

HealthCare Appraisers

INCORPORATED

September 16, 2010

Alice Mills-Sadler
Chairman, Board of Commissioners
Beaufort Regional Health System
628 East 12th Street
Washington, NC 27889

**Re: Executive Summary of Proposals Concerning the July 21, 2010
Request for Proposal for Long Term Lease of BRHS.**

Dear Ms. Mille-Sandler:

This letter provides an overview of the submittals received by HealthCare Appraisers, Inc. (“HAI,” “our,” or “we”) in response to the Beaufort Regional Health System (“BRHS” or “System”) Request for Proposal for Long Term Lease of BRHS (the “RFP”), which was issued July 21, 2010. A copy of the RFP is attached hereto as **Exhibit A**¹.

In issuing this letter:

- *HAI is not providing legal advice. As such, nothing in this letter should be construed as providing any legal advice or interpreting in any manner the application of any law or regulation to any proposed arrangement.*
- *HAI is not providing any financial, operational or strategic analysis and/or recommendation or opinion regarding the proposals received in response to the RFP, and is functioning in the sole capacity as an administrative facilitator in the RFP process.*
- *HAI is providing this “Executive Summary” solely for the use of BRHS and its counsel and advisors in operational planning related to the desired arrangement set forth in the RFP. This letter should not be used by parties other than those named above, or for purposes other than those stated above, under any circumstances.*

¹ The RFP is comprised of two separate documents: (i) the main RFP document (see **Exhibit A**), and (ii) a supplemental “Data Book”. Since the voluminous Data Book has previously been circulated to the Board, we have elected to exclude such from this Executive Summary.

- *The information contained in this Executive Summary has been extracted from the RFP “Proposals” (each, a “Proposal”) received from the Respondents (each, a “Respondent”). Accordingly, we take no responsibility for the underlying data presented or relied upon in this report. The information contained herein should be read in conjunction with a thorough review of the respective underlying Proposals to gain a comprehensive understanding of the scope and context of each.*
- *The information presented herein is intended to be objective and fact-based. Any perceived bias is unintentional and may be attributable to the nature of the underlying detail included in the respective Proposals provided by each Respondent.*
- *All financial and structural terms proposed by the Respondents and summarized herein should be considered preliminary in nature and subject to further modification pursuant to mutual detail negotiations and diligence to be performed by BRHS and any selected Respondent(s).*
- *We acknowledge that BRHS is a governmental entity subject to the North Carolina Public Records Act, and accordingly, this letter is subject to public disclosure.*

Background

Beaufort Regional Health System

Beaufort Regional Health System (*i.e.*, BRHS), formerly Beaufort Regional Medical Authority, was incorporated on November 2, 2001, and is a North Carolina governmental hospital authority organized under state statute. BRHS owns and operates a healthcare network, including Beaufort County Hospital Association, Inc. d/b/a Beaufort County Medical Center (the “Hospital”). The Hospital, a 142-bed acute healthcare facility and 501(c)(3) corporation, is the operational arm of BRHS and provides hospital operations on a day-to-day basis. Hospital has an active medical staff of more than 50 physicians, representing more than 20 specialties, as well as more than 700 nurses, technicians and support staff. BRHS also owns Beaufort Regional Physicians, LLC, which directly employs or contracts with more than 30 physicians.² The Hospital provides inpatient, outpatient, and emergency care services for residents of Beaufort County and surrounding areas. Admitting physicians are primarily practitioners in the local area.

² These 30 physicians of Beaufort Regional Physicians, LLC are part of Hospital’s medical staff of 50 physicians.

Additional background data is available in the RFP attached hereto.

Request for Proposal for Long Term Lease of BRHS

As a result of its recent fiscal and operational challenges, on April 20, 2010, Beaufort County Medical Center engaged HAI to assist BRHS in evaluating its strategic options regarding its future operations, including consideration of an arrangement whereby BRHS would lease its physical facilities to another hospital system, and such system would then assume future operational responsibilities for the hospital. The following is a chronology of the process to date.

- On May 21, 2010, on behalf of BRHS, HAI issued a "Letter of Interest" and Confidentially Agreement to thirty (30) possible affiliation partners in an effort to gauge the level of interest in the local and regional healthcare industry community. Such parties were jointly identified by HAI and BRHS based on both geographic presence and business operations.
- Subsequent to the initial May 21st mailing and upon inquiry, seven (7) additional parties were provided the Letter of Interest and Confidentially Agreement.
- Fifteen (15) of these parties expressed in writing a positive interest to participate, and therefore executed the CA.
- As a result of this aggregate interest level, on July 13, 2010, the BRHS Board of Commissioners passed the following resolutions:

The Board of Commissioners hereby declares its intent to lease, sell or otherwise convey the System's assets, including the operating rights related to the hospital facilities known as Beaufort Regional Medical Center, all to be contingent upon BRHS receiving a bid proposal for such lease, sale or other conveyance which is deemed satisfactory to the Board of Commissioners, in its sole discretion, which complies with the requirements of North Carolina law, and which supports and promotes the mission of the System.

The Board of Commissioners hereby authorizes HealthCare Appraisers, Inc., on behalf of the System, to issue a direct solicitation through a Request for Proposal, which shall include a copy of N.C.G.S. §131E-13, from at least five interested and prospective lessees or buyers as soon as possible.

- On June 17, 2010, one of the fifteen (15) interested parties decided to no longer participate in the RFP process.

- Accordingly, HAI and BRHS jointly prepared a Request for Proposal, which was emailed to all fourteen (14) interested parties on July 21, 2010. An RFP submittal deadline of September 4, 2010, was established and communicated to all participants. The RFP set forth two structural alternatives for each respondent to consider: (i) Part 1 – Preferred Lease Structure, and (ii) Part 2 – Alternative Structure.
- One additional interested party entered the process late and upon executed the CA, and was provided a copy of the RFP on August 31, 2010.

RFP Respondents

As of September 4, 2010, the following four Respondents each submitted a timely RFP Proposal:

1. University Health Systems of Eastern Carolina (“UHS”);
2. Community Health Systems, Inc. (“CHS”);
3. Brim Healthcare, Inc. (“BH”); and
4. LHP Hospital Group, Inc. (“LHP”)

A general overview of the Respondents and nature of their respective Proposals is set forth below.

Table 1 – General Overview of Respondents and Nature of Proposal

Respondent	Year Founded	Organization Structure	Respondent Net Assets	Corporate Headquarters	Preferred Lease Structure Proposed	Alternative Structure Proposed
UHS	1997	Private; Non Profit	\$607 Million ³	Greenville, NC	Yes	
CHS	1985	Public; For Profit	\$2.16 Billion ⁴	Franklin, TN	Yes	
BH	1971	Private; For Profit	Not disclosed	Brentwood TN		Yes
LHP	2008	Private; For Profit	Disclosed confidentially	Plano, TX	Yes	Yes

³ Per UHS’ combined balance sheet as of June 30, 2010

⁴ Per CHS’ consolidated balance sheet as of June 30, 2010.

Overview of RFP Respondents

University Health Systems of Eastern Carolina

Company Overview. Founded in 1997 and headquartered in Greenville, North Carolina. UHS is a non-profit, tax-exempt corporation and is one of the largest health care systems in North Carolina. It is the parent company of Pitt County Memorial Hospital (“PCMC”) and a number of subsidiary corporations that include community hospitals, physician practices, outpatient services, wellness services, critical care transport, home health, hospice and more. It serves 29 counties (including Beaufort County) and more than 1.3 million people through an extensive regional network. The system’s combined operations include more than \$1.2 billion in net revenues, more than 9,000 employees and more than 1,300 licensed beds.

Pitt County Memorial Hospital is one of four academic medical centers in North Carolina and serves as the teaching hospital for the Brody School of Medicine of East Carolina University.

UHS operates or manages seven diverse community hospitals throughout the region, in addition to PCMC, which serves as the tertiary services hub. In aggregate, UHS currently owns, leases, or manages eight hospitals, three ambulatory surgery centers, a home health agency and hospice, and a physician practice management company, which employs 188 physicians in 42 service locations. All health care facilities are operated in UHS’ 29-county service area, which includes Beaufort County.

UHS owns, leases or manages the following hospitals, all located in North Carolina:

1. Bertie Memorial Hospital, Windsor – 6 beds (Leased)
2. Chowan Hospital, Edenton – 89 beds (Leased)
3. Heritage Hospital, Tarboro – 117 beds (Owned)
4. Pitt County Memorial Hospital, Greenville – 861 beds (Owned)
5. Roanoke-Chowan Hospital, Ahoskie – 114 beds (Leased)
6. The Outer Banks Hospital, Nags Head – 21 beds (UHS owns 60% JV interest)
7. Albemarle Health System, Elizabeth City – 182 beds (Managed)
8. Duplin General Hospital, Kenansville – 101 beds (Managed)

UHS and BRHS also are partners in the EastPointe MRI joint venture, and have worked collaboratively in hospital transfers, licensure and certification issues, and District IV health planning initiatives, among other joint efforts.

Community Health Systems

Company Overview. Founded in 1985 and headquartered in Franklin, Tennessee, CHS is the largest publically-traded hospital company in the United States and a leading operator of acute care hospitals in rural and select urban markets. CHS is traded on the New York Stock Exchange under the symbol "CYH". As of July 29, 2010, CHS, through its subsidiaries, owns, leases or operates 123 hospitals in 29 states, with over 18,000 licensed beds. Currently, CHS leases twelve hospitals from municipal organizations similar to BRHS. CHS serves as the sole health care provider in more than 65 percent of its markets. Through Quorum Health Care, a subsidiary, the company provides management and consulting to more than 160 independent, non-affiliated general acute care hospitals throughout the United States.

CHS employs approximately 80,000 people, and in 2009, recruited approximately 1,700 physicians, of which about 70 percent were hospital-based surgeons and specialists, and 30 percent were primary care.

HAI notes the following CHS owned or leased hospitals in North Carolina and neighboring states:

North Carolina:

1. Martin General Hospital, Williamston – 49 beds (Lease)

South Carolina:

1. Marlboro Park Hospital, Bennettsville – 102 beds (Leased)
2. Chesterfield General Hospital, Cheraw – 59 beds (Leased)
3. Springs Memorial Hospital, Lancaster – 231 beds (Owned)
4. Carolinas Hospital System – Florence – 420 beds (Owned)
5. Mary Black Memorial Hospital, Spartanburg – 209 beds (Owned)

Tennessee:

1. Lakeway Regional Hospital, Morristown – 135 beds (Owned)
2. Regional Hospital of Jackson, Jackson – 154 beds (Owned)
3. Dyersburg Regional Medical Center, Dyersburg – 225 beds (Owned)
4. Haywood Park Community Hospital, Brownsville – 62 beds (Owned)
5. Henderson County Community Hospital, Lexington – 45 beds (Owned)
6. McKenzie Regional Hospital, McKenzie – 45 beds (Owned)
7. McNairy Regional Hospital, Selmer – 45 beds (Owned)
8. Volunteer Community Hospital, Martin – 100 beds (Owned)
9. Heritage Medical Center, Shelbyville – 60 beds (Owned)
10. Sky Ridge Medical Center, Cleveland – 351 beds (Owned)

11. Gateway Medical Center, Clarksville – 270 beds (Owned)

Virginia:

1. Southern Virginia Regional Medical Center, Emporia – 80 beds (Owned)
2. Southampton Memorial Hospital, Franklin – 105 beds (Owned)
3. Southside Regional Medical Center, Petersburg – 300 beds (Owned)

Brim Healthcare

Company Overview. Founded in 1971, and headquartered in Brentwood, Tennessee, Brim Healthcare is a privately-held for-profit corporation that manages 31 hospitals, leases one hospital and owns one hospital across 16 states. Brim provides equity and management solutions to community hospitals through acquisition, joint venture, lease, contract management, and focused consulting services. With regional offices located in Portland, Oregon; Madison, Wisconsin; Bozeman, Montana and Plano, Texas; Brim employs nearly 1,000 healthcare professionals, manages over 10,000 employees and \$1.0 billion in net patient revenue.

Since Brim began assisting hospitals, it has provided services to nearly 200 hospitals across the United States. It has a 90% customer retention rate over the past ten years, its average contract length is greater than fourteen years, and its average CEO tenure exceeds seven years.

Among its current engagements, hospitals similar in size with some of the same challenges outlined in the Background section of the RFP are the following locations:

Georgia:

- Upson Regional Medical Center, Thomaston – 115 acute beds (Managed)

Alabama:

- Lawrence Medical Center, Moulton – 98 acute beds (Managed)

Louisiana:

- Iberia Medical Center, New Iberia – 75 acute beds (Managed)

LHP Hospital Group, Inc.

Company Overview. Founded in 2008, and headquartered in Plano, Texas, LHP is a privately-held for-profit hospital company that was established to provide essential capital and expertise to not-for-profit hospitals and hospital systems with which it forms joint ventures to own, operate and manage acute care hospitals in small cities and select urban markets in the United States. LHP management consists of the former management team of Triad Hospitals, Inc., the third largest hospital company in the country prior to its acquisition by Community Health Systems in July 2007.

LHP completed its first hospital transaction as a new company on February 1, 2009 in Pocatello, Idaho with the establishment of the Pocatello Health System, LLC (“PHS”), a joint venture between LHP and the not-for-profit Portneuf Health Care Foundation, Inc. PHS owns and operates the 250-bed Portneuf Medical Center, the primary regional referral hospital in southeastern Idaho. The joint venture is currently operating the existing hospital and is in the process of building a new replacement facility.

The Sherman Health System, LLC (“SHS”) is a joint venture between LHP and Texas Health Resources (THR), the largest not-for-profit health system in Texas. SHS was created to acquire, own and operate the 241-bed Wilson N. Jones Medical Center (WNJ) located in Sherman, TX. SHS acquired the facility on April 15, 2010, and has rebranded it Texas Health Presbyterian Hospital - WNJ. WNJ is now a member of the THR network in North Texas and participates in THR’s managed care contracts and quality programs. LHP and THR share governance and LHP has responsibility for the day-to-operations of the facility.

LHP also has two other hospital projects currently under development. The first is a project under contract in northern New Jersey that is awaiting certificate-of-need approval. The Pascack Valley Health System, LLC (“PVHS”) is a joint venture between LHP and Hackensack University Medical Center (“HUMC”), based in Hackensack, New Jersey. HUMC is the largest hospital in New Jersey and one of the premier tertiary teaching hospitals in the region. PVHS was created to own and operate the former Pascack Valley Hospital (to be renamed Hackensack University Medical Center North at Pascack Valley), a 128-bed community hospital 12 miles north of Hackensack in Westwood, NJ.

LHP has also announced its intention to build a new hospital in the fast-growing Killeen / Harker Heights area of central Texas. The project will be a 75-bed, \$100M project and is expected to be completed in the second quarter of 2012.

Prior to the creation of LHP, and as the former management team at Triad Hospitals, and before that as senior managers at HCA, LHP has participated in a number of similar transactions, with not-for-profit, mission-oriented partners over many years. Seven such joint ventures are listed below.

1. McKenzie-Willamette Medical Center (Springfield, OR);
2. Mat-Su Regional Medical Center (fka Valley Hospital) (Wasilla, AK);
3. Presbyterian Hospital of Denton (fka Denton Community Hospital) (Denton, TX);
4. Trinity Medical Center (fka Montclair Baptist Medical Center) (Birmingham, AL);
5. Cedar Park regional Hospital (Cedar Park, TX);
6. Gateway Medical Center (Clarksville, TN); and
7. Medical Center South Arkansas (El Dorado, AR).

Proposal Details/Observations

Set forth in **Exhibit B** is a comparative summary of the key proposal terms submitted by each Respondent. Copies of such Proposals have also been provided to BRHS and are separately available. Per review of the Proposals, HAI notes the following key points of each.

University Health Systems of Eastern Carolina, Inc.

- Proposes an \$18.1M prepaid lease payment, and a 20-year lease term.
- UHS to contribute its investment in EastPointe Health, LLC (valued at \$563,111 as of July 31, 2010) to the Hospital, which will operate the MRI as a part of the licensed hospital.
- UHS will assume BRHS current assets and liabilities as of the lease execution date, including cost report liabilities and other third-party payables recognized on the BRHS balance sheet.
- At the expiration of the term of the lease, UHS will be entitled to full and complete transfer of title and ownership of the leased assets for no additional consideration.
- Proposes a minimum commitment of \$21.0 million in capital investment during first five years of arrangement.
- No alternative structure proposed.
- East Carolina Health, Inc. (“ECH”), a UHS subsidiary that operates the system’s community hospitals, forms a separate corporation (e.g., “ECH-Beaufort”) to operate each of its wholly-owned or joint-ventured community hospitals. The board members of ECH and each of its wholly-owned subsidiaries are the same. A seven-member board governs ECH. A local Directors Council will make recommendations to ECH-Beaufort, and the Directors Council chair and Hospital Chief of Staff will be non-voting, ex-officio members of the ECH Board of Directors.
- UHS’ Proposal also includes a letter of support from the Dean and Senior Associate Vice Chancellor for Medical Affairs of the Brody School of Medicine.

Community Health Systems, Inc.

- Proposes a prepaid lease payment of \$30 million for a 30-year lease term.
- Proposes to pay additional compensation for the net working capital of BRHS, as further defined in the Proposal.
- Proposes \$25.0 million in capital investment during first five years of arrangement.
- Proposes a budget of \$2.0 million for physician recruitment in the first five years.
- No alternative structure proposed.
- The Hospital's board, of up to 12 members, would be comprised 100% of local community residents and leaders, including the Hospital's CEO and Chief of Staff. BRHS would have its own independent board. BRHS would be granted the option to have one representative appointed to the Hospital board during the first five years of the leasehold term. The local board would be responsible for (i) developing a strategic plan; (ii) adopting vision, mission and values statements; (iii) participating in development and review of operating and capital budgets and facility planning; (iv) participating in periodic evaluations of the Hospital CEO; (v) making substantial changes in Hospital services; (vi) granting medical staff privileges and, when necessary, taking disciplinary action consistent with the Hospital Bylaws (with the advice of counsel); (vii) assuring medical staff compliance with The Joint Commission ("JCAHO") requirements (with the advice of counsel); (viii) supporting physician recruitment efforts; and (ix) fostering community relationships and identifying service and education opportunities. CHS' corporate board and the local Hospital board would have no relation.

Brim Healthcare, Inc.

- Proposes a three-year Management Services Agreement, with one two-year renewal.
- No lease structure proposed.
- Brim Healthcare is submitting a proposal for a Management Services Agreement which would allow the governing body of the Beaufort Regional Health System full and final approval on all governance and services decisions. According to Brim's proposal, the Board's strength and community focus would be enhanced by Brim's operations and quality expertise through implementing its proven suite of tools and services, along with the corporate experience and expertise of the Brim executives and consultants. According to their proposal, Brim provides a comprehensive package of services through an inclusive management fee. The specific fee for this arrangement is not identified in their proposal. Key services included in the Management Services Agreement include supply savings, financial reporting systems, best practices, strategic planning, quality

improvement, organizational leadership, clinical resources management, JCAHO readiness, education and billing and collections services. A comprehensive listing of management services to be provided is set forth in the Proposal.

- BRHS will retain its current board, which would choose the hospital's new CEO and CFO (both of whom would become employees of Brim).

LHP Hospital Group, Inc.

- Proposes both (i) a prepaid lease option; and (ii) an 80/20 joint venture ("JV") option.
- Under the prepaid lease option:
 - LHP proposes a \$22.0M prepaid lease payment; 30-year term with two 10-year renewals; and a \$20M capital investment commitment over 10 years.
 - LHP proposes that there will be a twelve (12) member local Board of Trustees for the Facilities appointed by LHP comprised of 50% physicians from medical staff and 50% local community leaders.
- Under the JV option:
 - LHP would contribute \$24.0M in cash;
 - BRHS would contribute the land, facilities, equipment, operations and net working capital to the JV at a valuation of \$22.0M.
 - BRHS would receive an immediate JV distribution of \$16.0M in cash at closing to pay down its debts.
 - BRHS retains local involvement in the governance (50%) and ownership (20%) of the hospital.
 - LHP would provide certain management services for a fee equal to 3% of JV net revenue.
 - Upon initial capitalization, the JV will have no debt, and an \$8.0M cash position for immediate capital expansion.
 - LHP proposes a ten (10) member board for the JV (50% LHP/50% BRHS); and a twelve (12) member hospital board (50% physicians/50% local community leaders).

Alice Mills-Sadler
September 16, 2010
Page 12

HealthCare Appraisers
INCORPORATED

Summary

HAI has prepared this Executive Summary to provide the Board of Commissioners a concise overview of each of the four Respondents and the respective Proposal submitted by each. Each of the four Proposals is unique in terms of structure, ownership and governance. Considering the extensive detail of both quantitative and qualitative information contained in each of the Proposals submitted, and the significance of the outcome of this process to BRHS and the community, we encourage the Board and any other members of BRHS management and/or its advisors that are participating in this process to review this Executive Summary in conjunction with a thorough review of the underlying Proposals submitted.

In addition, HAI has not had any subsequent written or verbal communication with any of the Respondents at this stage. Before deriving any conclusions and/or rendering any decisions, we would also encourage the Board to invite each of the Respondents to participate in an on-site presentation of their respective proposals to ensure that the intent of the Proposals is clearly communicated and not misinterpreted herein or by any other party privy to review of the written Proposals.

Please do not hesitate to contact me if we can be of any further assistance.

Sincerely,



Daryl P. Johnson
Principal