

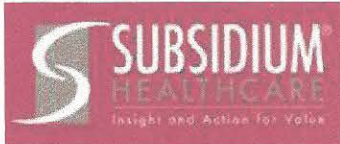
From: Lisa Fry [lfry@subsidiiumhealthcare.com]
Sent: Tuesday, September 23, 2014 1:39 PM
To: 'Ken Haber'; Summers, Mike; 'Thomas J. Gable (E-mail)'; 'William R. Gorton (E-mail)'; 'mtabbaa@aol.com'
CC: Rich D'Amaro; Brad Guest; Brian Gee
Subject: Document for our 5:00 call today
Attachment(s): "Lakewood counteroffer - draft as of 092414.docx"

Step 2 Team - we have revised the counter points and provided our recommendations, per our discussion yesterday. We look forward to discussing this with you all at 5:00 ET today.

Dial in number is: 855-543-3371, conf code 102, PIN 102

Best regards, Lisa

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Revised: September 24, 2014

The purpose of this memo is to outline our thoughts regarding the terms under which CCF has suggested Lakewood Hospital transition from its current status to a Clinic owned family health center. On a recent phone call we suggested that our analysis of this offer did not support a finding of a material advantage to the community. You indicated that this analysis would be helpful as you further frame your thoughts regarding the transaction you have proposed. Before we begin it may be helpful to start with an observation on the nature of negotiations. A publication on negotiation by the Harvard Business School suggests that all negotiations involve two essential tasks: dividing existing value and creating new shared value. The relative proportion of each is situation dependent, but generally speaking the best outcomes are balanced and have a steady focus on the latter. In our case the existing value includes:

- The value of Lakewood's clinical volume (contribution margin of CCF's IP volume in 2013 was approximately \$13.1 million),
- It's excellent and ready workforce,
- The Detroit Avenue location which is ideal for a Family Health Center and
- The community advantages which the City of Lakewood offers to patients and prospective patients.

New shared value to be created involves first and foremost the transition from a current lease and operating profile which is not working optimally for either party. Organizational decisions and market forces have together placed significant challenges on the hospital. LHA has engaged in a thorough and thoughtful process to evaluate how best to respond to those changes while continuing to best serve the needs of the community. With your input we have estimated the potential impact of the continuing the status quo as an inpatient facility operated under lease to CCF. On May 15th we attended a meeting at CCF with Drs. Bronson and Donley, Bill Keckan, Ankit Chhabra and others where we shared the results of this analysis. It assumed the opening of the Avon hospital and showed potential operating losses through the term of the lease. Through the end of the lease term, our estimates of the cumulative cash flow deficit ranged from \$158 to \$214 million, which are of course far in excess of LHA's ability to withstand. Dr. Bronson indicated at the meeting that generally these results were in line with the Clinic's estimates.

From this we each know that the status quo is untenable and both organizations are committed to replacing it with a vision that makes sense for the new environment. Once this piece is in place, many other elements of new shared value are possible: population health programs, health promotion initiatives, etc. City leadership is eager and ready to partner with CCF to do something special in Lakewood, but this requires agreement on how we can move forward.

Analysis of Suggested CCF Terms

Without necessarily agreeing with each element we can say (and have said) that the structure of your proposal seems reasonable. Our analysis looked at the values suggested for each element and compared them to what the community experiences today under the existing arrangement.

Table 1 (amounts in thousands)

Term	Current Offer	Notes
LHA balance sheet after transition	\$ 0	<i>Indeterminate but probably near zero.</i>
Loss of lease payments (present value)	(7,594)	<i>Loss of lease payments from 2017 thru 2026</i>
Reduction in payroll taxes (present value)	(4,786)	<i>Reduction in payroll taxes over 12 years</i>
Transition payment		
Base transition payment (present value)	20,000	<i>Assumes up front, lump sum payment (revised offer from CCF as of 9/18/14)</i>
Lease payment offset	-	<i>Not provided for</i>
Ongoing contribution from CCF	3,789	
Tax sharing offset (present value)	910	
850 Columbia Road	-	<i>LHA would lose the FMV of a valuable asset</i>
Total	\$ 7,474	

Note that the table intentionally excludes the value of the local delivery system. I.e., the value of the existing hospital and the value of the proposed FHC are both excluded in order to isolate the financial flows to and from LHA and the City. Present values were calculated using a 6% discount rate (single payment per year; mid-year convention). Once values are determined the purchase price of land would be an additional inflow.

As the table above shows, the value provided to the community could be close to zero once the value of 850 Columbia Road is determined. LHA has engaged a national health care real estate firm to provide a Broker Opinion of Value on this property and the results are expected very soon. Tax records show a value of \$1.925 million which we think is substantially less than its fair market value. This proposal asks the City and LHA to conclude that they are better off without full service medical/surgical hospital for an additional twelve years. Given the values above it is difficult to make that conclusion. Keep in mind that in

both your proposal and the status quo the LHA balance sheet will be effectively exhausted. However in your proposal the community loses a hospital with a robust work force, annual lease payments to the City, payroll taxes and has the potential for significant community disappointment.

A workable transaction will be one that provides a clear and defensible rationale for moving forward with CCF. At a minimum it would provide:

- A path for the city to deal with the loss of lease payments,
- Fair treatment of 850 Columbia Road and
- A more substantial pool of funds to be reinvested into the local health care system for population health and wellness—to benefit the approximately 51,400 residents of Lakewood. We have discussed a provision whereby the Clinic would have the first opportunity to provide these services. This reiterates that our point of view is how to best provide for the health needs of the community, which is where together we can create value for one another.

Based on our discussion on Thursday, September 18, 2014, we have provided a summary of our counter-proposal on the following pages.

Term	Current Offer	Potential Request (for discussion)
Responsibility for transition	LHA bears responsibility up to the extent of net assets on balance sheet	Same except that CCF is subject to an "accelerated exit" fee. Objective: to align CCF's incentives with those of the Lakewood community to attempt to maintain services at Lakewood Hospital throughout the transition period. I.e., if CCF closes LKH • Within 1 year of effective date of new Definitive Agreement: LHA keeps \$6 million (estimated based on approximately 75% of any remaining net current assets) • Between 12 and 18 months: LHA keeps \$4M (estimated based on approximately 50% of any remaining net current assets) • Greater than 18 months: Accelerated exit fee does not apply
Transition payment	\$20 million	\$20 million up front and \$2 million per year for 12 years Larger transition payment intended to additionally compensate for possible adverse impacts of the hospital closure on the overall economic base of Lakewood (e.g., potential closure of the MOB) and to provide for offset of loss of lease payments from allowing early termination of current lease)
Ongoing contribution from CCF to new foundation	\$5 million over 5 years	\$12 million over 12 years (\$1 million per year)
Tax sharing offset (present value)	\$1.25 million. This assumes CCF can use its influence to help Lakewood obtain these funds.	Same.
850 Columbia Road	\$0	Fair market value
Land purchase	FMV for land necessary for FHC	Same plus City of Lakewood can acquire all conveyed land for \$1 dollar if CCF discontinues FHC.
Remaining land and buildings (Parking, MOB, etc.)	Other land and buildings revert back to City	Same, except that CCF assumes ownership of current parking deck.
Grants/fundraising	Not provided for	Matching funds up to first \$2.5 million for fundraising efforts around community health improvement programs/population health.
Total cash	\$26.25 million plus FMV of land	Approximately \$65.75 million to \$74.75 million plus FMV of land for FHC (range depends on timing of transition/closure, and potential value of 850 Columbia Road (assumed \$6-9M).