
Subject: FW: Clarification regarding letter of intent
Attachments: CPGH - LHP Letter of Intent.doc

From: Smith, Ryan K. [mailto:rsmith@cpgh.org]

Sent: Monday, September 06, 2010 9:05 PM

To: Carey, Dave; Thompson, Colette; Chapman, Craig; akjfischer@hotmail.com; bsmith@xyz.net; cpierce@gci.net; gsuperman@gci.net; hvsmalley@yahoo.com; Blankenship, Johni; mako@xyz.net; pa12gary@hotmail.com; psprague@acsalaska.net; suemccl@gmail.com

Cc: 'Robert Molloy'

Subject: FW: Clarification regarding letter of intent

KPB Assembly Members and Administration:

Pursuant to the e-mails below, we worked last week with MWE attorneys and LHP to negotiate a final draft of a non binding LOI to present to the CPGH, Inc. BOD, KPB Assembly and LHP's Board of Directors for approval. At this point, this draft has only been approved by LHP executives and the CPH CEO. I believe this LOI represents the structure that LHP presented in their proposals, with some major improvements. Most notably:

- Page 9 Section 2.11 - LHP agreed to reduce the management fee from 3% to 2%.
- Page 6 Section 2.2 (e)(ii) - LHP agreed to move the exercise period for the call rights up from 365 days after the triggering event to 90 days after.
- Page 7 Section 2.6 (and several other places) – **This is a big one!** LHP agreed to allow CPGH to purchase a 50% (not 49%, but 50%) membership interest in the JV, if we do it on day one. They are willing to forego consolidation if we purchase a 50% interest at the beginning. If we initially purchase less than 40%, then the most we will ever be able to own is 40% due to consolidation rules. Thus, we now have the opportunity to share governance 50/50 AND ownership 50/50.

The local voting block would have the ability to block the approval of the items listed in Section 2.2 (a) on page 3 & 4, and would have the "reserved powers" to execute the items listed in the same section on page 4.

Please let me know if you have any questions or seek clarification on any items in the LOI.

Thanks, Ryan

From: Thompson, Colette [mailto:CThompson@borough.kenai.ak.us]

Sent: Tuesday, August 31, 2010 2:24 PM

To: Robert Molloy

Cc: Smith, Ryan K.; Thomas Boedeker; John Callahan; Sandra DiVarco; Thomas Hefty; Nettles, Terri; Alyson Stogsdill; Loren Weimer; Carey, Dave; Chapman, Craig

Subject: RE: Clarification regarding letter of intent

Hi Bob,

This is to confirm that your email below accurately conveys our telephone conversation of this afternoon, and Mayor Carey's statement regarding CPGH, Inc. proceeding with the Letter of Intent until September 7, 2010. Any further action beyond September 7, 2010 on the ownership and governance project would be pursuant to the assembly's directions.

Thank you for your courtesy in double checking with me.

Colette Thompson

Borough Attorney
Kenai Peninsula Borough
144 N. Binkley
Soldotna, Alaska 99669
(907) 714-2120

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From: Robert Molloy [mailto:molloylaw@alaska.net]

Sent: Tuesday, August 31, 2010 2:01 PM

To: Thompson, Colette

Cc: Ryan Smith; Thomas Boedeker; John Callahan; Sandra DiVarco; Thomas Hefty; Terri Nettles; Alyson Stogsdill; Loren Weimer

Subject: Fwd: Clarification regarding letter of intent

Hi Colette:

It is my understanding from our telephone conversation this afternoon that Mayor Carey said that CPGH, Inc. can go ahead with negotiating the non-binding Letter of Intent with LHP, just stop negotiation as of 9/7/10.

Thank you for obtaining the Mayor's clarification.

Bob Molloy

October __, 2010

Board of Directors
Central Peninsula General Hospital, Inc.
250 Hospital Place
Soldotna, Alaska 99669

RE: Letter of Intent for Whole Hospital Joint Venture between Central Peninsula General Hospital, Inc. and LHP Hospital Group, Inc.

Dear Chairman Boedeker and Members of the Board of Directors:

This letter ("Letter of Intent") evidences the intent of LHP Hospital Group, Inc., a Delaware corporation (together with its subsidiaries and affiliates, "LHP"), and Central Peninsula General Hospital, Inc., an Alaska non-profit corporation recognized as a tax exempt, charitable organization under Section 501(c)(3) of the Internal Revenue Code ("CPGH"), regarding a proposed whole hospital joint venture (the "Proposed Transaction") whereby a newly-created joint venture entity to be co-owned by LHP and CPGH or another local, non-profit entity (CPGH or such other entity being referred to herein as the "Local Nonprofit Foundation") would assume ownership and operation of Central Peninsula General Hospital (the "Hospital"), the Hospital's business operations and other related health care assets (collectively, the "Facilities"). CPGH and LHP are referred to herein each as a "Party" and collectively as the "Parties".

Upon your acceptance, this Letter of Intent will evidence the mutual desire of the Parties to proceed promptly with negotiation of the Proposed Transaction, including the terms set forth below. Notwithstanding the foregoing, nothing in this Letter of Intent obligates LHP, CPGH, or the Kenai Peninsula Borough (the "Borough") to consummate the Proposed Transaction. The consummation of the Proposed Transaction shall require an additional approval from CPGH and the Borough as well as the approval of LHP's Board of Directors.

ARTICLE I
PROPOSED TRANSACTION; NON-BINDING PROVISIONS

1.1 Overview of Charitable Objectives. We understand that the Board of Directors of CPGH, in keeping with its fiduciary duty to oversee CPGH's charitable assets, has engaged in a deliberative process to explore ways in which the Hospital and Facilities can continue providing high quality healthcare and enhance health care services available in CPGH's service area on a self-supporting basis in the future. Acknowledging that health care systems owned by governmental entities face particular challenges in light of recent health reform legislation, and that the number of such systems has decreased markedly in the past twenty (20) years, the Board of Directors of CPGH carefully considered alternative ownership and governance structures that

it believes would position the Hospital, Serenity House, Heritage Place and the other Facilities for success in the rapidly changing healthcare marketplace.

After such deliberations, the Board of Directors of CPGH recommended to the Borough a “*whole hospital joint venture*” structure, pursuant to which ownership and operation of the Facilities would be transferred to a joint venture entity owned in part by the Local Nonprofit Foundation and in part by LHP. The Board of Directors of CPGH determined that a whole hospital joint venture presents an ownership structure and governance model that will best serve the residents of the CPGH service area, bringing meaningful health care resources to the community, positioning the Facilities for future success, maintaining significant local control over health care assets, and providing the financial resources necessary to expand health care services at the Facilities.

These determinations have culminated in the Parties’ mutual desire to explore the Proposed Transaction, with a goal of optimizing clinical services and health benefits, creating a strong and effective long-term relationship between the Parties, and ensuring that CPGH’s charitable mission is achieved over the long term. The Proposed Transaction is designed to elevate the caliber and breadth of healthcare services available in the CPGH service area, expand local access to care, drive improvements to clinical quality and outcomes, deliver an enhanced patient experience, attract and retain leading physicians, invest in needed cutting-edge technology, equipment, and facilities, maintain a high-performing and content workforce, and contribute to the economic development of CPGH’s service area.

1.2 Objectives of Proposed Transaction. The Proposed Transaction is designed to optimize clinical services and health benefits offered to the community and patients served by CPGH by, among other things, assuring, developing and/or providing for:

- (a) the more effective and efficient delivery of patient care;
- (b) enhanced service capabilities, with the development of a new regional cancer center, a cardiac catheterization laboratory with enhanced diagnostic imaging capabilities, and a new on-campus medical office building;
- (c) the funding of a substantial, locally-controlled charitable foundation to support health-related activities in the community; and
- (d) continued opportunities for growth and development of the medical staff and professional staff of the Facilities.

The Proposed Transaction is designed to ensure that CPGH’s charitable mission is best achieved over the long term by:

- (e) supporting future growth of CPGH by strengthening the Facilities’ finances, leaving the Facilities debt-free and among the best capitalized facilities in Alaska;
- (f) positioning the Hospital to become a regional medical center by providing the immediate access to funds sufficient to build a new regional cancer center, expand cardiovascular services with the addition of a cardiac catheterization laboratory with enhanced diagnostic imaging capabilities, and develop a new on-campus medical office building;

(g) providing CPGH a significant amount of cash, together with a continuing income stream from its ongoing ownership interest in the joint venture, to fund a substantial, locally-controlled charitable foundation to support health related activities in the community; and

(h) providing the Hospital with a strategic partner having capital and expertise to support the Hospital as it faces the challenges of a changing industry, better positioning the Hospital to effectively participate in a changing health care environment and to respond to health care reform programs and initiatives.

ARTICLE II

STRUCTURE OF PROPOSED TRANSACTION; NON-BINDING PROVISIONS

2.1 Whole-Hospital Joint Venture. The Proposed Transaction would be structured as a whole-hospital joint venture (the “Joint Venture”) evidenced by such definitive agreements and instruments as the Parties may agree are necessary to effect the Proposed Transaction, containing terms consistent with those set forth in this Letter of Intent and (subject to Section 2.4(b)) such other commercially reasonable terms and conditions customary for agreements of their type upon which the Parties may agree (collectively, the “Definitive Agreements”).

2.2 Formation of JV Entity. The Parties would create a new joint venture entity (the “JV Entity”), the members of which would be the Local Nonprofit Foundation, on the one hand, and LHP on the other hand.

(a) **JV Entity Governance.** So long as the Local Nonprofit Foundation’s equity interest in the JV Entity is at least twenty percent (20%), the JV Entity would be governed by a governing board comprised of not less than ten (10) members (the “JV Board”), half appointed by the Local Nonprofit Foundation and half appointed by LHP. Of the five (5) members appointed by LHP, two (2) appointees would be members of the Hospital active medical staff. The JV Board would act by “block voting”, meaning approval of any action by JV Board would require the approval of a majority of the JV Board members appointed by the Local Nonprofit Foundation and the approval of a majority of the JV Board members appointed by LHP. Without limiting the generality of the foregoing, the right of the Local Nonprofit Foundation to elect half of the members of the JV Board would give it the ability to block the approval of the following actions of the JV Entity:

- the JV Entity’s annual capital and operating budgets and any material changes thereto;
- the acquisition or disposition of the Facilities and material changes in services or locations;
- contractual obligations involving amounts over a stated dollar amount;
- approval of the hiring of the JV Entity’s chief executive officer;
- termination of management agreements upon the occurrence of certain specified events;
- material amendments to JV Entity organizational documents;

- joint venture, merger, dissolution or declaration of bankruptcy;
- the issuance of interests to new investors (or categories of investors);
- calls for capital contributions;
- joint venture strategic plans; and
- the incurrence of debt by the JV Entity over a stated dollar amount.

Additionally, the JV Board members appointed by the Local Nonprofit Foundation would have reserved powers to:

- terminate the JV Entity's chief executive officer;
- name the chairman of the JV Board; and
- dissolve the JV Entity if it fails to meet the Community Benefit Standards promulgated by the Internal Revenue Service.

If either (A) the Local Nonprofit Foundation's ownership interest falls below twenty percent (20%) or (B) the Local Nonprofit Foundation sells or otherwise transfers any of its interest in the JV Entity to a third party, then governance would revert to a proportional basis, with the number of members of the JV Board determined based upon the respective equity interests of the Local Nonprofit Foundation and LHP, and the approval of the JV Board would be determined by a simple majority vote rather than by "block voting." If the Local Nonprofit Foundation's ownership interest falls below twenty percent (20%), LHP would also have the right, but not the obligation, to purchase the Local Nonprofit Foundation's interest in the JV Entity at fair market value for a time period specified in the Definitive Agreements.

(b) **Exemption Concerns.** In order for the Local Nonprofit Foundation to take a position that its participation in the Joint Venture is consistent with its tax exemption and does not create unrelated business income ("UBI") even though the Joint Venture is a substantial part of the Local Nonprofit Foundation's activities, the Joint Venture would also have the following characteristics:

- Ownership interests received by the Local Nonprofit Foundation and LHP would be proportionate to their respective capital contributions.
- Property, including intangibles, contributed by the Local Nonprofit Foundation and LHP would be valued at, and the contributor would be credited with a capital contribution equal to, the fair market value of the property contributed.
- Transactions between the JV Entity and the Local Nonprofit Foundation and LHP (such as sale or lease of property, lending of money, and provision of services) would be required to be at fair market value levels.
- The purpose of the Joint Venture would be to provide health care (or health care related services) in a charitable manner (consistent with the community benefit standard set forth in Section 501(c)(3) of the Internal Revenue Code).

- If there is a conflict between charitable objectives and profit maximization when the Board of Directors or members are making a particular decision, charitable operation will prevail over profit maximization.
- The Definitive Agreements will provide protections designed to prevent the joint venture from engaging in activities that would jeopardize the Local Nonprofit Foundation's tax-exempt status.
- The Definitive Agreements will not include a binding arbitration requirement, on the theory that the arbitrator will make decisions that are not necessarily in furtherance of charitable purposes.
- The Definitive Agreements will provide for the restructuring of the JV Entity if the Local Nonprofit Foundation determines through a written opinion of legal counsel that the documents' provisions may affect tax-exempt status or be contrary to law.

(c) **Rights of First Refusal and Tag-Along Rights.** If LHP ever intends to sell or otherwise transfer its interest in the JV Entity, LHP would first have to deliver notice of such intent, disclosing in reasonable detail the identity of the proposed transferee, the interest to be transferred and the terms and conditions of the proposed transfer (including purchase price). The Local Nonprofit Foundation would have a right of first refusal to purchase LHP's interest in the JV Entity on the same terms and conditions (including purchase price) that are contained in such notice. If the Local Nonprofit Foundation elects not to exercise such right of first refusal, then it would have conventional "tag along" rights pursuant to which the proposed transferee would be required to also purchase the interest of the Local Nonprofit Foundation in the JV Entity on the same terms and conditions (including purchase price on a proportionate basis) under which LHP's interest is being acquired.

(d) **Put and Interest Purchase Options.** At any time after the first (1st) year and until the fifth (5th) year after the Proposed Transaction is effective, the Local Nonprofit Foundation shall have the right to "put" or sell its ownership interest in the JV Entity to LHP at fair market value. In the unlikely event that the Local Nonprofit Foundation exercised this option, the Local Nonprofit Foundation also would agree to a three (3) year noncompetition provision covering the Hospital's service area. At any time during the first five (5) years after formation of the JV Entity, the Local Nonprofit Foundation shall have the right to purchase at fair market value additional interests in the JV Entity, up to a total of forty percent (40%) ownership (to the extent that the membership interest held by the Local Nonprofit Foundation is initially less than forty percent (40%)).

(e) **Call Rights Upon Change of Leadership or Ownership.**

(i) If, during the term of the JV Entity, LHP experiences a change of control (as such term is defined in the Definitive Agreements), the Local Nonprofit Foundation would have the right, but not the obligation, to acquire all, but not less than all, of LHP's interest in the JV Entity at fair market value.

(ii) LHP would provide written notice to the Local Nonprofit Foundation of the occurrence of a Triggering Event within thirty (30) days of such event. The Local Nonprofit Foundation would have the right to acquire LHP's interest in the JV Entity at

any time during the period beginning ninety (90) days after the Triggering Event. If the Parties are unable to agree as to the fair market value of LHP's interest in the JV Entity, then the Definitive Agreements would provide an appraisal and dispute resolution mechanism for such determination.

(f) **Charity Care.** For a period of at least five (5) years following the Closing Date, the JV Entity would adopt and adhere to CPGH's current charity care policies applicable to the Facilities. The JV Entity would cause the Facilities to continue to provide services to patients covered by the Medicare and Medicaid programs and those unable to pay for emergent and medically necessary care.

(g) **Hospital Governance.** On the Closing Date, the JV Entity would appoint a board of trustees for the Hospital (the "Hospital Board") comprised of thirteen (13) members, consisting of six (6) physicians on the Hospital's medical staff, six (6) other members of the local community and the Hospital's chief executive officer (in an *ex officio*, non-voting capacity). Among other things, the Hospital Board would be responsible for:

- participating in the development of strategic plan for the Hospital;
- adopting a vision, mission and values statement for the Hospital;
- participating in the development and review of operating and capital budgets and facility planning for the Hospital;
- monitor quality and performance improvement;
- participating in periodic evaluations of the Hospital's chief executive officer;
- granting medical staff privileges and, when necessary, taking disciplinary action consistent with the Hospital's medical staff bylaws (with the advice of counsel);
- supporting physician recruitment efforts;
- fostering community relationships and identifying service and education opportunities; and
- other responsibilities as delegated to the Hospital Board by the JV Board from time to time.

2.3 Cash Contribution to JV Entity by LHP. In consideration for a fifty percent (50%) to eighty percent (80%) equity interest in the JV Entity, LHP would contribute to the JV Entity on the Closing Date an amount equal to Fifty Seven Million Five Hundred Thousand Dollars (\$57,500,000) and Ninety-Two Million Dollars (\$92,000,000) (with such total amount depending upon the percentage interest held by LHP) by wire transfer of immediately available funds to an account of the JV Entity's designation.

2.4 Transferred Assets Contributed to the JV Entity. On the closing date of the Definitive Agreements (the "Closing Date"), CPGH, the Borough and other appropriate affiliated entities (collectively, the "Hospital Parties") would contribute to the JV Entity all of their respective interest in and to the assets of the Facilities. Such assets of the Facilities would

include (a) all real property, (b) all tangible personal property, (c) all supplies and inventory, (d) all assumable deposits, prepaid expenses and claims for refunds, (e) all contracts, commitments, operating leases and agreements (to the extent assignable or transferable), (f) all licenses and permits issued to and held by the Hospital Parties, accounts receivable (to the extent transferable), (g) all patient, medical staff and personnel records, (h) all trade names, trademarks, service marks and the goodwill associated therewith (to the extent transferable), and (i) all stock, membership interests and other voting and non-voting interests of the Hospital Parties in any joint ventures and unconsolidated subsidiaries (to the extent transferable) (collectively, the “Transferred Assets”). The Transferred Assets would expressly exclude all cash and cash equivalents, short-term investments and securities, all assets limited to use or otherwise restricted or board-designated, all pension assets, all self-insurance trusts, all bond funds, and such other assets otherwise identified in the Definitive Agreements as “Excluded Assets” and retained by the Hospital Parties and the other appropriate affiliated entities.

(a) **Consideration for Transferred Assets.** The Transferred Assets would be valued, net of the assumed liabilities described in Section 2.5, at One Hundred Five Million Dollars (\$105,000,000) (the “Transferred Asset Valuation”). On the Closing Date, the JV Entity would deliver to the Local Nonprofit Foundation (i) between twenty percent (20%) and fifty percent (50%) equity interest in the JV Entity and (ii) an aggregate amount equal to between Forty Seven Million Five Hundred Thousand Dollars (\$47,500,000) and Eighty-Two Million Dollars (\$82,000,000) (with such total amount depending upon the percentage interest held by the Local Nonprofit Foundation) in immediately available funds to accounts designed by the Local Nonprofit Foundation (the “Consideration”).

(b) **Condition of Transferred Assets.** The Transferred Assets would be transferred in as-is, where-is condition, with all fault and defects, and the Hospital Parties would make no warranties, express or implied, with respect to the physical condition of such assets (including, without limitation, warranties of merchantability, habitability or fitness for a particular purpose).

(c) **Encumbrances.** The Hospital Parties would convey good and marketable title to the Transferred Assets to the JV Entity, free and clear of all liens and encumbrances (other than the assumed liabilities described in Section 2.5 and mutually agreed upon permitted encumbrances).

2.5 Assumption of Liabilities by the JV Entity. The JV Entity would assume certain liabilities of the Hospital Parties and their affiliates as agreed upon by the Parties and as set forth in the Definitive Agreements. Such liabilities would include (a) accounts payable and accrued salaries, (b) all post-closing liabilities arising from or related to contracts related to the Transferred Assets and/or the operation of the Facilities (with the exception of long-term debt instruments and capital leases to be paid off by CPGH on or after the Closing Date), (c) operating lease obligations, (d) accrued but unused vacation, sick leave and personal time off, extended illness banks and all other similar arrangements, and (e) such other liabilities upon which the Parties agree.

2.6 Initial Capitalization of the JV Entity. Immediately after consummation of the Proposed Transaction, (a) the Local Nonprofit Foundation would own between twenty percent (20%) and fifty percent (50%) of the membership interest in the JV Entity and LHP would own

between fifty percent (50%) and eighty percent (80%) of the membership interest in the JV Entity, and (b) the JV Entity would have a total initial capitalization of One Hundred Fifteen Million Dollars (\$115,000,000), consisting of One Hundred Five Million Dollars (\$105,000,000), representing the value of the Transferred Assets and an additional Ten Million Dollars (\$10,000,000) in cash to be used for immediate implementation of the capital projects described in Section 2.7).

2.7 Capital Expenditures and Improvements. During the five (5) years following the Closing Date, the JV Entity would commit to make at least Twenty-Five Million Dollars (\$25,000,000) in capital expenditures at the Facilities (or such higher amount as agreed upon in the Definitive Agreements). As used herein, “capital expenditures” includes expenditures for new equipment, equipment replacement, facility renovations, new facilities, medical office space, information systems and other tangible capital improvements, including the following specific capital expenditure commitments:

- (a) construction of a new cancer treatment center that would include medical and radiation oncology; and
- (b) development of a medical office building to consolidate primary and specialty care physicians in a single, on-campus location.

2.8 Cardiology Services. LHP and the JV Entity would additionally commit to expand the Hospital’s cardiology services by:

- (a) recruiting at least one (1) and preferably two (2) cardiologists;
- (b) recruiting and training the necessary additional hospital staff;
- (c) upgrading the current 16-slice CT scanner or replacing it with a 64-slice CT scanner with cardiology capabilities;
- (d) building and equipping a cardiac catheterization laboratory;
- (e) considering expansion of the size of the cardiac rehab unit (as determined by patient volumes); and
- (f) implementing protocols and screening criteria to help ensure patient safety and clinical outcomes.

2.9 Acquisition of Adjacent Land. LHP understands that, in order to expand the Hospital’s campus for future growth, CPGH intends to acquire three (3) improved parcels of real property adjacent to the Hospital at an estimated aggregate cost of approximately Two Million Three Hundred Thousand Dollars (\$2,300,000) prior to the Closing Date. In the event that such acquisition is completed prior to the Closing Date, (i) such real property would be included in the Transferred Assets, (ii) the Transferred Asset Valuation would be increased by the cost of such real property, and (iii) LHP’s contribution to the JV Entity would be increased by its pro rata share of such increase in the Transferred Asset Valuation (with such pro rata share depending upon the percentage interest in the JV Entity to be held by LHP).

2.10 Continuation of Facilities and Services. The JV Entity would maintain and sustain the operation of, and retain ownership of, Serenity House and Heritage Place for at least five (5) years after the Closing Date. The JV Entity would not, for a period of five (5) years after the Closing Date, discontinue any essential health care services (as such services are defined in the Definitive Agreements) at the Facilities (and thereafter only with the approval of the JV Board).

2.11 Management Services and Management Fee. Effective as of the Closing Date, an affiliate of LHP would be named manager of the Facilities and provide day-to-day management of the Facilities. This arrangement would be further described in a management agreement detailing the terms and conditions of the engagement, which agreement shall be for a term of five (5) years with automatic renewals terminating upon termination of the JV Entity. Management services would include, among others, corporate oversight and operational support, reimbursement services, purchasing and supply chain services, business planning, quality and resource management, human resources support, facility planning, legal and real estate services. Consideration payable under the management agreement would be equal to two percent (2%) of JV Entity net revenue, plus direct costs of information services (*i.e.*, hardware, software, programming and implementation), insurance coverage, and certain other items as set forth in the Definitive Agreements.

2.12 Representations and Warranties. Subject to Section 2.4(b), the Definitive Agreements would contain representations and warranties of both LHP and CPGH that are commercially reasonable and customary for agreements of their type; *provided, however*, that certain of CPGH's representations would be qualified or limited "to the knowledge" of CPGH. As used in the Definitive Agreements, the words "to the knowledge of CPGH" would mean the actual knowledge of CPGH's current chief executive officer, chief financial officer, chief nursing officer, and director or manager of plant operations.

2.13 Regulatory Approvals; Closing Conditions. The consummation of the transactions set forth in the Definitive Agreements would be subject to obtaining any required governmental, board, or other consents, approvals and licenses (including consents required to the assignment of all material contracts). LHP will have no financing contingencies or other conditions to closing. LHP acknowledges that a condition to the closing of the transactions described in the Definitive Agreements shall be the receipt of the approval of the Borough Assembly, via a vote of the Assembly or the residents of the service area, as determined to be appropriate by the Borough. LHP shall cooperate with the Borough and CPGH in all undertakings reasonably calculated with respect to such approval, including, without limitation, participating with the Borough and CPGH in meetings and hearings.

2.14 Medical Staff. The JV Entity would grant medical staff membership to all members of the Hospital's medical staff in good standing as of the Closing Date. The foregoing would not limit the ability of the JV Entity to grant, withhold or suspend medical staff appointment or clinical privileges in accordance with the terms and provisions of the Hospital's medical staff bylaws (which would be adopted and maintained by the JV Entity) after the Closing Date.

2.15 Employees. On the Closing Date, LHP, the JV Entity or an affiliate of LHP, as applicable (the "New Employer"), would offer employment to all of CPGH's employees in good

standing in positions and at compensation levels equivalent to the positions and compensation levels provided by CPGH immediately prior to the Closing Date. The New Employer would provide employee benefits that are at least as favorable as those offered by LHP to similarly-situated employees at similarly-situated hospitals owned or leased by LHP. The New Employer would credit hired employees with all of their employment service with CPGH and its affiliates for purposes of determining eligibility for and vesting under all applicable post-closing employee benefit plans. The New Employer would provide group health plan coverage and give all hired employees credit for the satisfaction of pre-existing condition limitations under the New Employer's welfare benefit plans to the same extent that such employees have satisfied such limitations under their current welfare benefit plans.

2.16 Covenant Not to Compete. The Definitive Agreements would contain a covenant not to compete in which CPGH would agree for a period of three (3) years following the Closing Date, not to provide within the Hospital's service area any health care services currently offered by the Hospital, unless it first obtains the prior written consent of the JV Entity, in accordance with the process set forth in the Definitive Agreements. In addition, the Definitive Agreements will provide the JV Entity with a right of first offer before either the Local Nonprofit Foundation or LHP provide health care services in the Hospital's service area so long as the JV Entity operates the Hospital.

2.17 Indemnification and Recourse. All of CPGH's representations, warranties and indemnities would survive the Closing Date for twenty-four (24) months. CPGH would have no obligation to indemnify LHP, the JV Entity or their affiliates for any indemnified losses in the Definitive Agreements until the amount of such indemnified losses exceeds one percent (1%) of the Transferred Asset Valuation. CPGH's and its affiliates' total liability for indemnified losses would not exceed (in the aggregate) thirty-three percent (33%) of the Transferred Asset Valuation. Regardless of transaction structure, there would be no requirement for CPGH or its affiliates to place any amount of the transaction proceeds in escrow for future recourse claims.

2.18 Successors in Interest. The Parties' respective rights, obligations and commitments to be set forth in the Definitive Agreements would be binding upon, enforceable against and inure to the benefit of their respective successors, permitted assigns and legal representatives. The Definitive Agreements would provide that CPGH or its successors, assignees or designees will have the right following the Closing Date to monitor and enforce the obligations of LHP, the JV Entity and their affiliates under the Definitive Agreements.

2.19 Disclosure.

(a) The Definitive Agreements would provide that, except as required by law, any release to the public of information with respect to the matters set forth herein and therein may be made only in the form and manner approved by the parties and their respective counsel. Notwithstanding the foregoing, LHP acknowledges that CPGH will make periodic announcements to its employees regarding the transaction. At least seventy-two (72) hours prior to making any public securities filing that includes information regarding this transaction, LHP will provide CPGH with the content of such proposed announcements and an opportunity to comment thereon.

(b) The Parties will determine in advance, by mutual agreement and consent, the timing and content of any announcement, press release or other public statement concerning the Proposed Transaction.

ARTICLE III BINDING PROVISIONS

3.1 Term and Termination.

(a) The term of this Letter of Intent will commence on the date first set forth above (the “Effective Date”) and continue in full force and effect until the earlier of (i) the execution of the Definitive Agreements upon which the Parties agree, or (ii) the Termination Date. The “Termination Date” means the later of (x) the date on which one Party delivers to the other Party written notice of its intent to withdraw from negotiations and terminate this Letter of Intent or (y) [March 31, 2011].

3.2 Good Faith Negotiations. During the term of this Letter of Intent, the Parties will work expeditiously and in good faith to negotiate the Definitive Agreements. Nothing herein will require the Parties to execute any Definitive Agreements or to consummate the Proposed Transaction.

3.3 Interim Conduct. During the term of this Letter of Intent, each Party will use reasonable commercial efforts to (a) preserve, protect and maintain its business, properties and assets, (b) operate its business as a going concern consistent with prior practices, and (c) preserve the goodwill of all individuals having business or other relations with it (including patients, payors and suppliers). Neither Party will knowingly enter into any transaction that would have a material adverse effect on its business or that would materially affect its ability to enter into any Definitive Agreements or to consummate the Proposed Transaction.

3.4 Due Diligence. To assist the Parties in evaluating the Proposed Transaction, each Party will grant to the other Party, and the other Party’s representatives, reasonable access to its books and records in accordance with mutually agreeable procedures, and subject to the terms of the Confidentiality Agreement (as such term is defined below). Each Party will conduct due diligence in a manner which is as least disruptive as possible to the normal business operations of the other Party.

3.5 Confidentiality and Exclusivity.

(a) **Confidentiality.** The Parties hereby reaffirm the confidentiality commitments set forth in that certain Confidentiality Agreement dated June 2, 2010 between the Parties, as amended on August 26, 2010 (the “Confidentiality Agreement”), and nothing herein will be deemed to modify or negate such commitments, all of which remain in full force and effect in accordance with the terms of the Confidentiality Agreement.

(b) **Exclusivity.** In light of the significant dedication of time and resources required by the Parties to evaluate the Proposed Transaction, the Parties agree that during the term of this Letter of Intent, neither Party may, directly or indirectly, without the prior written

consent of the other Party, explore, meet, discuss, negotiate or enter into an agreement with any third party for the purpose of discussing, organizing, formulating, designing, developing, investing in or implementing an arrangement that could lead to a change in control, member substitution, lease of assets, sale of assets, joint operating agreement/joint operating company, merger, consolidation or liquidation of such Party, or any other type of transaction similar to the Proposed Transaction contemplated by this Letter of Intent within CPGH's service area.

3.6 Miscellaneous.

(a) **Binding and Non-Binding Provisions.** The terms and provisions set forth in this Article III are contractual obligations binding upon the Parties as of the Effective Date. The terms and provisions set forth in Article I and Article II are non-binding. Neither LHP, nor the Hospital Parties are obligated under this Letter of Intent to consummate the Proposed Transaction or any other transaction.

(b) **Expenses.** Unless the Parties agree otherwise in writing, each Party will bear all fees and expenses (including financial advisors', attorneys', accountants' and other professional fees and expenses) incurred by such Party in connection with this Letter of Intent and the Proposed Transaction, including, (i) the negotiation and preparation of this Letter of Intent, (ii) the conduct of due diligence as provided above, (iii) the negotiation and preparation of the Definitive Agreements, (iv) if the Definitive Agreements are executed, the closing of the Proposed Transaction, and (v) all governmental filings and other proceedings required in connection with the Proposed Transaction and this Letter of Intent; *provided, however*, that if the Parties consummate the Proposed Transaction, then (x) the JV Entity shall bear the cost of obtaining real estate surveys, title commitments, and endorsements thereon and (y) LHP will be responsible for both (1) the cost of any required filings under the Hart-Scott Rodino Act, and (2) payment of the \$1.75 million transaction fee to be paid Juniper Advisory, financial advisors to CPGH, in accordance with that certain letter agreement dated May 28, 2010.

(c) **Notices.** All notices and other communications required or permitted under this Letter of Intent (i) must be in writing, (ii) will be duly given (A) when delivered personally to the recipient, (B) one business day after being sent to the recipient by nationally recognized overnight private carrier (charges prepaid), or (C) four business days after being mailed to the recipient by certified or registered mail (postage prepaid and return receipt requested), and (D) addressed as follows (as applicable):

If to LHP:

LHP Hospital Group, Inc.
2800 North Dallas Parkway, Suite 200
Plano Texas 75093
Attn: James B. Shannon, Executive Vice
President

With a copy (not constituting notice) to:

LHP Hospital Group, Inc.
2800 North Dallas Parkway, Suite 200
Plano Texas 75093
Attn: Rebecca Hurley, General Counsel

If to CPGH:

Central Peninsula General Hospital, Inc.
250 Hospital Place
Soldotna, Alaska 99669
Attn: Ryan Smith, Chief Executive Officer

With a copy (not constituting notice) to:

McDermott Will & Emery LLP
221 West Monroe Street
Chicago, Illinois 60606
Attn: John M. Callahan, Esq.

or to such other respective addresses and/or fax number as each Party may designate by notice given in accordance with the provisions of this Section 3.6(c).

(d) **Amendments.** The Parties may amend this Letter of Intent only pursuant to a written agreement executed by the Parties.

(e) **Non-Waiver.** The Parties' respective rights and remedies under this Letter of Intent are cumulative and not alternative. Neither the failure nor any delay by any Party in exercising any right, power or privilege under this Letter of Intent will operate as a waiver of such right, power or privilege, and no single or partial exercise of any such right, power or privilege will preclude any other or further exercise of such right, power or privilege or the exercise of any other right, power or privilege. No waiver will be effective unless it is in writing and signed by an authorized representative of the waiving Party. No waiver given will be applicable except in the specific instance for which it was given. No notice to or demand on a Party will constitute a waiver of any obligation of such Party or the right of the Party giving such notice or demand to take further action without notice or demand as provided in this Letter of Intent.

(f) **Assignment.** Neither Party may assign this Letter of Intent or any rights under this Letter of Intent, or delegate any duties under this Letter of Intent, without the other Party's prior written consent.

(g) **Remedies.** Each Party agrees that if it violates or breaches any binding obligation under this Letter of Intent, the other Party will be entitled to preliminary and permanent injunctive relief either pending or following a trial on the merits, together with any other remedies that may be available at law or in equity, without being required to post bond or other security. Should a Party seek or obtain a remedy against a Party, such action will not be considered an election of remedies or a waiver of any right by the Party to assert any other remedy or remedies it may have at law or in equity.

(h) **Headings.** The headings of Articles and Sections are provided for convenience only and will not affect the construction or interpretation of this Letter of Intent. Unless otherwise provided, references to "Article(s)", "Section(s)" and Exhibit(s)" refer to the corresponding article(s), section(s) and exhibit(s) of or to this Letter of Intent.

(i) **Severability.** If any court of competent jurisdiction holds any provision of this Letter of Intent invalid or unenforceable, then the other provisions of this Letter of Intent will remain in full force and effect. Any provision of this Letter of Intent held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

(j) **Governing Law.** THIS LETTER OF INTENT IS GOVERNED BY THE LAWS OF THE STATE OF ALASKA, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

(k) **Counterparts.** The Parties may execute this Letter of Intent in multiple counterparts, each of which will constitute an original and all of which, when taken together, will constitute one and the same agreement. The Parties may deliver executed signature pages to this Agreement by facsimile or e-mail transmission.

[SIGNATURE PAGE IMMEDIATELY FOLLOWS]

We look forward to continuing our discussions and working with you towards the Proposed Transaction.

Sincerely,

LHP HOSPITAL PARTNERS, INC.

By: _____
James B. Shannon, its Executive Vice
President - Development

Agreed and accepted:

CENTRAL PENINSULA GENERAL HOSPITAL, INC.

By: _____
Thomas Boedeker, its Chairman