; Board Member, Marquette General Foundation
Niemi, Robert	Marquette City Commissioner
Noren, Thomas M.D.	MGH Sr. Vice President, Chief Medical Officer, Board Member
Raica, Dagmar	MGH Vice President, Chief Nursing Officer

Ryan, Don	Marquette City Commissioner
Schaefer, Rick	MGH Board of Trustees; Former Chair, MGH Board of Trustees; Special Committee Member
Stachewicz, Jr., Dennis M.	Dennis M. Stachewicz, Jr., Director of Planning and Community Development, City of Marquette
Vajda, Bill	Marquette City Manager
Watson Olson, Judy	Vice-Chair, MGH Board of Trustees; Special Committee Member
Wipfli, Mike	Director, MGH Business Office
Worden, Jerry	MGH Sr. Vice President, Chief Financial Officer; Board Chair, Upper Peninsula Health Plan
Young, Kathy	Clinical Director, Medical Oncology
Ziel, Ruth	Staff RN, Emergency Department

Meetings with Upper Peninsula Hospitals

War Memorial Hospital	Sault St. Marie
School Memorial Hospital	Manistique
Portage Health System	Houghton/Hancock
Aspirus Grandview/Aspirus Ontonagon/Aspirus Keweenaw	Ironwood/Ontonagon/Calumet
OSF St. Francis Hospital	Escanaba
Dickinson County Memorial Hospital	Iron Mountain
Mackinac Straits Hospital	St. Ignace
Helen Newberry Joy Hospital	Newberry

Appendix D

Letters from Government Officials

Congress of the United States
House of Representatives

July 13, 2012

The Honorable Bill Schuette
Attorney General of Michigan
Post Office Box 30213
Lansing, MI, 48909

RE: Marquette Hospital Comments

Dear Attorney General Schuette:

I am writing in support of the proposed acquisition of Marquette General Hospital (MGH) by Duke LifePoint Healthcare. According to MGH officials, this transaction will allow the health care system to improve the quality of care provided in the Upper Peninsula through Duke LifePoint's commitment to construct new facilities, recruit additional physicians, and increase medical services that will enhance the economic vitality of the entire region. I have been further advised that this transaction will assure that high tech/high value jobs are retained and grow at the Upper Peninsula's largest employer, MGH.

It is my understanding that the MGH Board of Trustees led the transaction process which began in January of 2010. The MGH Board ultimately reached the conclusion that a transaction was necessary for the organization to continue its role as the regional referral center for the Upper Peninsula. Factors considered in the Board's decision to move forward with a transaction included: the financial impact of health care reform, current reimbursement, compliance with bond covenants, pension liability, age of the plant and need to enhance access to health care services.

MGH communicated with me and my office throughout this process. As a General Surgeon for nearly 30 years, I believe the MGH followed a detailed process in selecting the best partner for MGH and my constituency in the Upper Peninsula. It is my understanding that this process is recognized by professionals in the corporate world as being the best and most effective method for establishing fair market value in a change-of-control transaction. Furthermore, MGH

officials advised me that the health foundation to be formed after the transaction will ensure that its charitable assets remain in the Upper Peninsula to meet the health care needs of my constituents.

In closing, I provide support and urge you to approve this transaction that will likely improve health care in the Upper Peninsula for generations to come.

Sincerely,

A handwritten signature in blue ink that reads "Dan Benishek". The signature is written in a cursive style with a large initial "D".

Dan Benishek M.D.
Member of Congress
Michigan's First District

DB/kh



S-1488 HOUSE OFFICE BUILDING
P.O. BOX 30014
LANSING, MI 48909-7514
PHONE: (517) 373-0498
TOLL-FREE: (UPPER PENINSULA ONLY)
(888) 429-1377
FAX: (517) 373-9366
E-MAIL: stevenlindberg@house.mi.gov

STEVEN LINDBERG
MICHIGAN HOUSE OF REPRESENTATIVES
109TH DISTRICT

COMMITTEES
APPROPRIATIONS
APPROPRIATIONS SUBCOMMITTEES:
CORRECTIONS – MVC
NATURAL RESOURCES – MVC

July 12, 2012

The Honorable Bill Schuette
Attorney General of Michigan
G. Menen Williams Building, 7th Floor
PO Box 30212
525 W. Ottawa Street
Lansing, MI, 48909

RE: Marquette General Hospital, Duke LifePoint proposal for acquisition

Dear Attorney General Schuette:

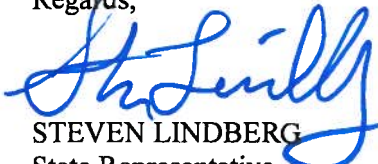
I write today in full support of the proposed acquisition of Marquette General Hospital (MGH) by Duke LifePoint Healthcare. If this transaction is allowed to continue it will greatly improve the quality of medical care provided within the Upper Peninsula through Duke LifePoint's detailed plans for constructing new medical facilities, recruitment of additional physicians and medical staff, and increasing needed medical services for the region.

The MGH Board of Trustees has been working on such a move since January of 2010, when it determined due to several factors, such as health care reform, reimbursement rates, and age of facilities, that such a transaction or acquisition was necessary. Once this was determined, the MGH Board of Trustees followed a competitive process recognized as the most effective method for establishing the fair market value for such a change of control transaction. After completing this controlled, and competitive process, Duke LifePoint was selected as the best suitor for MGH, and the region as a whole.

As an elected official of the State of Michigan, I am always excited about any possibility to help enhance the lives of my fellow constituents. This proposed acquisition will not only help offer increased health care for generations to come within the Upper Peninsula of Michigan, but could also be a huge economic stimulus for the entire region. It is because of the wide reaching scope of this proposal that I lend my full support to the efforts of MGH and Duke LifePoint.

Thank you for taking the time to review this letter. Please feel free to contact my office if you would like any additional information.

Regards,


STEVEN LINDBERG
State Representative
109th State House District



TOM CASPERSON

38TH DISTRICT

P.O. BOX 30036

LANSING, MI 48909-7536

PHONE: (517) 373-7840

FAX: (517) 373-3932

sentcasperson@senate.michigan.gov

**THE SENATE
STATE OF MICHIGAN**

July 16, 2012

The Honorable Bill Schuette
Attorney General of Michigan
PO Box 30213
Lansing, MI, 48909

Dear Attorney General Schuette,

First and foremost, I am writing to convey my support for the proposed acquisition of Marquette General Hospital (MGH) by Duke LifePoint Healthcare. In January, 2010, MGH began the process of evaluating the overall health of the organization, including its financial condition and its ability to meet the future healthcare needs of the community in which MGH serves. With regard to its financial condition, the hospital's focus was toward the changes that resulted after MGH followed a number of financial improvement recommendations that were made by the consulting firm it retained (Wellspring) in 2007. Unfortunately, following those recommendations did not yield the overall positive result for which the hospital had hoped.

Today, MGH faces a number of profound challenges, including: (1) compliance with its bond covenants; (2) a decline in inpatient admissions; (3) an underfunded pension plan; and (4) a relatively obsolete facility compared to similar facilities. The constellation of these challenges finally led Marquette General to refinance its debt with a commercial lending institution. Unfortunately, this only served to aggravate the hospital's financial condition.

After discussing possible actions and alternatives during a strategic planning meeting in June of 2011, the MGH Board of Trustees began a good faith and earnest examination of the prospect of partnering with Duke LifePoint Healthcare. After reading about their efforts and talking in detail with current CEO Gary Muller, I unequivocally believe that the MGH board has made a wise and prudent decision to sell the hospital to Duke LifePoint.

The sale will unquestionably provide numerous benefits to the hospital, the region, and those it serves, including: creating a partnership that will allow the hospital system to grow and invest in new technology and equipment, facility improvements, and services; enhance the overall quality of

healthcare for many Upper Peninsula residents; keep an estimated annual \$100 million in healthcare revenue in Michigan that was lost as a result of residents heading to Wisconsin and Minnesota for care; and provide opportunities for professional development for the hospital.

In closing, Marquette General Hospital followed a principled and thoughtful process in coming to this decision and in selecting the most appropriate company with whom to build this partnership – a partnership that is truly beneficial to all involved. Extensive research and consideration was given to making the best long-term decisions for the benefit of the hospital staff, community, and health care system in Michigan's Upper Peninsula. Consequently, I urge you to support this transaction, as I believe it will provide for the continued and improved healthcare delivery by the sole tertiary care provider in the Upper Peninsula.

Of course, if you have any questions or concerns of me, please feel free to call on me at your convenience.

Thank you for your receptive and thoughtful deliberation.

Sincerely,

A handwritten signature in cursive script that reads "Tom Casperson". The signature is written in dark ink and is positioned below the word "Sincerely,".

State Senator Tom Casperson

Appendix E

Documents Reviewed

Transaction Documents

Memorandum of Understanding between DLP Healthcare, LLC; Marquette General Hospital, Inc.; Marquette General Foundation; Rampart Emergency Medical Services, Inc.; and Mattson Management Group, LLC, March 5, 2012
Asset Purchase Agreement by and between Marquette General Hospital, Inc., as Seller, and DLP Marquette Holding Company, LLC, as Buyer, June 28, 2012
Purchase Price Adjustment Agreement
Estimated Foundation Proceeds Certificate—revised August 28, 2012

Marquette General Hospital⁹ - Structure, History, and Policies

Articles of Incorporation
Restated Bylaws
Organization Chart
The History of MGHS by Ed Litwin, Staff Development Coordinator
Marquette General Health System Policy on Financial Assistance for Uninsured Patients
Marquette General Hospital, Inc., Corporate Policy, Conflicts of Interest

Marquette General Hospital – Sale Process

Strategy and Process – Acquisition of Marquette General Hospital, Inc. by DLP Healthcare, LLC, April 12, 2012
Marquette General Hospital (MGH) – Narrative Transaction Process Description and Timeline

⁹ Marquette General Hospital at times uses the assumed name, Marquette General Health System, in documents reviewed and listed herein.

PowerPoint presentation to MNA, May 21, 2010
Superior Health Partners and Marquette General Health System Board Retreat presentation, June 20, 2011
Aon Hewitt Estimate of Plan Termination Liability, January 26, 2012
Juniper Advisory Discussion Materials presentation for Marquette General Health System, September 19, 2011
Review of Proposals PowerPoint prepared by Juniper Advisory, December 19, 2011
Review of Proposals PowerPoint prepared by Juniper Advisory, February 16, 2012
Marquette General Hospital, minutes of meetings of board of trustees, January 2010 through February 2012
Marquette General Health System – 2010 Strategic Plan
Marquette General Health System 2011 Strategic Journey PowerPoint Presentation
Marquette General Hospital, Proposed Retained Assets in Transaction with DLP Healthcare, LLC
The Marquette General Acquisition Opportunity brochure
PowerPoint, Marquette General and Our Strategic Future as Part of: Duke LifePoint Healthcare
CFO PowerPoint, including projections to FY14
Physician Focus Group correspondence
Proposals from 10 original suitors
Juniper Advisory letters to 5 finalists
Second proposals from 5 finalists

Marquette General Hospital – Financial Information

Marquette General Health System, Consolidated Financial Statements, June 30, 2007 through June 30, 2011
Marquette General Hospital, Inc., Forms 990, June 30, 2006 through June 30, 2010

Marquette General Hospital, Inc., Forms 990-T, June 30, 2007 through June 30, 2010
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Marquette General Health System, Budgets 2012 and 2013
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Marquette General Foundation

Articles of Incorporation

Bylaws

Forms 990, June 30, 2008 through June 30, 2010
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V. Exhibits

1. Monitoring, Compliance, and Enforcement Agreement
2. Protection of Charitable Assets Agreement
3. Stout, Risius, Ross Valuation Report
4. Stout, Risius, Ross Fairness Opinion

Exhibits are posted at www.michigan.gov/mgh.