EXHIBIT B

10/6/10 Navigant Slides

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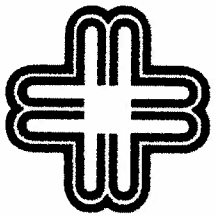
Discussion Document



Morton Hospital And Medical Center

Board of Trustees Meeting

October 6, 2010

NAVIGANT
CONSULTING

Discussion Agenda

I	**Diana Pisciotta / Denterlein**	4:00 – 4:15 pm
II	**Peter Braun**	4:15 – 4:30 pm
III	**Navigant Consulting** •Section 1: Project Overview •Section 2: Situation Assessment •Section 3: Potential Partners •Section 4: Next Steps	4:30 – 7:00 pm

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Section 1

Project Overview

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Engagement Scope

Morton Hospital and Medical Center has engaged Navigant to:

- Validate the current financial and operational challenges facing the organization, including Morton's market position
- Conduct an independent high-level assessment of different organizational arrangements (i.e., affiliation or non-affiliation)
- Review of pension plan issues
- Complete our work over 30 - 45 days (starting with August 19th engagement letter and complete with Board meeting tonight)

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Engagement Team

Our project team includes senior leaders from NCI and NCA, who have worked together on other similar projects and who have deep industry knowledge and experience.

Individual	Project Role / Focus	Experience
David Burik, Managing Director, NCI	• Engagement Executive • Market assessment and strategic options	• 30+ years of consulting experience, with a focus on provider strategy and M&A
Michael Lane, Managing Director, NCA	• Financial assessment	• Leader for NCA's Healthcare Restructuring practice, with 30+ years of experience
Jim Agnew, Managing Director, NCI	• Operating performance assessment	• Based in Boston and has served as a senior operations and M&A executive in healthcare systems in MA, MD, TX, TN
Chris Myers, Director, NCI	• Project Manager • Market assessment and strategic options	• 20+ years of experience, with a focus on provider strategy and M&A
Dan Harrison, Senior Consultant	• Project research and analytics	• Located in Boston; worked previously at both Caritas and Partners

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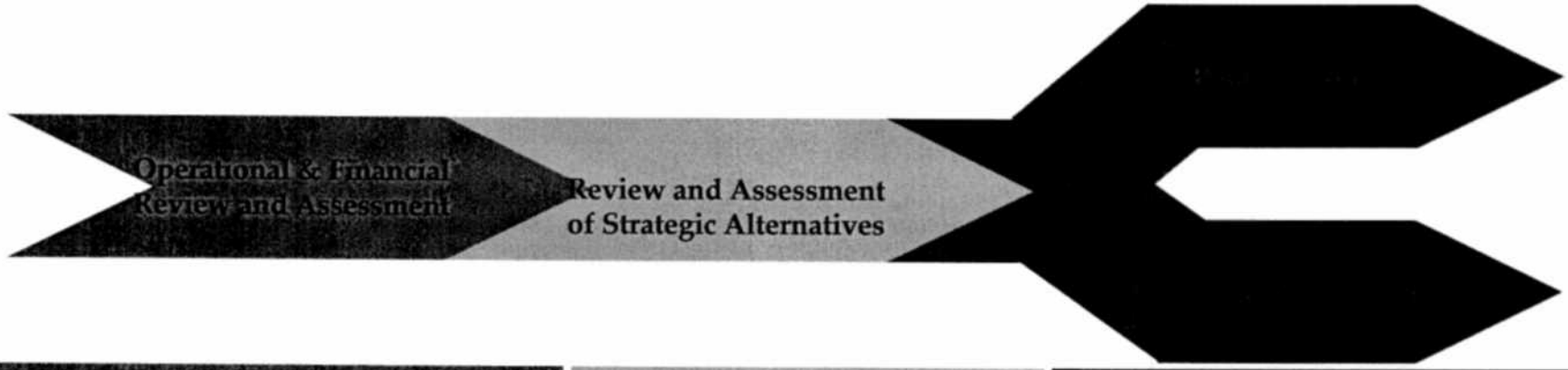
Engagement Approach

Our engagement approach will build on the work done to date.



- Review cash management and controls
- Prepare liquidity analysis and cash flow forecasting
- Validate historical financial performance
- Conduct operational review and identify potential financial improvement initiatives
- Review strategic and market positioning
- Conduct core-competencies and SWOT analysis and market competitors
- Conduct an organizational assessment and business plan validation

- Refinancing / recapitalization
- Capital restructuring
- Third party sale / combination
- Joint venture opportunities
- Sale of assets
- Right size operations
- In-court versus out of court restructuring
- Contingency planning for reorganization

- **Find a Partner**
  - Support decision by Board of Directors decision making process
  - Manage and document arms-length transaction for attorney general
- **Go Alone/Turnaround**
  - Develop plan for execution of identified operational improvement initiatives
  - Consider engagement of a Chief Implementation Officer reporting to the Board to drive operational change

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Project Interviews

Since the last Board meeting, we have had the opportunity to meet with the following Morton leaders, to understand their perspectives regarding the issues facing and go-forward options available to Morton.

Board Members	Management Team Members
David Gay, Chairman, Morton Foundation Board	**Maureen Bryant**, President and CEO
Mark Hickey, Trustee, Morton Hospital Board	**Richard Jeffcote**, Interim Chief Administrative Officer
Louis Ricciardi, Chairman, Morton Hospital Board Finance Committee	
Edward Roster, Chairman, Morton Hospital Board	
Charles Thayer, M.D., Trustee, Morton Hospital Board	

Situation Assessment

A. National Trends

B. Regional and Comparative Statistics

C. Morton Situation

Section 2

Situation Assessment

A. National Trends

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Declining Inpatient Demand and Supply

The 1946 Hospital Survey and Construction Act (Hill-Burton) provided federal grants and guaranteed loans to expand and improve the nation's hospital sector. ***Money was designated to the states to achieve 4.5 beds / 1,000 people.*** **Yet both demand and supply have fallen since 1980, while average age of plant increased by 2.7 years.**

Demand (Community Hospitals)

Demand Metrics	1980	2008	% Δ
Admissions	36.1 M	35.8 M	(0.8%)
Admissions / 1000 Population	159.1	117.6	(26.1%)
Average Length of Stay	7.6	5.5	(27.6%)
Average Daily Census	747 K	536 K	(28.2%)

A slight reduction in admissions (with a much lower utilization rate overcoming the impact of a growing population) coupled with a moderate decline in ALOS, resulted in considerably lower ADC in 2008 vs. 1980

Supply (Community Hospitals)

Supply Metrics	1980	2008	% Δ
Staffed Beds	988 K	808 K	(18.2%)
Staffed Beds / 1000 Pop.	4.3	2.7	(37.2%)
Community Hospitals	5,830	5,010	(14.1%)
Average Age of Plant	7.0	9.7	38.6%

As a result, the nation lost 18% of its beds and 14% of its community hospitals across this same timeframe. The number of closures would have been larger, if not for the introduction of critical access hospitals (1,305 as of July 2009)

Note: Community hospital data above includes all non-federal short-term general and other special hospitals.

Sources: AHA Hospital Statistics (2010); Almanac of Hospital Financial and Operating Indicators (2010); US Census Bureau, Population Division; Rural Assistance Center.

More Hospitals and Beds Are in Systems, But the Average Number of Hospitals per System Has Been Stable

Top Ten Systems by Staffed Beds:

1990 vs 2008

Ten Largest Hospital Systems, 2008	Headquarters	Hospitals	Beds
HCA	Nashville, TN	162	35,791
Community Health Systems	Franklin, TN	122	15,848
Ascension Health	St. Louis, MO	75	14,801
TENET Healthcare Corporation	Dallas, TX	53	12,281
Universal Health Services	King of Prussia, PA	68	10,117
Catholic Health Initiatives	Denver, CO	59	8,932
Catholic Healthcare West	San Francisco, CA	38	8,447
Health Management Associates	Naples, FL	55	7,528
Catholic Health East	Newtown Square, PA	23	6,790
Trinity Health	Novi, MI	30	6,774

Ten Largest Hospital Systems, 1990	Headquarters	Hospitals	Beds
HCA	Nashville, TN	124	20,799
Humana	Louisville, KY	79	16,583
Daughters of Charity National Health System	St. Louis, MO	35	12,121
Healthtrust - The Hospital Company	Nashville, TN	85	10,068
New York City Health & Hospitals Corp.	New York, NY	13	9,333
American Medical International	Dallas, TX	40	8,075
Charter Medical Corporation	Macon, GA	66	6,550
Kaiser Foundation Hospitals	Oakland, CA	29	6,254
National Medical Enterprises	Santa Monica, CA	32	5,742
Mercy Health Services	Farmington Hills, MI	18	5,652

Observations

»Five of the 10 largest health systems by staffed beds are for-profit and the other 5 are Catholic

»While the total number of hospitals in the US has been declining over the past 20 years, the number of multihospital systems and hospitals within those systems have been steadily increasing

Hospital System Metrics	1990	2000	2008
Total Community Hospitals	5,384	4,915	5,010
Total Staffed Beds	927 K	824 K	808 K
Multihospital Systems	**232**	**253**	**348**
Hospitals in Systems	2,040	2,442	3,030
Staffed Beds in Systems	410 K	479 K	542 K
Avg. System Size (hospitals)	**8.8**	**9.7**	**8.7**
% of Hospitals in Systems	**38%**	**50%**	**60%**
% of Staffed Beds in Systems	**44%**	**58%**	**67%**

Note: Multihospital hospital and bed counts include owned, leased and sponsored hospitals and exclude contract-managed facilities. Also excludes government hospitals (e.g., the VA system).
Sources: AHA Guide to the Health Care Field (1991, 2002 and 2010 editions).

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National Healthcare Trends Summary

- **In good times, desirable location and strong managed care negotiating position have been the traditional determinants of success for hospitals**
  - Have's: High performers in strong markets
  - Have not's: Low performers in weak markets
- **The financial crisis introduced significant income statement and balance sheet volatility in what has traditionally been a stable and "defensive" industry**
  - Significant cash shortfalls are leading to a growing number of capital freezes, defaults, restructurings, project re-reviews and non-core asset sales
- **Medicare reimbursement changes (an attempt to reform perverse incentives and eliminate clinical and cost variation) and health care reform are introducing cost and quality performance benchmarked to national (rather than "community") standards as key future determinants of success**
  - The return of acronyms… *Then*: HMO, MSO, PHO, IPA and PCP. *Now*: Accountable care organizations (ACOs), medical homes, bundling and P4P

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Hospital M&A Outlook

Navigant expects hospital M&A activity to increase in 2010 and beyond due to a number of factors:

- Growing separation of "have" and "have not" health systems; increase in capital availability for strong credits and tightening of capital for weak credits creates buyers and sellers
- Impact of health care reform ("reform will contribute to already existing market forces favoring larger health systems…and pressure single site and small hospital systems." – Moody's Investors Service: *Long-Term Credit Challenges of Healthcare Reform Outweigh Benefits for Not-For-Profit Hospitals*, April, 2010)
- Continued struggles of the weak (which are now "cheaper" than in previous years); more hospitals in the hands of creditors; indications that taxable chains – supported by private equity – are preparing for large expansions
- Ongoing reorganization / consolidation of Catholic congregations

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The Boston MSA Is Now Unconcentrated, Applying the Latest Horizontal Merger Guidelines

The Herfindahl-Hirschman Index (HHI) is calculated as the sum of the squares of each organization's market share. The US Department of Justice and Federal Trade Commission defines markets with an HHI of >2500 as Concentrated, 1500 to 2500 as Moderately Concentrated and <1500 as Unconcentrated.

Commercial Payer HHI vs. Health System HHI

Health Systems ⇨ Commercial Payers ⇩	Super Concentrated	Highly Concentrated	Moderately Concentrated	Unconcentrated
Super Concentrated	• Cape Coral • Columbia, SC • Des Moines • Lansing • Portland, ME • Worcester	• Charleston • El Paso • Greensboro • Harrisburg • Norfolk • Raleigh • Richmond • Rochester	• Birmingham • Greenville • Hartford • Honolulu • Indianapolis • Little Rock • Minneapolis • Nashville • Providence • Southern NJ	• Atlanta • Boston • Chicago • Detroit
Highly Concentrated	• Austin • Fresno • Grand Rapids • Spokane • Springfield, MA • Wilmington	• Albuquerque • Buffalo • Knoxville • Las Vegas • Lexington • Madison • Memphis • Omaha • Orlando • Salt Lake City • Tucson	• Baton Rouge • Dallas • Jacksonville • Louisville • Milwaukee • Phoenix • San Antonio • St. Louis • Syracuse • Tampa • Tulsa	• Baltimore • Houston • New Orleans • Northern NJ • Oklahoma City • Philadelphia • Seattle
Moderately Concentrated	• Charlotte • Colorado Springs • Dayton	• Columbus • Toledo	• Albany • Cincinnati • Cleveland • Denver • Pittsburgh • Portland, OR • Sacramento • San Diego • Southern CT • West Palm Beach	• Kansas City • Los Angeles • New York City • Orange County • Riverside • San Francisco • Washington, DC
Unconcentrated	• None	• None	• Scranton	• Miami

In August 2010, the DOJ and FTC issued revised horizontal merger guidelines which raised the HHI thresholds for classifying market concentration, which has the potential effect of enabling more mergers to occur (or for fewer to be blocked due to monopoly concerns)

Sources: US Department of Justice and Federal Trade Commission Horizontal Merger Guidelines (8/19/2010); AMA Competition in Health Insurance Study (2009); HealthLeaders Market Overview Reports; NCI Analysis, 2010.
Updated August 24, 2010

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From "More Is Better" to "Being Able To Say No"

"Advocates for less intensive medicine have been too timid…they often come across as bean counters, while the try-anything crowd occupies the moral high ground. The reality, though, is that unnecessary care causes a lot of pain and even death."

David Leonhardt, NY Times, 4/06/10

Will Health Reform move the culture?

- **Patient Centered Health Research**

  $600M – what treatment works?

- **Medicare required to give more information to patients – empowering consumers to make informed choices**
- **Benefits design to encourage good shopping**

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PPACA Creates a New Starting Point

A. Health Insurance Reform

- Enroll 32M entrants into system
- Eliminate "injustices" (e.g., preexisting conditions)
- Reduced ability to pass on increases and cross subsidize public payers

B. Establishes Direction and Accelerates Evolution of Payment Agenda

- ACO (Shared Savings Model)
- Bundling
- Value-Based Reimbursement
- Medical Home
- Geographic Variation

Ahead of the curve, Massachusetts' emerging reform agenda includes:

•Reduce ED utilization
•Reduce high-end imaging utilization
•Promote generic prescribing/substitution
•Promote treatment in the lowest cost setting/facility appropriate for care

C. Potential Mitigators

- Political response
- State energy (or lack thereof)
- Rapid economic improvement
- Patient revolt
- Not enough budget for CMS to implement / administer

"What got you here, won't get you there!"

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Situation Assessment

B. Regional and Comparative Statistics

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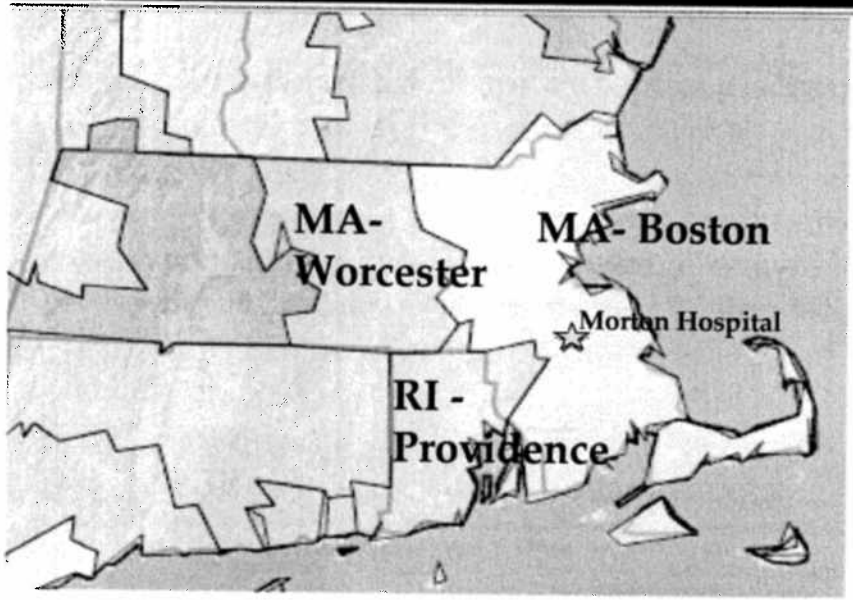
Dartmouth Atlas: Boston Hospital Referral Region (HRR)

Morton Hospital is located in the Boston HRR as defined by the Dartmouth Atlas.

Based on 2001-2005 Medicare Data (unless noted)	MA - Boston	RI-Providence	MA-Worcester	MA Average	National Average
Hospital Discharges per 1,000 Medicare Enrollees	353.2	328.7	359.4	346.4	347.5
Hospital Discharges per 1,000 Medicare Enrollees | Medical Admissions	260.5	241.2	268.8	255.3	244.1
Hospital Discharges per 1,000 Medicare Enrollees | Surgical Admissions	91.4	86.1	89.4	89.9	102.2
Inpatient Days per Medicare Enrollee	1.84	1.9	1.7	1.8	1.9
Acute Care Hospital Beds per 1,000 Residents	2.1	1.9	1.9	N/A	2.4
All Physicians per 1,000 Residents	280.9	228.4	210.6	N/A	202.0
Medicare Reimbursements per Enrollee	$9,704	$8,828	$10,031	$9,568	$8,682
% of Population 65+	13.0%	13.9%	12.7%	13.9%	13.1%



- Boston HRR per capita hospital discharges are higher than state and national averages
- As expected, Boston HRR per capita physician supply is well above the national average as well as the rate in neighboring HRRs; however, Boston HRR bed supply per capita is below the national average
- Medicare spending per enrollee is higher in the Boston HRR than state and national averages

Source: The Dartmouth Atlas of Healthcare Data (2003-2007 Data)

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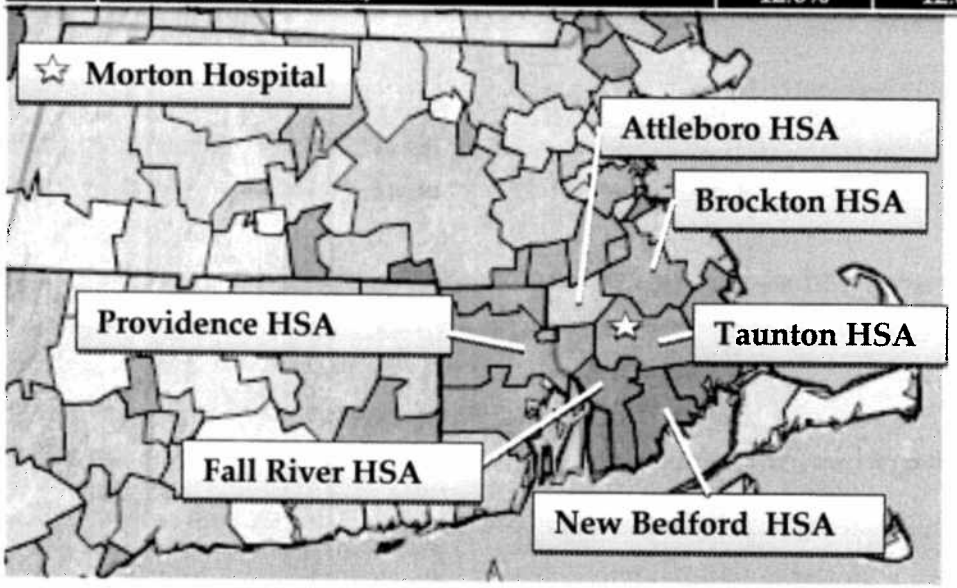
Dartmouth Atlas: Taunton Hospital Service Area (HSA)

Morton Hospital is located in the Taunton HSA as defined by the Dartmouth Atlas.

Based on 2001-2005 Medicare Data (unless noted)	MA - Taunton	MA- Brockton	MA- Attleboro	MA-Fall River	MA – New Bedford	RI - Providence	MA Average	National Average
Hospital Discharges per 1,000 Medicare Enrollees	373.5	403.4	328.8	396.9	351.4	319.8	346.4	347.5
Hospital Discharges per 1,000 Medicare Enrollees | Medical Admissions	279.2	304.4	235.2	304.4	268.1	238.1	255.3	244.1
Hospital Discharges per 1,000 Medicare Enrollees | Surgical Admissions	93.7	97.9	91.6	90.5	81.7	79.9	89.9	102.2
Inpatient Days per Medicare Enrollee	1.91	2.01	1.88	2.66	2.29	1.92	1.8	1.9
Acute Care Hospital Beds per 1,000 Residents	2.2	2.3	2.0	2.7	2.4	1.9	N/A	2.4
All Physicians per 1,000 Residents *(2006 Data)*	224.9	234.4	222.4	147.6	260.2	223.9	N/A	202.0
Medicare Reimbursements per Enrollee *(2007 Data)*	$10,161	$9,766	$9,402	$8,857	$9,100	$9,233	$9,568	$8,682
% of Population 65+ *(2010 Data)*	12.6%	12.8%	10.8%	14.2%	16.3%	14.0%	13.9%	13.1%



- Discharges per capita are generally higher but inpatient days are generally lower in the Taunton HSA versus neighboring HSAs
- Medicare spending per enrollee is higher in the Taunton HSA than all other areas shown
- Taunton HSA beds and physicians per capita is generally on par with those of neighboring HSAs

Source: The Dartmouth Atlas of Healthcare Data (2003-2007 Data)

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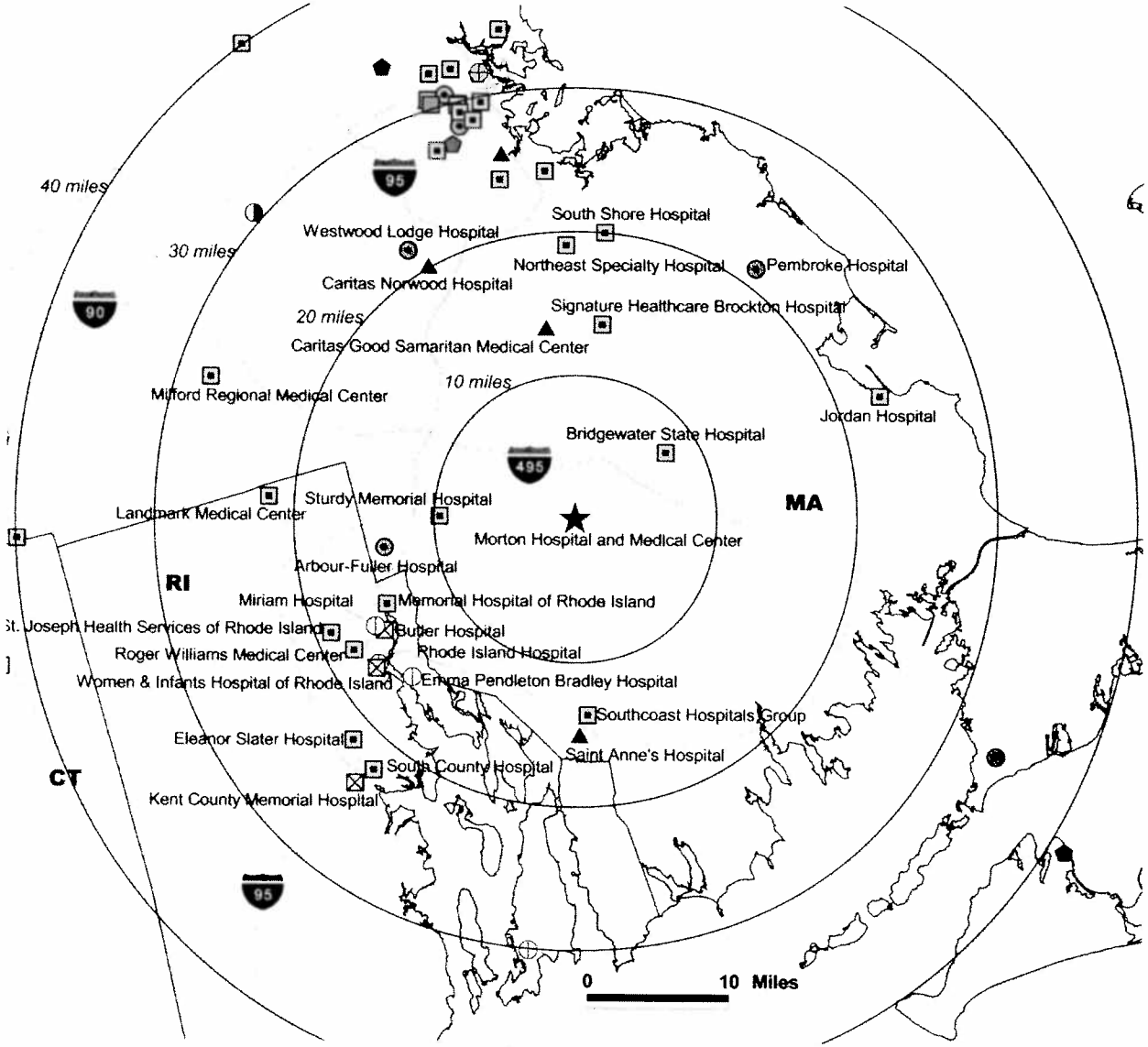
Morton Hospital: 40 Mile Radius



- Morton General Hospital and Medical Center
- Cape Cod Healthcare, Inc
- Care New England Health System
- Caritas Christi Health Care
- Independent
- Kindred Healthcare
- Lifespan Corporation
- Partners HealthCare System
- Shriners Hospitals for Children
- Universal Health Services, Inc
- Vanguard Health System
- Interstate
- State

- Morton Hospital's primary and secondary market includes a diverse mix of regional IDNs, nationally recognized academic medical centers and community based, freestanding hospitals
- Morton Hospital is fortunate to have a large service area from which to recruit potential affiliation partners
- The local healthcare market is extremely active, as several health systems across MA & RI are in various stages of transaction discussions

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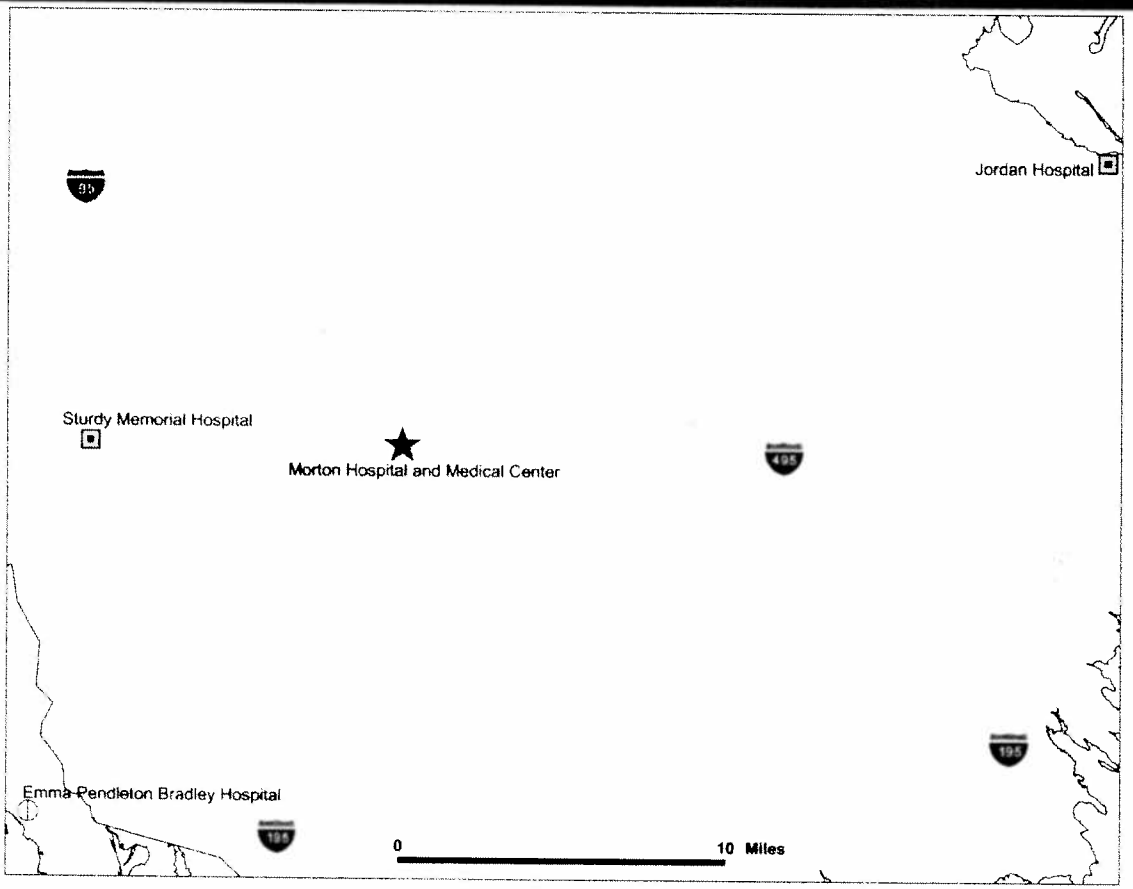
Morton Hospital: Defined Service Area and Patient Origin



Service Area	'06 Discharges	% of Total
PSA (9 zips)	6,708	87%
SSA (10 zips)	367	5%
Other	652	8%
Total	**7,727**	**100%**

Town and Zip	'06 Discharges	% of Total
Taunton (02780)	4,203	54%
Middleboro (02346)	733	9%
Raynham (02767)	654	8%
East Taunton (02718)	355	5%
Lakeville (02347)	307	4%
North Dighton (02764)	188	2%
Berkley (02779)	175	2%
Dighton (02715)	88	1%
Raynham Center (02768)	5	0%
SSA	367	5%
Other	652	8%
Total	**7,727**	**100%**

★ Morton Hospital and Medical Center
Independent
Lifespan Corporation
Service Area
PSA
SSA
Zip
Interstate

- **Morton is the only hospital in its PSA or SSA – a unique strength**
- **The vast majority of Morton discharges (87%, in 2006) originate from the PSA; over ½ come from Taunton (zip code 02780)**
- **More discharges come from outside the service area (8%) than from the SSA (5%)**

Source: Morton Hospital Provide LPAD Document – Mass Health Data Consortium (excludes Normal Newborns

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Service Area Demographic Profile

Population | Estimated Growth | 2010 - 2015	2010	2015	'10-'15 CAGR
Service Area Population (PSA +SSA)	247,843	253,208	0.4%
Massachusetts			0.1%
National			0.8%

Percent of Population Age 65+ 2010 - 2015	2010	2015	'10-'15 Change
Service Area (PSA +SSA)	11.7%	13.7%	+ 2.0 percentage points
Massachusetts	13.9%	15.6%	+ 1.7 percentage points
National	13.1%	14.6%	+ 1.5 percentage points

Weighted Average Household Income	2010	2015
Service Area (PSA + SSA)	$ 87,720	$ 98,674
State Average	$ 86,109	$ 95,041
National Average	$ 71,071	$ 77,465

- **The Morton service area include 250,000 residents and is projected to grow at 0.4% per year over the next 5 years (faster than Massachusetts, but slower than the overall US growth rate)**
- **The service area has a lower percentage of seniors than both the state and the US overall, although the rate of seniors in the Morton service area is growing more quickly**
- **Average Household Income in the Morton service area is higher than state and national averages as well**

Source: Morton Defined Service Area & Claritas Demographics Data

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Morton PSA Inpatient Market Share (2006)

System / Hospital	2006 PSA Discharges	2006 PSA Inpatient Market Share
1. Morton Hospital	6,708	47.1%
2. Caritas Christi	1,225	8.6%: Good Sam = 6.7%; Norwood = 1.1%; St. Elizabeth's = 0.8%
3. Brockton Hospital	920	6.5%
4. Partners HealthCare	917	6.4%: B&W = 4.0%; Mass General = 2.5%
5. Tufts Medical Center	859	6.0%
6. Southcoast Health System	716	5.0%
7. Beth Israel Deaconess MC	499	3.5%
8. South Shore Hospital	344	2.4%
9. Children's Hospital Boston	285	2.0%
10. Jordan Hospital	281	2.0%
ALL OTHER (including RI hospitals)	1,484	10.4%
TOTAL	14,238	100%

- Despite being the only hospital in the PSA or SSA, Morton captures less than 50% of the PSA inpatients
- Caritas is the #2 player, although many other hospitals also draw patients from the Morton PSA
- Morton recently ordered 2009 discharge data, so we will update this analytic upon receipt of that data

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Comparative Operating and Financial Statistics

Hospital	Morton Hospital	Caritas Good Samaritan	Signature Healthcare Brockton Hospital	Southcoast Health System (All 3)	South Shore Hospital	Jordan Hospital
System or Independent	Independent	Caritas Christi	Independent	Southcoast Health System	Independent	Independent
Staffed Beds [1]	153	248	253	764	306	146
Admissions [1]	6,536	10,003	15,014	35,481	20,955	10,162
ALOS [2]	3.8	3.9	3.3	5.1	3.9	3.5
Average Daily Census [1]	105	177	180	555	225	110
Occupancy [1]	69%	71%	71%	73%	74%	75%
Medicare CMI [2]	1.2	1.2	1.1	1.3	1.3	1.2
OP Visits [1]	83,128	58,355	130,591	898,360	471,612	395,610
Births [1]	558	1,001	1,303	3,623	3,748	686
Net Rev ($M) [2]	$ 127.4	$ 188.3	$ 195.5	$ 597.9	$ 391.9	$ 180.9
Operating Margin ($) [2]	$ 4.9	$ 13.0	$ 4.3	$ 9.7	$ (9.2)	$ 1.8
Operating Margin (%) [2]	3.8%	6.9%	2.2%	1.6%	-2.4%	1.0%
Days Cash on Hand (All Sources) [2]	76	64	39	88	150	45
Recent Bond Rating [3]		(System) Baa2	N/A	A2	A3	N/A
		March '10		*Sep '09*	*Feb '08*	*N/A*

- **Morton is smaller than most nearby area hospitals on most metrics (staffed beds, admissions, ADC and net revenue), based on a review of publicly available data.**

Sources:
[1] 2010 AGA Guide, based on 2008 Data | [2] CHIPS/Ingenix – 9.30.2009 Data | [3] Moody's Investor Services

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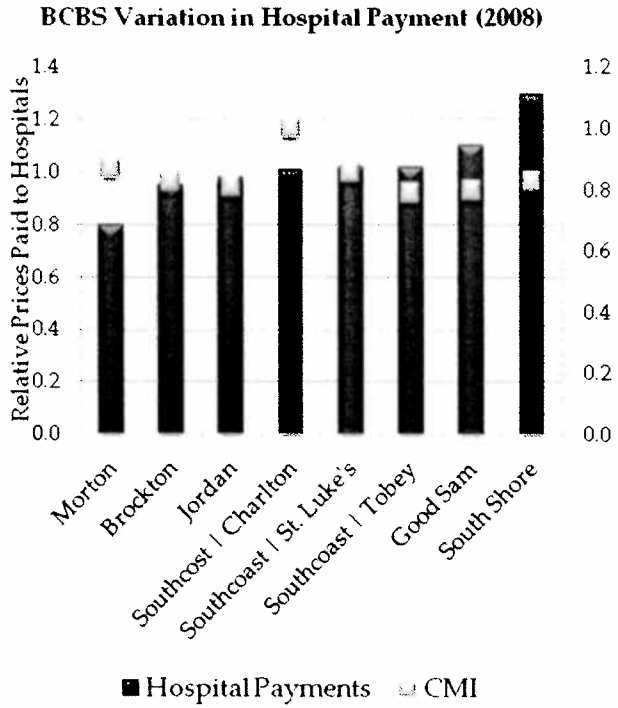
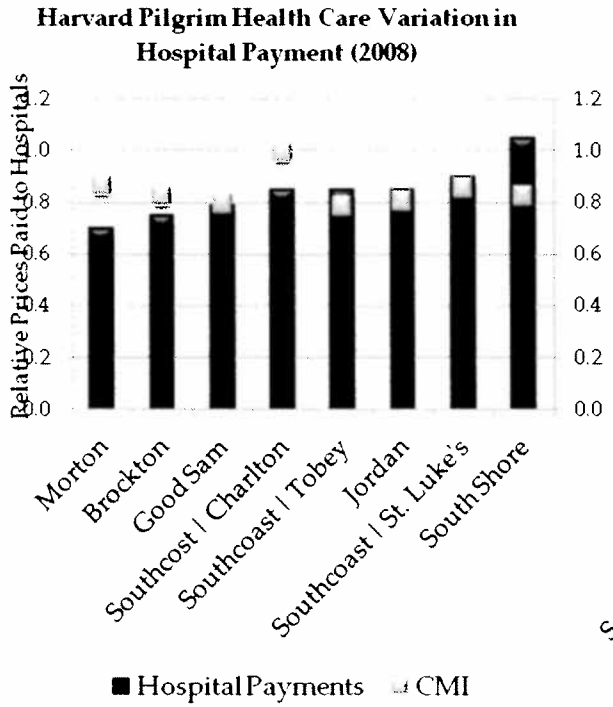
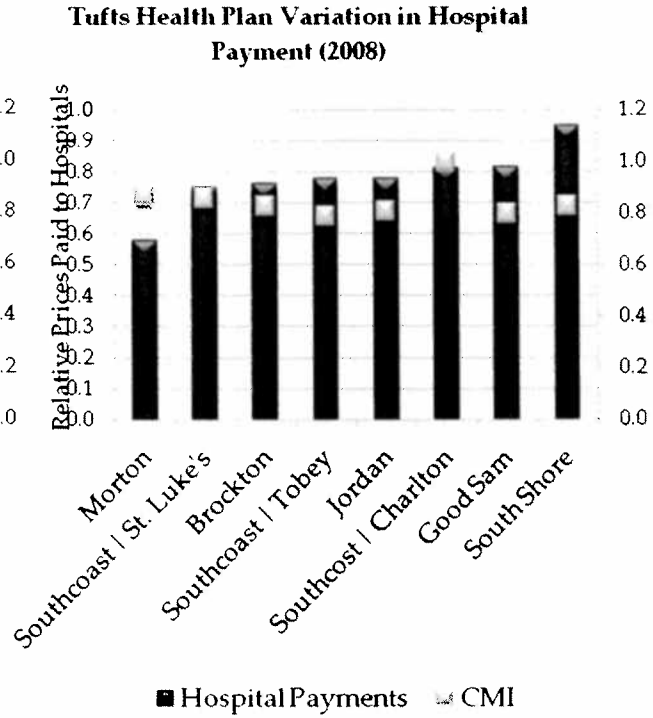
Comparative Hospital Payment Rates







- **While Morton CMI is generally above those of selected local competitors, its hospital payments are lower (in fact Morton receives the lowest relative payment in the entire state from Tufts Health Plan)**
- **South Shore Hospital receives better rates from key commercial insurers than other local competitors**
- **Overall study conclusions include: 1. price variations <u>are not</u> correlated to quality, CMI, payer mix, cost structure; and 2. price variations <u>are</u> correlated to market leverage**

Source: Massachusetts Attorney General Report: "Examination of Health Care Cost Trends and Drivers" - Relative values are estimated and intended to show relativity (not exact)

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Comparative Hospital Quality and Patient Satisfaction Statistics

Commonwealth Fund Quality and Patient Satisfaction Rankings

(Based on 3 Years | Q3 2006 – Q2 2009)

	Quality				Patient Satisfaction	
Hospital / System	Overall Recommended Care	Heart Attack 30-Day Mortality Rate	Heart Failure 30-Day Mortality Rate	Pneumonia 30-Day Mortality Rate	Percent of Patients Highly Satisfied	Patients would Definitely Recommend
SIGNATURE HEALTHCARE BROCKTON HOSPITAL	98.25%	17.70%	9.00%	12.50%	63.00%	63.00%
MORTON HOSPITAL & MEDICAL CENTER	96.16%	14.60%	10.70%	12.40%	52.00%	54.00%
JORDAN HOSPITAL INC	95.85%	13.50%	10.20%	12.70%	65.00%	72.00%
CARITAS GOOD SAMARITAN MEDICAL CENTER	95.13%	16.60%	10.00%	9.80%	57.00%	60.00%
SOUTH SHORE HOSPITAL	93.53%	16.30%	10.10%	10.40%	64.00%	72.00%
SOUTHCOAST HOSPITAL GROUP, INC	93.04%	13.90%	7.90%	10.30%	64.00%	70.00%
MASSACHUSETTS STATE	95.56%	N/A	N/A	N/A	67.00%	73.00%
NATIONAL TOP 10%	97.94%	14.10%	9.40%	9.50%	77.00%	81.00%
NATIONAL TOP 25%	96.92%	15.10%	10.30%	10.40%	71.00%	75.00%

- **Morton Hospital ranks second among local competitors on overall recommended quality of care (after Brockton)**
- **Mortality rates at Morton are similar to those of area competitors**
- **Patient satisfaction marks are much lower at Morton than at competitors and other benchmarks**

Source: Hospital The Commonwealth Fund (www.whynotthebest.org)

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Situation Assessment

C. Morton Situation

Morton Hospital – Financial Overview

Corporate Structure

- Morton Hospital (the "Hospital") is a 153-bed hospital and a wholly-owned subsidiary of Morton Health Foundation, Inc. and Affiliates. Other subsidiaries include;
  - Morton Health Foundation, Inc.
  - Morton Property, Inc.
  - Morton Hospital Auxiliary, Inc.
  - Morton Physician Associates, Inc.
  - Community Counseling of Bristol County, Inc.

Management/Governance

- Maureen Bryant, President and CEO
- Richard Jeffcote, SVP Finance and Treasurer
- Orla Brandos, Chief Nursing Officer
- Harry Lemieux, CIO
- Donna Maher, VP of Professional Services
- Cara Hart, VP of Administrative Services

Established	1889
Ownership	Non-Profit
FY2009 Net Revenue	$150 million
Location	Taunton, MA

Key Metrics

Statement of Operations ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual	August 2010 Annualized Actual
Total operating revenue	$141,528	$150,423	$156,385
Operating expenses	143,000	147,732	156,596
Operating income (loss)	(1,472)	2,691	(211)
Non-operating gain (loss)	4,897	342	1,129
Changes in unrestr. assets	(10,049)	(1,341)	NA
Inc. (decr.) in unrestricted net assets	**(6,623)**	**1,691**	**919**

Balance Sheet ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual	As of: 8/31/2010 Actual
Cash and cash equivalents	$6,413	$11,715	$9,428
Other current assets	19,623	23,632	20,800
Assets w/ limited or restricted use	17,947	17,188	18,090
Long-term assets	27,815	30,008	29,907
Other assets	3,056	1,095	1,038
Total assets	**$74,854**	**$83,637**	**$79,263**
Current liabilities	25,276	30,614	26,813
Long-term debt	24,854	23,467	22,055
Other long-term liabilities	25,393	26,714	39,677
Total liabilities	75,524	80,795	88,546
Net assets (deficit)	(670)	2,842	(9,282)
Total liabilities & net assets (deficit)	**74,854**	**83,637**	**79,263**

Long-term Indebtedness

Debt Stack ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual
Long-term debt		
Series C bonds	$20,805	$19,730
Plus unamortized premium	326	293
Net long-term debt	21,131	20,023
Mortgages and other notes payable	5,054	4,790
	26,185	24,813
Less: current portion	1,330	1,347
Total long-term debt	24,854	23,467
Capital Lease Obligations		
Real property capital lease	1,249	663
2003 MHEFA master lease	938	477
2005 MHEFA master lease	1,940	1,513
2007 MHEFA master lease	2,618	2,189
2009 MHEFA master lease	0	3,617
Other capital lease obligation	415	351
	7,161	8,809
Less: current portion	1,971	2,628
LT portion of capital lease obligations	5,190	6,182
Total LT debt and LT portion of capital lease obligations	**30,044**	**29,648**

Source: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Summary of Financial Issues Facing Morton

- **Cash** – Low days cash on hand leave little room for error to identify and implement operational improvements; uses of cash for operations, capital expenditures and the pension liability will further strain cash levels.
- **Leverage** – When considering the unfunded pension liability, the Hospital's debt to cash flow multiples (10.4x) are far in excess of acceptable levels in the industry.
- **Pension Liability** - The unfunded pension liability poses significant risk to near term profitability and liquidity; any pension strategy, including termination, will require significant outflows of cash, in excess of annual financial statement expenses.
- **Capital Constituency** – Continued deterioration in financial performance, and low days cash on hand will likely trigger covenant defaults and result in various stakeholders taking an active interest in the future of the organization, including the need for amendments and waivers of present credit agreements, including related professional fees.
- **CAPEX** – Aged property plant and equipment further exacerbate the need for capital and also adds to the difficulty of recruiting new members to the medical staff. The average age of property plant and equipment is approximately 20 years, an amount considered excessive, and indicating deferred maintenance and lack of investment in facilities in recent years. In 2005, the median value for all hospitals in the country was 10.4 years.
- **Strategic Market Position** – Within the Boston/ Southeast MA market, the hospital is one of the smallest non-affiliated providers competing against world class academic institutions and well capitalized multi-provider systems; Of the 80 largest MSAs in the US, Boston is 1 of only 4 markets where the hospital sector is "un-concentrated" and the commercial payer sector is "super concentrated," suggesting that additional hospital consolidation in the region is inevitable
- **Labor Issues** –Given current economic conditions, labor unions may be unlikely to agree to changes in collective bargaining agreements; salaries, wages and benefits as a percentage of net patient service revenue is over 60%, a financially unsustainable level. For comparison, for-profit providers strive for a ratio below 50%.
- **Healthcare Reform** - Healthcare reform (at state and federal levels) raises the bar for providers to simultaneously demonstrate / improve quality / outcomes, and reduce cost structure while volumes go down. Medicare spending per enrollee in the Boston HRR was 12% higher than the US average ($9,704 vs. $8,682 in 2007).
- **Uncompensated Care** – Growth in uncompensated care nationwide is straining hospital cash flows

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Organizational Challenges & Considerations

Morton Hospital faces significant industry headwinds externally and operational challenges internally.

Operational & Financial Challenges

- Days cash on hand have declined to critically low levels, making Morton vulnerable to operating interruptions
- Implementation of strategic growth initiatives will be challenging given current operating environment
- Declining financial performance
- Excessive debt to capitalization levels
- Underfunded pension plan poses significant risk to near-term profitability and liquidity
- Maintenance of debt covenant triggers will be challenging in the current environment

Industry Headwinds

- Potential subsidy cutbacks at the state and local level
- Healthcare Reform will shift economic incentives to quality based and cost effective care, providing challenges to even the well capitalized provider
- Labor shortages in nursing and other clinical areas and ever increasing salary and benefit costs
- Stand alone hospitals have less ability to realize economies of scale, fewer financial resources and limited capital access
- Nursing and other clinical areas will be reluctant to participate in cost reduction initiatives

Operating Improvement Considerations

- Evaluation of immediate and short-term liquidity needs given the critical levels of days cash on hand
- Identification opportunities to improve or accelerate cash
- Review business lines and consider exiting underperforming units or subsidiaries
- Evaluation of inefficiencies and further right-size the organization to reduce cash burn
- Evaluation of labor and vendor management agreements and identify financial improvement opportunities

Restructuring Considerations

- Development of valuation and debt capacity analyses, for purpose of potential capital structure negotiations and determine negotiation strategy with various constituents
- Evaluation of range of potential alternatives including:
  - Out of court restructuring with amendment to credit facilities
  - In court restructuring, with the ability to reject unfavorable contracts and agreements
  - Sale or asset disposition alternatives
  - Joint venture or affiliation

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Morton Hospital - Income Statement Trends

- Total operating revenues increased from $141 million to $150 million between FY2008 and FY2009, a 6% increase
  - Annualized YTD August FY2010 operating revenues are on a run rate of $156 million, a slight increase over FY2009
- Total expenses are trending up by 6% from FY2009 to annualized FY2010, 2% greater than the year over year revenue increase
  - Higher benefits and supply expense encompass the majority of the YTY increase
- Annualized YTD May FY2010 EBIDA is trending down by approximately 34%, a decrease from $9.4 million in FY2009 to $6.2 million in FY2010

Consolidated Statement of Operations ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual	August 2010 YTD Actual	Annualized Actual
Revenue and other support:				
Net patient service revenue	$137,432	$146,882	$139,288	$151,950
Other revenue	4,041	3,513	3,417	3,727
Net assets released from restrictions used in ops	54	27	648	707
Total revenue and other support	141,528	150,423	143,353	156,385
Expenses:				
Salaries and wages	72,010	70,347	68,372	74,587
Fringe benefits	16,392	20,011	20,343	22,192
Professional compensation	3,852	3,813	4,568	4,983
Supplies and expenses	39,349	41,363	39,966	43,599
Interest	1,836	1,762	1,357	1,480
Depreciation and amortization	4,644	4,928	4,532	4,944
Provision for uncollectible accounts	4,916	5,508	4,409	4,810
Total expenses	143,000	147,732	143,546	156,596
Income (loss) from operations	(1,472)	2,691	(193)	(211)
Non-operating gains and losses:				
Interest and dividends	830	644	466	509
Realized losses on sales of investments	(982)	(356)	468	511
Contributions and other	5,049	54	101	110
Total non-operating gains	4,897	342	1,035	1,129
Excess of revenue, other support and gains over expenses and losses	3,425	3,033	842	919
Other changes in unrestricted net assets:				
Unrealized gain (loss) on investments	(741)	152		
Net assets released from restructions used for	0	0		
acquisition of property and equipment	203	219		
Capital grant	0	332		
Adjustment to record pension liability not	0	0		
recognized in net periodic pension cost	(9,510)	(2,044)		
Increase (decrease) in unrestricted net assets	**(6,623)**	**1,691**		

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital - Operating Performance by Entity

- Morton Hospital and Medical Center produced approximately 86% and 84% of total consolidated operating revenue in FY2009 and the first 11 months of FY2010, respectively.
- Operating results for Morton Hospital and Medical Center realized the greatest decline compared to the other affiliated organizations.
- In FY2009 and the first 11 months of FY2010, Morton Hospital and Medical Center contributed $5.5 million and $2.9 million of income to Morton Health Foundation & Affiliates while Morton Physician Associates, Inc. contributed net losses of ($2.7) million and ($2.8) million during the same periods

($ in 000s)	Operating Performance by Entity for the Fiscal Year Ended September 30, 2009							
	Morton Health Foundation, Inc.	Morton Hospital and Medical Center, Inc.	Morton Property, Inc.	Morton Hospital Auxiliary, Inc.	Morton Physician Associates, Inc.	Community Counseling of Bristol County, Inc.	Eliminations and Reclass	Consolidated Totals
Net patient service revenue	$0	$127,390	$0	$0	$4,537	$14,954	$0	$146,882
Other revenue	0	2,548	1,130	99	185	182	(602)	3,541
Total operating revenue	0	129,938	1,130	99	4,722	15,136	(602)	150,423
Operating expenses	31	124,858	1,256	99	7,451	14,661	(623)	147,732
Operating income (loss)	(31)	5,081	(126)	(0)	(2,729)	475	21	2,691
Non-operating gain (loss)	190	421	0	33	0	(91)	(211)	342
Excess operating revenues over expenses & losses	159	5,502	(126)	33	(2,729)	385	(190)	3,033

($ in 000s)	Operating Performance by Entity for the First 11 Months of FY2010, Ended August 31, 2010							
	Morton Health Foundation, Inc.	Morton Hospital and Medical Center, Inc.	Morton Property, Inc.	Morton Hospital Auxiliary, Inc.	Morton Physician Associates, Inc.	Community Counseling of Bristol County, Inc.	Eliminations and Reclass	Consolidated Totals
Net patient service revenue	$0	$116,933	$0	$0	$4,164	$18,191	$0	$139,288
Other revenue	1	2,938	1,076	79	154	414	(597)	4,065
Total operating revenue	1	119,871	1,076	79	4,318	18,605	(597)	143,353
Operating expenses	21	117,932	967	88	7,112	18,045	(617)	143,546
Operating income (loss)	(20)	1,939	109	(8)	(2,793)	560	20	(193)
Non-operating gain (loss)	210	949	4	30	0	74	(231)	1,035
Excess operating revenues over expenses & losses	190	2,888	113	22	(2,793)	635	(211)	842

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital - Operating Performance by Entity

- Total EBIDA is trending down from FY2009 to annualized FY2010 which is attributed to lower Morton Hospital and Medical Center EBIDA and higher losses incurred by Morton Physicians Associates, Inc.
- Community Counseling and Bristol County, Inc. and Morton Property, Inc. are on a run rate to increase EBIDA by 16% and 37% respectively from FY2009 to annualized FY2010.

($ in 000s)	Operating Performance by Entity		
	FY2009 Actual	YTD August FY2010 Actual	Annualized YTD August FY2010
Morton Health Foundation, Inc.	($31)	($20)	($22)
Morton Hospital and Medical Center, Inc.	10,846	7,071	7,713
Morton Property, Inc.	365	459	500
Morton Hospital Auxiliary, Inc.	(0)	(8)	(8)
Morton Physician Associates, Inc.	(2,611)	(2,666)	(2,908)
Community Counseling of Bristol County, Inc.	791	840	916
Eliminations and Reclassification	21	20	22
EBIDA	**9,380**	**5,696**	**6,213**
Interest	1,762	1,357	1,480
Depreciation	4,928	4,532	4,944
Non-operating gain (loss)	342	1,035	1,129
Excess operating revenues over expenses and losses	**3,033**	**842**	**919**

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital - Balance Sheet Trends

- At August 31, 2010 Hospital has 18 days cash on hand, a critical low level of cash
- Hospital is contracting vendor payables
  - Accounts payable decreased $1.2 million and $2.8 million from 9/30/08 to 9/30/09 and 9/30/09 to 8/31/10, respectively, while accrued salaries and wages increased by $4 million and decreased by $4.4 million during the same periods.
  - Days payable outstanding decreased from 95 days to 70 days from the period 10/31/08 to 8/31/10
- Days accounts receivable outstanding have remained fairly stable at or around 35 days
- Debt to total capitalization spiked from 90% at 3/31/10 to 166% at 4/30/10 and 170% at 8/31/10
- The unfunded pension obligation approximates $19 million as of September 30, 2009, increased to $34 million as of August 31, 2010.
  - During 2010, the unfunded pension liability was increased $14.4 million
- Net asset deficit increased to $9.2 million

Balance Sheet ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual	8/31/2010 Actual
ASSETS			
Current Assets:			
Cash and cash equivalents	$6,413	$11,715	$9,428
Accounts receivable, net	14,901	14,941	14,292
Supplies, prepaid expenses and other	2,429	3,123	4,771
Current portion of assets whose use is limited or restricted	2,294	5,567	1,738
Total Current Assets	26,036	35,347	30,228
Assets whose use is limited or restricted, net of current portion	17,947	17,188	18,090
Property and equipment, net	27,815	30,008	29,907
Total other assets	3,056	1,095	1,038
Total Assets	**74,854**	**83,637**	**79,263**
LIABILITIES AND NET ASSETS (DEFINIT)			
Current liabilities:			
Notes payable, line of credit	863	633	422
Current portion of long-term debt	1,330	1,347	1,392
Current portion of capital lease obligations	1,971	2,628	1,642
Accounts payable and accrued expenses	11,239	10,040	7,226
Accrued/deferred liabilities			5,193
Accrued salaries and wages	6,961	11,010	6,591
Estimated settlements with third-party payors	2,912	4,957	4,348
Total current liabilities	25,276	30,614	26,813
Estimated settlements with third party payors, net of current portion	500	500	500
Long-term debt, net of current portion	24,854	23,467	22,055
Capital lease obligations, net of current portion	5,190	6,182	4,767
Asset retirement obligation	497	485	440
Long-term pension and other post-retirement related liabilities	19,207	19,547	33,970
Total liabilities	75,524	80,795	88,546
Commitments and contingencies			
Total net assets (deficit)	(670)	2,842	(9,282)
Total liabilities and net assets (deficit)	**74,854**	**83,637**	**79,263**

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital – Key Financial Ratios

At August 31, 2010 and for the 11 months ended August 31, 2010, Morton Hospital generally falls below Moody's investment grade rating criteria

- Key operating ratios are below investment grade and expected to decline further
- Days cash on hand are significantly below median comparisons at critical levels
- Debt to revenue is favorable, without however, considering the pension liability
- The average age of plant is extremely negative and indicative of critical capex needs

Ratio	Moody's Ratios 2007	2008	2009	Below Baa	Morton
Operating Margin	2.1%	2.0%	2.2%	0.1%	0.1%
Operating Cash Flow Margin	9.1%	8.9%	8.9%	5.5%	4.0%
Annual Debt Service Coverage Ratio	4.5x	4.1x	4.0x	2.3x	1.7x
Current Ratio	2.0	1.9	2.0	1.6	1.1
Days Cash on Hand	174	154	147	66	18
Cash to Debt	117.3%	108.7%	105.6%	60.8%	31.1%
Debt to Capitalization	37.4%	39.1%	41.5%	52.1%	170.0%
Debt to Total Revenue	38.8%	36.3%	35.0%	27.2%	19.5%
Average Age of Plant - years	9.9	10.0	10.0	15.3	20.1

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Morton Hospital - Free Cash Flow

- The Hospital does not generate sufficient cash flow to service debt and meet other obligations
- To meet obligations, cash reserves will continue to be depleted
- Unfunded pension liability essentially doubles the outstanding long-term indebtedness
- Budgeted excess of revenues over expenses includes significant operational improvement initiatives which, if not fully realized will result in further uses of cash reserves to meet obligations

($ in 000s) *Free cash flow*	**FY2011 Budget**
Excess of Revenues over Expenses	$769
Add;	
Depreciation	4,579
Interest	1,119
EBIDA	6,467
Less:	
Pension funding in excess of expense	(2,500)
Minimal capital spending	**(2,000)**
Physician practice support	(2,000)
Free Cash Flow Available For Debt	(33)
Debt Service Payments	**$2,700**

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital – Estimated Use of Proceeds

- EBIDA multiples are consistent with expectations currently in the market
- Need for future capital investment will dictate valuation of any transaction
- Budgeted EBIDA includes certain initiatives and opportunities identified by management
- Maximizing value (pro-forma) will be the key objective in this transaction
- Additional unsecured liabilities (accounts payable and accrued expenses) will likely have to be satisfied from proceeds of accounts receivable, and/or funds remaining

	Fiscal 2011 Budget			
($ in millions)	*scenario 1*	*scenario 2*	*scenario 3*	*scenario 4*
EBIDA	$6.4	$6.4	$6.4	$6.4
EBIDA Multiple	7.0x	6.5x	6.0x	5.5x
Indicative Value	**$44.8**	**$41.6**	**$38.4**	**$35.2**
Add:				
Cash on balance sheet	**9.4**	**9.4**	**9.4**	**9.4**
Trustee held funds	**19.8**	**19.8**	**19.8**	**19.8**
Available funds	**$74.0**	**$70.8**	**$67.6**	**$64.4**
Less:				
Current Outstanding Debt	30.3	30.3	30.3	30.3
Pension Obligation	33.9	33.9	33.9	33.9
Estimated fees and expenses	2.0	2.0	2.0	2.0
Funds remaining	**$7.8**	**$4.6**	**$1.4**	**-$1.8**

SOURCES: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package – September 27, 2010.

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Morton Hospital – Outstanding Debt

- In February 2004, the Hospital entered into an agreement with the Massachusetts Health and Educational Facilities Authority ("MHEFA") to issue $25.25 million of MHEFA revenue bonds
  - Bond issuance used to advance refund the Hospital's MHEFA Series B revenue bonds
  - Bond Trustee – US Bank
  - Bonds mature 7/1/2023 and have annual interest rates ranging from 2-5%
  - Collateral consists of Hospital real property and pledge of gross receipts
- Mortgages include secured notes payable for property located in and around Taunton, MA
- Capital leases include agreements between the Hospital and various lessors, all with seven year terms, and accrue interest at rates ranging from 3.5-4.0%

Debt Stack ($ in 000s)	Fiscal Years Ended: 9/30/2008 Actual	9/30/2009 Actual
Long-term debt		
Series C bonds	$20,805	$19,730
Plus unamortized premium	326	293
Net long-term debt	21,131	20,023
Mortgages and other notes payable	5,054	4,790
	26,185	24,813
Less: current portion	1,330	1,347
Total long-term debt	24,854	23,467
Capital Lease Obligations		
Real property capital lease	1,249	663
2003 MHEFA master lease	938	477
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2007 MHEFA master lease	2,618	2,189
2009 MHEFA master lease	0	3,617
Other capital lease obligations	415	351
	7,161	8,809
Less: current portion	1,971	2,628
LT portion of capital lease obligations	5,190	6,182
Total LT debt and LT portion of capital lease obligations	**30,044**	**29,648**

Source: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008.

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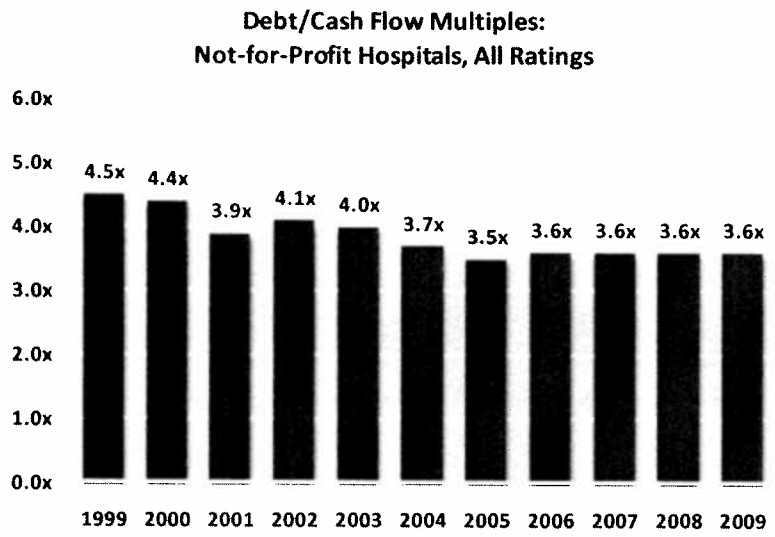
Morton Hospital – Debt Capacity

- Current not-for-profit healthcare debt capacity statistics indicate market debt capacity of 3.6x cash flow



Source: Moody's, excludes multi-state hospital systems

- Based on annualized operating results for FY 2010, and a 3.6x multiple, the Hospital can service a debt load of only $22.4 million, below existing debt levels and ***excluding the unfunded pension liability***

- Including the pension liability, the debt to cash flow multiple increases to 10.3x, far in excess of comparable multiples of 3.6x.
- Implied operating EBIDA of $8.2 million is needed to service existing Hospital debt
- Recent financial trends (i.e. increased debt to capitalization) may effect Morton's ability to service debt load and/or meet debt covenants

($ in 000s)		Debt Capacity
Operating EBIDA (Annualized YTD August FY201	**$**	**6,213**
2009 Not-for-Profit Debt Multiple		3.60x
Total Debt	**$**	**22,368**
Total Market Debt	$	22,368
Less: Total Outstanding Debt (1)		29,648
Excess Debt		**(7,280)**
Implied EBIDA Needed to Right-size Debt Load	*$*	*8,236*

Note:

(1) Total Outstanding Debt includes long term debt plus long term portion of capital lease obligations.

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Landmark Medical Center: Case Study

Tax-exempt Landmark Medical Center was formed in 1988, through the merger of Woonsocket Hospital and John E. Fogarty Memorial Hospital. It includes 133 staffed beds across two campuses, according to the 2010 AHA Guide.

Worsening financials and the threat of insolvency worry Landmark's creditors. Investors hold bonds worth some $11M worth of Landmark Debt

2008: Landmark posts a net loss of $5 M on Net Patient Revenue of $117 M

June 2008: Landmark petitions the court for receivership after years of financial struggle, citing a low-income patient population base and low reimbursement from public and private payers

Landmark Medical Center placed under management of a Special Master in a process akin to receivership protecting it from it's creditors

September 2009: Landmark receives court approval to negotiate a potential merger with Caritas Christi. A successful merger would result in Landmark becoming a Catholic hospital and complying with the ERDs. Any potential merger would need approval of both the state health department and the Rhode Island AG.

Source(s):
Health Leaders, Boston Globe, Woonsocket Call, CMS reports, Landmark Medical Center Website

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Situation Assessment: Summary Conclusions

For Discussion

- **Morton Hospital is a small, vulnerable hospital facing an increasingly hostile environment and a deteriorating strategic and financial position. While Morton at present is profitable from an accounting perspective, even if it could "survive" as a freestanding hospital, it likely will never "prosper"**

- **A well-executed, formal partnership within another health system – which could provide capital, economies of scale and specialized expertise – would benefit both Morton and the local community**

- **<u>Now</u> is the time to pursue a formal partnership:**
  - Morton's negotiating position is expected to erode over time:
    - Competitors will poach traditionally loyal Morton physicians, resulting in volume declines
    - Morton will not be able to match competitors' capital investments
    - A strike could result in Morton running out of cash in 90 days
  - There is a market – even for distressed hospitals – at present (multiple organizations are interested), suggesting the possibility of a deal with "more favorable" terms; this unique moment in time will not last
  - While the Boston MSA hospital sector is unconcentrated at present, with each additional transaction, future transactions are expected to face increasing regulatory scrutiny

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Potential Partners

Potential Partner Evaluation Criteria

For Discussion

Together, Morton and Navigant developed the following criteria against which to screen an initial set of potential partners.

Evaluation Criteria	Additional Elements
1. **Strategic interest in / commitment to Taunton market**	• Commit to preservation of acute care services in Taunton • Improved access to clinical services in Taunton
2. **Financial health / balance sheet strength**	• Ability / willingness to invest strategic and replacement capital at Morton
3. **Experience with integration of hospitals into a regional system**	
4. **Experience with integration / alignment of physicians**	
5. **System resources available to assist Morton**	• For example, centralized support services, supply chain, staff education / professional development, IT, revenue management
6. **Level of interest expressed at CEO meeting / ability to move quickly**	• Ability to finalize a Definitive Agreement by 12/31/10
7. **Provide for Morton governance representation on regional / system Board**	

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Potential Partners: Overview

For Discussion

Together, Morton and Navigant identified the following organizations to assess potential interest and fit.

- Beth Israel Deaconess Medical Center *(however it declined even an initial conversation)*
- Cape Cod Healthcare - TBD
- **Caritas Christi (Cerberus)**
- **Lifespan**
- Partners HealthCare *(however it declined even an initial conversation)*
- **South Shore Hospital**
- **Southcoast Health System**
- Sturdy Memorial Hospital *(however it declined even an initial conversation)*
- **UMass Memorial Health Care**
- **Vanguard Health Systems + Tufts Medical Center**

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Potential Partners: Comparative, Publicly-Available Statistics

Potential Partner	Location	# of Acute Care Hospitals	Staffed Beds	Net Revenue ($M)	Operating Margin (%)	Days Cash	Bond Rating, Date, Outlook
Caritas Christi (Cerberus)	Boston	6	1,288	$1.3 B	2.3%	69	Moody's Baa2, stable (upgrade from Baa3 in Jan 2010)
Lifespan	Providence	4	1,052	$1.5 B	0.6%	138	Moody's A3, stable (March 2010)
South Shore Hospital	South Weymouth	1	306	$0.4 B	1.6%	175	Moody's A3, stable (April 2009)
Southcoast Health System	New Bedford	3 (but 1 license)	764	$0.7 B	0.4%	187	Moody's A2, stable (Sept 2009)
UMass Memorial Health Care	Worcester	5	962	$2.1 B	3.9%	102	Moody's Baa1, stable (May 2010)
Vanguard Health Systems	Nashville	15	4,135	$3.4 B	-1.4%	NA	NA
+							
Tufts Medical Center	Boston	1	262	$0.5 B	-1.1%	63	NA

Sources: organizational websites, 2010 AHA Guide (based on 2008 data), Moody's reports, Vanguard SEC 10k filing.

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Potential Partners: Initial Evaluation Against Criteria

Potential Partner	Strategic Interest / Commitment to Taunton	Financial Health / Balance Sheet Strength	Hospital Integration Experience	Physician Alignment Experience	System Resources To Assist Morton	Level of Interest / Timing
Caritas Christi (Cerberus)	5	4	5	5	5	5
Lifespan	2	5	4	4	5	3
South Shore Hospital	4	4	1	5	2	1
Southcoast Health System	5	3	4	4	3	5
UMass Memorial Health Care	2	3	4	4	4	TBD
Vanguard Health Systems + Tufts Medical Center	4	5	5	5	5	5

Scoring Key:

1=very unfavorable; 2=moderately unfavorable; 3=neutral; 4= moderately favorable; 5=very favorable

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Results of Initial Partner Evaluation and Conversations

Level of Interest and Fit	Organization	Next Steps
High	Caritas Christi / Cerberus	• Follow up meeting scheduled October xx
	Southcoast Health System	• Send / sign Non-Disclosure Agreement
	Vanguard + Tufts	• Follow up meeting scheduled October 20th
TBD	UMass Memorial	• CEO meeting scheduled October 18th
Low	Lifespan	
	South Shore Hospital	

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Caritas Christi: Summary Profile

Element	Detail
Headquarters	• Boston, MA
CEO	• Ralph de la Torre, MD
Hospitals / Staffed Beds / ADC	• 6 hospitals (2008 stats from 2010 AHA Guide) o Carney Hospital: 133 staffed beds / 105 ADC o Good Samaritan Medical Center: 190 staffed beds / 185 ADC o Holy Family Hospital: 255 staffed beds / 140 ADC o Norwood Hospital: 264 staffed beds / NA ADC o St. Anne's Hospital: 108 staffed beds / NA ADC o St. Elizabeth's Medical Center: 338 staffed beds / 188 ADC
Market Rank / Share	• #2 in Boston MSA with 11% inpatient share (2009)
Employed Physicians	• Caritas Physician Network (~ 500 employed physicians)
Net Revenue	• $1.3 B (FY09)
Operating Margin	• 2.3% (FY09)
Days Cash	• 69 (FY09)
Bond Rating	• Moody's: Baa2, stable outlook (upgrade from Baa3 in January 2010)
Recent News	• Cerberus Capital Management agreed to acquire Caritas Christi in a private equity deal in March 2010 (pending final AG and Church approval) • Caritas Christi is in process of acquiring Landmark Medical Center

Caritas
CARITAS CHRISTI HEALTH CARE

CERBERUS
CAPITAL MANAGEMENT, L.P.

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Lifespan: Summary Profile

Element	Detail
Headquarters	• Providence, RI
CEO	• George Vecchione
Hospitals / Staffed Beds / ADC	• 4 hospitals (2008 stats from 2010 AHA Guide) o Emma Pendleton Bradley Hospital: 51 staffed beds / NA ADC o Miriam Hospital: 247 staffed beds / 204 ADC o Newport Hospital: 119 staffed beds / 77 ADC o Rhode Island Hospital (including Hasbro Children's Hospital): 635 staffed beds / 494 ADC
Market Rank / Share	• #1 in Providence MSA with 29% inpatient share (2009)
Employed Physicians	• ~ 300 employed physicians
Net Revenue	• $1.5 B (FY09)
Operating Margin	• 0.6% (FY09)
Days Cash	• 138 (FY09)
Bond Rating	• Moody's: A3, stable outlook (March 2010)
Recent News	• Lifespan and Care New England ended years of merger discussions in 2010, after a protracted state regulatory review process • Finalizing roll out of a single electronic medical record for all Lifespan physicians and nurses

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Southcoast Health System: Summary Profile

Element	Detail
Headquarters	• New Bedford, MA
CEO	• John Day, transitioning to Keith Hovan
Hospitals / Staffed Beds / ADC	• 3 hospitals, but all under one license – in total 764 staffed beds / 555 ADC (2008 stats from 2010 AHA Guide) o Charlton Memorial Hospital: Fall River o St. Luke's Hospital: New Bedford o Tobey Hospital: Wareham
Market Rank / Share	• #3 in Providence MSA with 18% inpatient share (2009)
Employed Physicians	• ~ 85 physicians
Net Revenue	• $0.7 B (FY09)
Operating Margin	• 0.4% (FY09)
Days Cash	• 187 (FY09)
Bond Rating	• Moody's: A2, stable outlook (September 2009)
Recent News	• Southcoast announces clinical affiliation with M.D. Anderson Physicians Network

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UMass Memorial Health Care: Summary Profile

Element	Detail
Headquarters	• Worcester, MA
CEO	• John O'Brien
Hospitals / Staffed Beds / ADC	• 5 hospitals (2008 stats from 2010 AHA Guide) o Clinton Hospital: 41 staffed beds, 28 ADC o Health Alliance Hospitals: 101 staffed beds, 87 ADC o UMass Memorial Medical Center: 693 staffed beds, 577 ADC o UMass Memorial – Marlborough Hospital: 67 staffed beds, NA ADC o Wing Memorial Hospital and Medical Centers: 60 staffed beds, 33 ADC
Market Rank / Share	• #1 in Worcester MSA with 61% inpatient share (2008)
Employed Physicians	• UMass Memorial Medical Group (~ 800 physicians)
Net Revenue	• $2.1 B (FY09)
Operating Margin	• 3.9% (FY09)
Days Cash	• 102 (3/31/2010)
Bond Rating	• Moody's: Baa1, stable outlook (May 2010)
Recent News	• August 2010: UMass Memorial Health Care and University of Massachusetts Medical School open 9 story, 250,000 square foot Ambulatory Care Center, including patient care and research space

UMassMemorial Medical Center
A Member of UMass Memorial Health Care

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Vanguard Health Systems + Tufts Medical Center

Morton Hospital
And Medical Center

Operational Excellence & Capital Access

Branded Tertiary Affiliation I ("AMC") Model

Vanguard Health Systems, a for profit health system headquartered in Nashville, TN currently operates a total of 15 acute care hospitals around the country. Its stated strategy is to develop locally managed and branded healthcare delivery networks in urban markets.

Tufts Medical Center, a tertiary academic medical center located in Boston, MA is the principle teaching hospital for Tufts Medical School

Tufts Roll:

- Joint Business Planning
- Co Branding
- Physician Network Development
  - Advancement of Medical Home Model
  - Contracting
- Clinical Integration
- Academic Relationship

Massachusetts Hospital Data

System Components	Tufts New England Medical Center	Metro West Medical Center	St. Vincent's Hospital
Staffed Beds [1]	262	407	351
Admissions [1]	16,352	16,351	16,741
Average Daily Census [1]	260	192	202
Outpatient Visits [1]	372,276	54,478	137,367
Births [1]	1,327	-	-
Net Rev [2]	$548.2	$238.0	$320.1
Operating Margin ($) [2]	$(6.2)	$(9.5)	$(2.5)
Operating Margin (%) [2]	-1.1%	-4.0%	-0.8%
Days Cash on Hand [2]	63	3	66
Medicare CMI [2]	1.9	0.0	1.6

Sources: [1] 2010 guide, based on 2008 Data [2] Chips/Ingenix hospital benchmarks – 9.30.2010 Data

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Vanguard Health Systems + Tufts Medical Center

Vanguard Heath Systems & Tufts Medical Center Today

Geographic Overview

Boston, MA
Tufts Medical Center

Detroit: DMC is #4 player with 12% share
Definitive agreement to purchase Detroit Medical Center
•8 hospitals
•1,734 licensed beds

Massachusetts:
MetroWest Medical Center
St. Vincent Hospital

Phoenix: Abrazo is #4 player with 8 hospitals and 9% share
•Arrowhead Hospital
•Paradise Valley Hospital
•Maryvale Hospital
•Phoenix Baptist Hospital
•West Valley Hospital

Chicago:
MacNeal Hospital
Weiss Memorial Hospital

Agreement to Purchase 2 additional Hospitals
• Westlake
• West Suburban

San Antonio: Baptist is #2 player with 5 hospitals and 30% share
•Baptist Medical Center
•Northeast Baptist Hospital
•North Central Baptist Hospital
•Southeast Baptist Hospital
•St. Luke's Baptist Hospital

VANGUARD
HEALTH SYSTEMS

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Other Considerations May Include…

- **Assets excluded from a transaction, if any (e.g., perhaps Community Counseling of Bristol County, Inc.)**

- **Limited ability to establish foundation with excess proceeds**
  - Most transactions are "asset" purchases
  - Current assets appear sufficient to satisfy current liabilities
  - LT liabilities approximate $62 million
  - Limited use assets will be available to reduce/defease debt
  - Pro-forma EBIDA of $10 million would potentially satisfy debt

- **Governance – Morton representation and/or reserve powers**
- **Morton name**
- **Capital commitments**

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Next Steps

Next Steps: Overall

- Form Special Committee of Board to assist in process
- Continue to meet and explore potential fit with short list of potential partners
- Begin to prepare the organization for change (medical staff executive committee meeting, employee "town hall" meetings, community leader meetings, etc.)

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Next Steps: Transaction Specific

October 2010	November 2010	December 2010	January 2011
• Compile due diligence • Update financial forecast • Prepare marketing materials	• Distribute Confidential Memorandum • Grant access to data room • Meet with interested parties • Request written letter of interest	• Negotiate terms with selected parties • Continue due diligence of interested parties • Sign LOI if required	• Execute transaction agreements • Request regulatory approval

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Next Steps: Board Involvement and Support

CEO Activities	Board Support
1. Affiliation / acquisition activities	
2. Defined benefit pension to define contribution plan conversion for non-union and MNA employees	
3. Leading a distressed hospital that has recently gained insight into its distressed state	
4. Improving MPA's financial performance	
5. Reshaping / grooming a smaller senior team	
6. Prep for and participation in Board and Board committee meetings	
7. Follow through on employee and physician engagement surveys	
8. Patient satisfaction improvement	
9. Marketing / image improvement (internally and externally)	
10. CPOE going live 10/5 (rest of implementation to follow)	
11. Additional ARRA requirements	
12. MassHealth P4P recovery efforts	
13. Clinical Program Development – PET, MRI, TCU replacement EBHS expansion, Home Health growth, pediatric after hours clinic etc.	

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Appendix

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Transaction Timeline

Acquisition/Divestiture Planning	Transaction Due Diligence & Negotiation			Implementation
Finalize Partnership Identification & Assessment September + October 2010	**Morton Hospital Business Case and Organizational Form of Collaboration October 2010**	**Due Diligence & Valuation from Selected Partners October + November 2010**	**Term Negotiation, Agreement Finalization and Integration Planning Begins November + December 2010**	**Integration Plan & Execution Q2 2011**

• Partner identification
• Evaluation criteria development
• Assessment of partners against criteria
• Selection of preferred partner
• Exploratory conversations to gauge interest
	• Rationale for collaboration
	• Benefits of collaboration
	• Risks
	• Potential impact
	• Community and competitor response
	• Identify board negotiating team
	• Begin stakeholder communications
	  • Employees
	  • Medical staff
	  • Community
		• Letter of Intent signed w/ term sheet
		• Due diligence support
		• Valuation opinions
		• CON application
		• Notify Attorney General if applicable
		• Stakeholder Communications
		  • Employees
		  • Medical staff
		  • Community
			• Deal structuring
			• Negotiation of key terms
			• U.S. DOJ/FTC merger efficiencies analysis
			• FTC testimony
			• Post-merger integration planning
			• Final negotiations of definitive agreement by 12-31-10
			• Media communications
			• Stakeholder communications
			  • Employees
			  • Medical staff
			  • Community
				• Strategic plan development for combined entity
				• Transition planning
				• Media communications

	Go/No-Go Board Decision	***Letter of Intent***	***Hart-Scott-Rodino Filing***	***Deal Closing & Transfer of Ownership***

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Morton Hospital – Industry Benchmarking: For- Profit Public Comparables

- Based on FY2009 and annualized FY2010 results, Morton Hospital lags behind industry leaders in the for-profit sector in EBIDA margin and debt to EBITDA; a good benchmark for non-profit providers is a ten percent EBIDA
- Morton Hospital debt to EBIDA has trended down slightly from 3.2x during FY2009 to 3.1x during annualized YTD August FY2010, which is predominantly a result of increasing EBIDA levels during this period
- Morton Hospital appears to be managing receivables and payables more effectively than industry leaders by virtue of it DSO and DPO measures

($ in millions, except per share data)			Income Statement						Balance Sheet				Ratios			
Medical & Surgical Hospitals	Ticker	LTM Ended	EV	LTM Revenue	LTM EBITDA	EBITDA %	LTM SG&A	SG&A %	Total Debt	Total Assets	DSO	DPO	Asset Turns	FA Turn	Debt / EV	Debt / EBITDA
Community Health Systems, Inc.	CYH	6/30/10	$ 11,883	$ 12,510	$ 1,693	13.5%	$ 1,773	14.2%	$ 9,270	$ 14,313	48.7	27.5	0.9x	2.1x	78.0%	5.5x
Health Management Associates Inc.	HMA	6/30/10	4,748	4,853	714	14.7%	714	14.7%	3,261	4,720	48.1	19.9	1.1x	2.0x	68.7%	4.6x
Lifepoint Hospitals Inc.	LPNT	6/30/10	3,014	3,069	505	16.4%	425	13.9%	1,430	3,959	41.5	16.1	0.8x	2.0x	47.4%	2.8x
Prospect Medical Holdings Inc.	PZZ	6/30/10	312	468	54	11.5%	61	13.0%	181	385	32.0	32.5	1.3x	7.1x	58.0%	3.4x
SunLink Health Systems Inc.	SSY	3/31/10	49	199	11	5.3%	27	13.4%	36	105	38.6	20.4	1.9x	4.4x	73.0%	3.4x
Tenet Healthcare Corp.	THC	6/30/10	6,069	9,165	1,024	11.2%	731	8.0%	4,274	7,834	46.6	41.1	1.2x	2.2x	70.4%	4.2x
Universal Health Services Inc.	UHS	6/30/10	4,366	5,272	701	13.3%	610	11.6%	883	3,990	42.4	65.4	1.3x	2.3x	20.2%	1.3x
Comparables Average			$ 4,349	$ 5,077	$ 672	13.2%	$ 620	12.2%	$ 2,762	$ 5,044	42.6	31.8	1.2x	3.2x	59.4%	3.6x
Morton Hospital & Affiliates	NA	09/30/09	NA	$ 150	$ 9	6.2%	NA	NA	$ 30	$ 84	36.2	69.0	1.9x	5.2x	NA	3.2x
Morton Hospital & Affiliates (1)	**NA**	**08/31/10**	**NA**	**$ 215**	**$ 9**	**4.0%**	**NA**	**NA**	**$ 27**	**$ 79**	**24.8**	**38.5**	**2.6x**	**7.2x**	**NA**	**3.1x**

(1) Based on YTD August FY2010 annualized results.

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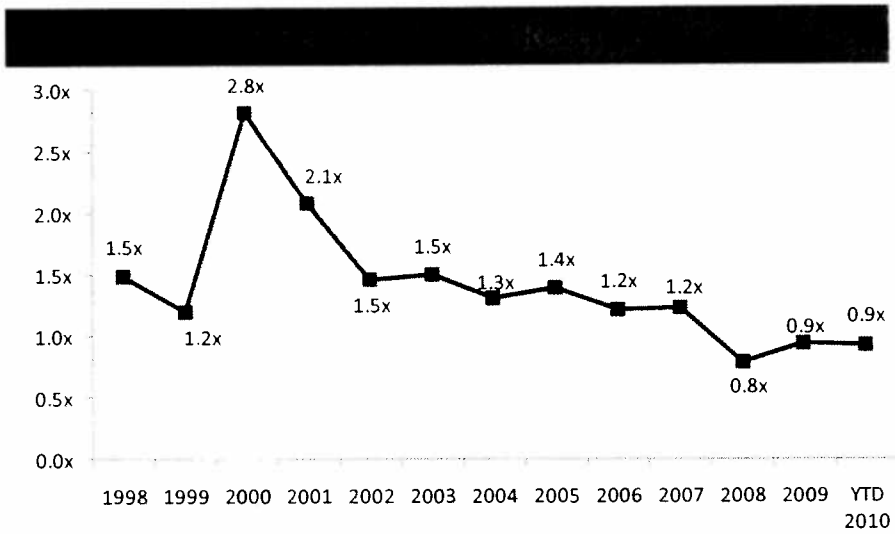
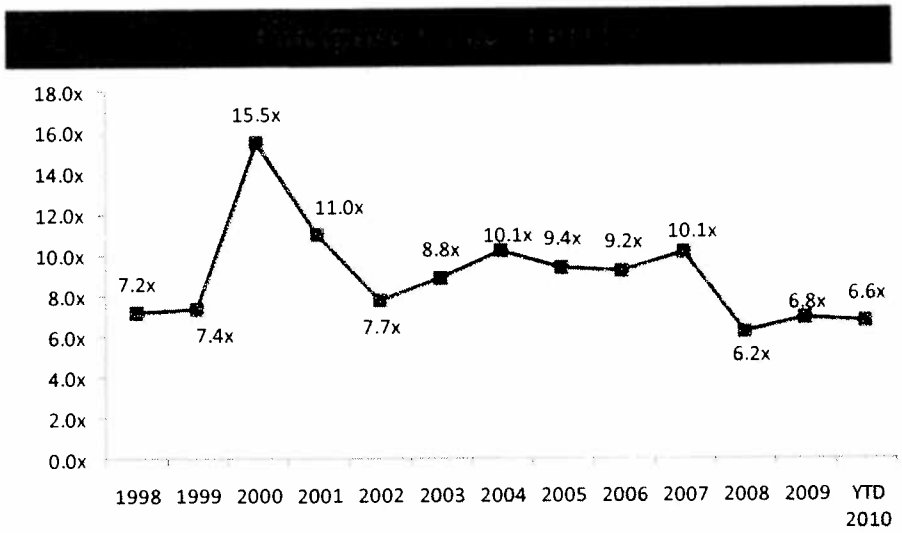
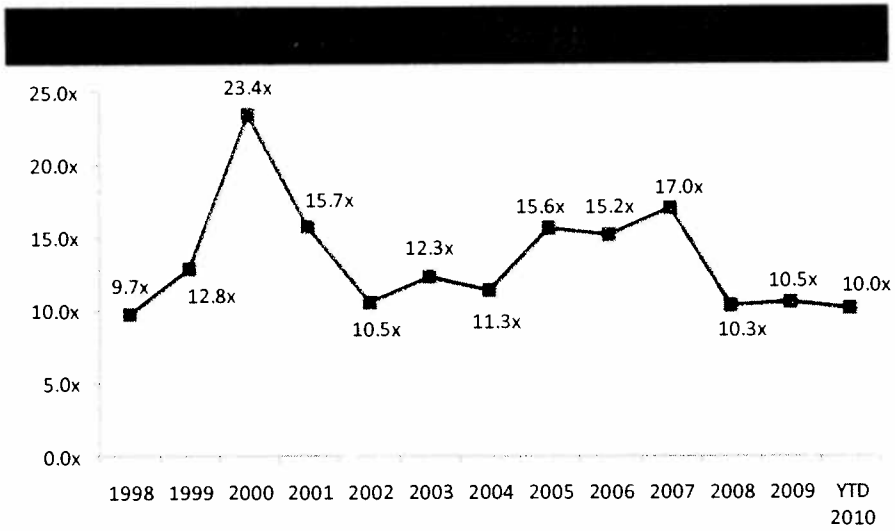
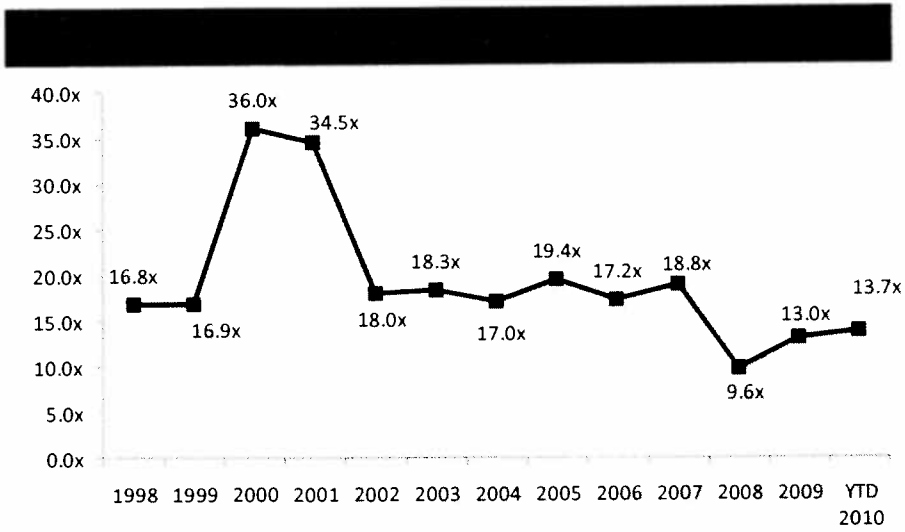
Current Hospital Valuation Trends

Valuation Trends for Publicly Traded Hospital Companies









Note: The graphs are representative of the companies within the "NCA Hospital Index" which includes CYH, HMA, LPNT, THC, and UHS. Source: Capital IQ

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Current Hospital Valuation Trends

Publicly Available Market Comparable Companies

- For purposes of joint venture affiliation or outright sale, enterprise value multiples are currently 6.5x EBITDA and 0.9x revenue for publicly-traded hospital companies
- As noted on the previous page, multiples for the entire hospital sector have recently trended upward due to the recent legislation with the expectation of increased demand and net reimbursement to the industry

($ in millions)										Market Comparable Market Multiples		
		LTM	Stock Price	Ent.	LTM	LTM	EBITDA	LTM		Enterprise Value /		
Company Name	Ticker	Ended	9/30/2010	Value	Revenue	EBITDA	%	EBIT	EBIT %	Revenue	EBITDA	EBIT
Community Health Systems, Inc.	CYH	6/30/10	$ 31.53	$11,883	$ 12,510	$ 1,693	13.5%	$ 1,104	65.2%	0.9x	7.0x	10.8x
Health Management Associates Inc.	HMA	6/30/10	7.86	4,748	4,853	714	14.7%	461	64.6%	1.0x	6.6x	10.3x
Lifepoint Hospitals Inc.	LPNT	6/30/10	35.74	3,014	3,069	505	16.4%	345	68.3%	1.0x	6.0x	8.7x
Prospect Medical Holdings Inc.	PZZ	6/30/10	8.50	312	468	54	11.5%	46	84.6%	0.7x	5.8x	6.8x
SunLink Health Systems Inc.	SSY	3/31/10	2.10	49	199	11	5.3%	4	35.7%	0.2x	4.7x	13.1x
Tenet Healthcare Corp.	THC	6/30/10	4.74	6,069	9,165	1,024	11.2%	640	62.5%	0.7x	5.9x	9.5x
Universal Health Services Inc.	UHS	6/30/10	39.85	4,366	5,272	701	13.3%	491	70.0%	0.8x	6.2x	8.9x
Comparables Average				**$ 4,349**	**$ 5,077**	**$ 672**	**13.2%**	**$ 441**	**65.7%**	**0.9x**	**6.5x**	**9.9x**
									High	**1.0x**	**7.0x**	**13.1x**
									Low	**0.2x**	**4.7x**	**6.8x**
									Mean	**0.8x**	**6.0x**	**9.7x**
									Median	**0.8x**	**6.0x**	**9.5x**

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Recent M&A Transactions

Hospitals have sold for an average of 0.8x TTM Revenue and 6.6x TTM EBITDA

($ in millions, except price per bed)

			Whole Company Transactions Method Multiples										
			Target						Transaction	Transaction Value /			
Date	Buyer	Target	ST	Status	Revenue	EBIDA [1]	Net Income	Beds	Value	Rev	EBIDA [2]	Net Income	Bed
09/10/10	Iasis Healthcare	Peak Regional Hospital & Wadley Regional Medical Center	Various	Non-profit	NA	NA		400	$95.0	NA	NA		$237,500
09/03/10	Swedish Medical Center	Stevens Hospital	WA	Non-profit	NA	NA		217	NA	NA	NA		NA
09/02/10	Adventist Health Systems, Inc	University Community Health, Inc.	FL	Non-profit	502.5	NA		431	200.0	0.40x	NA		464,037
09/02/10	Select Medical Group	Regency Hospital Group	IL	For profit	350.0	NA		NA	210.0	0.60x	NA		NA
08/24/10	Kindred Healthcare Inc	Vista Healthcare, LLC	CA	For profit	150.0	NA		250	190.0	1.27x	NA		760,000
08/16/10	Leonard Green & Partners, LP	Prospect Medical Holdings, Inc	CA	For profit	465.5	NA		759	180.4	0.7x	NA		237,668
08/06/10	Community Health Systems, Inc	Forum Health	OH	For profit	503.0	NA		292	120.0	0.24x	NA	NA	410,959
06/24/10	HCA, Inc	Mercy Hospital	FL	Non-profit	262.5	NA		473	NA	NA	NA		NA
06/17/10	RegionalCare Hospital Partners	Clinton Memorial Hospital	OH	Non-profit	103.0	8.8		95	82.0	0.80x	9.3x		863,158
06/10/10	Long Beach Memorial Hospital	Community Hospital of Long Beach	CA	Non-profit	49.7	NA		81	NA	NA	NA		NA
06/01/10	Grubb & Ellis Healthcare REIT	Muskogee Long-Term Acute Acre Hospital	OK	For profit	NA	NA		41	11.0	NA	NA		268,293
05/27/10	Health Management Associates, Inc	Three Shands Hospitals	FL	Non-profit	100.0	NA		139	22.0	0.22x	NA		158,273
05/27/10	Johns Hopkins Health System Corp	Sibey Memorial Hospital	DC	Non-profit	203.5	25.9		328	NA	NA	NA		NA
05/24/10	RegionalCare Hospital Partners	Coffee Health Group	AL	Non-profit	143.3	13.0		517	150.0	1.05x	11.5x		290,135
05/19/10	North Shore Long Island Jewish Health System	Lenox Hill Hospital	NY	Non-profit	674.3	NA		652	NA	NA	NA		NA
05/10/10	Covenant Health	Morristown-Hamblen Healthcare System	TN	Non-profit	84.4	7.9		167	100.0	1.18x	12.7x		598,802
04/30/10	LifePoint Hospitals, Inc	Sumner Regional Health Systems, Inc	TN	Non-profit	135.0	NA	NA	268	154.0	1.14x	NA	NA	574,627
04/15/10	Texas Health Resources, Inc	Wilson N. Jones Medical Center	TX	Non-profit	132.8	$9.0		191	NA	NA	NA		NA
04/09/10	Piedmont Healthcare	St. Joseph's Hospital	GA	For profit	359.0	$19.0		410	NA	NA	NA		NA
04/06/10	Valley Baptist Heath System	Knapp Medical Center	TX	Non-profit	122.3	8.4		209	NA	NA	NA	NA	NA
04/05/10	Community Health Systems, Inc	Marion Regional Healthcare System	SC	Non-profit	59.3	7.2		169	25.7	0.43x	NA	NA	152,071
04/01/10	LifePoint Hospitals, Inc	Clark Regional Medical Center	KY	Non-profit	NA	NA	NA	100	60.0	NA	NA	NA	600,000
03/25/10	Cerberus Capital Management, LP	Caritas Christi Health Care	MA	For profit	1,320.0	NA	54.3	1,552	830.0	0.63x	NA	15.29x	534,794
03/19/10	Vanguard Health Systems, Inc	Detroit Medical Center	MI	Non-profit	2,010.0	NA	NA	1,734	1,267.0	0.63x	NA	NA	730,681
02/17/10	St. David's HealthCare Partnership	Heart Hospital of Austin	TX	For profit	NA	12.8	NA	58	83.6	NA	6.5x	NA	1,441,379
02/02/10	St. Vincent Jennings Hospital	Washington County Memorial	IN	Non-profit	29.7	NA	NA	25	3.5	0.12x	NA	NA	140,000
01/03/10	Restoration Healthcare, LLC	BJC Medical Center	GA	Non-profit	27.3	NA	-1.1	90	7.1	0.26x	NA	NA	78,889
11/24/09	RehabCare Group, Inc. (NYSE: RHB)	Triumph Healthcare, LLC	TX	For profit	440.0	90.0	NA	1,182	570.0	1.30x	6.3x	NA	482,234
11/04/09	Health Management Associates, Inc.	Sparks Health System	AZ	Non-profit	232.0	NA	-17.2	303	138.0	0.59x	NA	NA	455,446
09/08/09	UPMC Health System	Beacon Hospital	Ireland	Non-profit	NA	NA	NA	183	96.0	NA	NA	NA	524,590
08/06/09	Tri-Isthmus Group, Inc	Liberty-Dayton Community Hospital LP	TX	For profit	8.5	NA	-0.7	15	2.6	0.31x	NA	NA	173,333
08/05/09	Sanford Health	Sanford Hospital Jackson	MN	Non-profit	NA	NA	NA	41	3.9	NA	NA	NA	95,122
07/08/09	Catholic Healthcare Partners	Jewish Hospital of Cincinnati	OH	Non-profit	204.8	35.0	17.2	209	180.0	0.88x	5.1x	10.47x	861,244
02/02/09	LifePoint Hospitals, Inc	Rockdale Medical Center [3]	GA	Non-profit	111.0	4.1	-3.7	138	80.0	0.72x	19.5x	NA	579,710
08/20/08	Community Health Systems, Inc	Wyoming Valley Health Care System	PA	Non-profit	227.7	22.6	NA	429	150.0	0.66x	6.6x	NA	349,650
07/03/08	Baptist Health Care Corp	HCA - West Florida hospital [4]	FL	For profit	177.7	NA	-15.9	531	245.0	1.38x	NA	NA	461,394
07/01/08	Providence Health & Services	Tenet Healthcare - Tarzana campus [5]	WA	For profit	54.3	NA	-8.2	245	89.0	1.64x	NA	NA	363,265
05/20/08	Advocate Health Care, Inc.	Condell Medical Center [5]	IL	Non-profit	310.1	NA	-16.9	278	180.0	0.58x	NA	NA	647,482
05/14/08	Evanston Northwestern Healthcare	Rush North Shore Medical Center [6]	IL	Non-profit	173.2	8.8	-1.7	229	164.0	0.95x	18.6x	NA	716,157
03/31/08	Pacific Health Corp.	Anaheim Memorial Medical Center [6]	CA	Non-profit	195.7	7.9	6.8	223	57.1	0.29x	7.2x	8.40x	256,054
03/02/08	Medical Center Hospital Authority	Doctors Hospital [5]	GA	For profit	64.1	1.0	-2.7	171	89.5	1.40x	89.5x	NA	523,392
01/30/08	Loyola University Health System	Gottlieb Memorial Hospital [5]	IL	Non-profit	143.3	NA	3.0	250	90.0	0.63x	NA	30.00x	360,000
11/27/07	Capella Healthcare	Community Health Sys - 9 hospitals	Various	For profit	NA	NA	NA	1,048	315.0	NA	NA	NA	300,573
07/25/07	Prospect Medical Holdings, Inc	Alta Healthcare System, Inc. [5]	CA	For profit	107.0	16.9	NA	339	103.0	0.96x	6.1x	NA	303,835
06/04/07	Wellmont Health System	HMA - Two hospitals [5]	VA	For profit	66.5	8.0	3.2	213	70.0	1.05x	8.8x	21.88x	328,638
05/09/07	Iasis Healthcare	Alliance Hospital [7]	TX	Non-profit	44.7	12.8	3.2	50	65.5	1.47x	5.1x	20.47x	1,310,000
05/01/07	Community Health Systems, Inc	Porter Health [8]	IN	Non-profit	184.7	13.1	-1.4	338	110.1	0.60x	NA	NA	325,740

High	**1.64x**	**19.61x**	**30.00x**	**$883,158**
Low	**0.12x**	**5.12x**	**8.40x**	**$78,889**
Mean	**0.79x**	**9.85x**	**17.75x**	**$380,194**
Median	**0.66x**	**8.57x**	**17.88x**	**$354,826**

Notes:

[1] For profit hospital is before taxes and therefore is comparable to EBIDA.

[2] Compiled multiples exclude Doctors Hospital EBIDA multiple and Alliance Hospital's licensed bed figure.

Financial information dated: [3] 9/30/07; [4] 5/31/08; [5] 12/31/06; [6] 6/30/07; [7] 9/30/05; [8] 12/31/05

Transactions excluded from Transaction Value / EBIDA calculations: Rockdale Medical Center, Rush North Shore MC, and Doctors Hospital

Source: Irving Levin Associates, Inc

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Current Hospital Valuation Trends

Preliminary Enterprise Value and Implied Leverage

- Based on current market multiples Morton Hospital's enterprise value has the potential for significant improvement, assuming current market multiples, if an effective operational improvement plan can be successfully implemented

	Market Comparables			Whole Company Transactions		
($ in millions)	FY2008 Actual	FY2009 Actual	Annualized August FY2010	FY2008 Actual	FY2009 Actual	Annualized August FY2010
EBIDA	$5.0	$9.4	$6.2	$5.0	$9.4	$6.2
Market Multiple (1)	6.0x	6.0x	6.0x	7.2x	7.2x	7.2x
Indicative Enterprise Value	**$29.9**	**$56.0**	**$37.0**	**$36.2**	**$67.8**	**$44.8**
Current Outstanding Debt	$30.0	$29.6	$26.8	$30.0	$29.6	$26.8
Implied Leverage	**6.0x**	**3.2x**	**4.3x**	**6.0x**	**3.2x**	**4.3x**

SOURCE: Morton Health Foundation, Inc. and Affiliates consolidated financial statements - September 30, 2009 and 2008; Morton Hospital and Medical Center finance committee package - September 27, 2010.

Notes:

(1) Market multiples reflect the median multiple based on selected comparable public company and M&A metrics.

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