EXHIBIT I

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Jed M. Nosal, Chief
Business and Labor Bureau
Office of the Attorney General
One Ashburton Place
Boston, MA 02108

Dear Mr. Nosal:

I am writing as legal counsel for Morton Hospital and Medical Center, Inc. ("Morton") and three of its affiliates, Morton Health Foundation, Inc. (the "Foundation"), Morton Physician Associates, Inc. ("MPA"), and Morton Property, Inc. ("MPI") (collectively, Morton, MPA, and MPI are referred to herein as the "Transferring Entities").[1] The Transferring Entities propose to transfer substantially all of their assets to wholly-owned subsidiaries of Steward Health Care System LLC ("Steward").[2] This letter is Morton's notice to the Attorney General pursuant to M.G.L. c. 180, Section 8A(d) ("Section 8A(d)").

For the reasons set forth in this letter, we respectfully submit that the proposed transaction (the "Transaction") complies with Section 8A(d)(1)(i)-(v).[3]

[1] Morton, the Foundation, and MPA are Massachusetts public charities. Morton is a charitable corporation that operates an acute-care hospital located in Taunton. MPA is a charitable corporation that employs physicians needed by the community. MPI is a business corporation that owns or leases several buildings used by Morton and MPA. The Foundation is the sole member of Morton and MPA, is the sole stockholder of MPI, and holds funds donated for the benefit of Morton.

[2] As sole member or sole stockholder, the Foundation has approved Morton's, MPA's, and MPI's participation in the proposed transaction. However, none of the Foundation's assets will be transferred to Steward. The Foundation is also the sole member of two other public charities, Morton Hospital Auxiliary, Inc. and Community Counseling of Bristol County, Inc. Neither of these entities' assets will be transferred to Steward.

[3] Although only Morton is subject to Section 8A(d), this notice describes the Transaction in its entirety.

I. INTRODUCTION

A summary of the Transaction and a copy of the Asset Purchase Agreement ("APA") are attached as Exhibit A. Pursuant to the APA, Steward will:

- repay the Transferring Entities' debt (approximately $28 million, as of October 1, 2010);
- assume all of the Transferring Entities' liabilities (including Morton's approximately $36 million liability (as of May 9, 2011) for its substantially-underfunded pension plan);
- keep Morton's acute-care hospital open for ten years (or not less than seven years in certain limited and unlikely circumstances);
- allow the members of a local board to continue to have significant authority with respect to the hospital's operations and finances;
- expend or commit to expend at least $85 million on capital expenditures and investments within the first five years post-closing, including $25.5 million in the first year, to improve, furnish, equip, and expand the services of the hospital;
- expend or commit to expend another approximately $25-35 million on capital expenditures and investments to improve, furnish, equip, and expand the services of the hospital during the second five years post-closing, resulting in a total expenditure of $110-120 million over ten years;
- allow the hospital and its Medical Staff to benefit from Steward's $100 million investment (with no pro-rated capital allocation to the hospital for central infrastructure investments) in clinical, operational, and technological systems by providing access to Steward's fully-developed systems designed to help Morton and its Medical Staff provide coordinated, lower-cost, high-quality care to their patients as participants in a functioning Accountable Care Organization ("ACO");
- strengthen the hospital's ability to recruit new and retain existing physicians needed by the community by offering such physicians participation in Steward's ACO, Steward Direct call center, and TRACO captive-insurance program, thus enhancing the physicians' ability to provide cost-effective, high-quality care and participate effectively in Steward's risk contracts; and
- maintain the hospital's charity care and other community benefits at current levels.

On March 29, 2011, after careful deliberation and following the lengthy process described below, the Morton Board of Trustees (along with the Boards of the Foundation, MPA, and MPI) unanimously approved the Transaction. In the Morton Board's judgment: (A) it is impracticable for Morton to continue as a stand-alone hospital; and (B) the Transaction is the only reasonably viable alternative: (1) for maintaining a locally-focused, acute-care hospital for the community with: (i) access to needed capital, infrastructure, and human resources, (ii) a continuing and meaningful role for community members in hospital governance, and (iii) strong physician support; and (2) for becoming part of a clinically and financially integrated health care delivery system. In reaching this decision, the Morton Board acted with due care and loyalty, including the avoidance of conflicts of interest, and relied upon the advice of qualified, independent experts. Fair value will be received for the assets of the Transferring Entities.

II. BACKGROUND

For more than 120 years, Morton has served Taunton and certain surrounding communities. Morton is the only acute-care hospital within its primary service area ("PSA"). Morton serves approximately 74,000 patients each year, of whom more than 50% reside in Taunton, which resulted in 8,382 inpatient admissions and 290,679 outpatient visits in fiscal year 2010. However, there is substantial competition for patients in Morton's PSA from providers located outside of the PSA. Morton receives only 47% of the inpatient admissions from its PSA, well below the industry benchmark of 60% to 65%. In recent years, Morton's PSA market share has fallen by 1.5%, while the PSA market shares of Steward, Southcoast Health System ("Southcoast") and Partners HealthCare System have increased.

Morton has approximately 1,200 employees, of whom approximately 410 are nurses and other medical personnel who belong to a collective bargaining unit affiliated with the Massachusetts Nurses Association ("MNA").

Taunton, which is by far the largest community in Morton's PSA, has an unemployment rate of 9.8%, median family income of $69,927 and a percentage of families below the federal poverty line of 7.8%, all worse than state-wide averages.[4] Morton is meeting the health care needs of an economically-disadvantaged community. These demographics have negatively impacted Morton's ability to meet the health care needs of the community.

Taunton has been designated as a primary care Health Professional Shortage Area by the federal Department of Health and Human Services. Due in part to the insufficient number of primary care and other physicians, approximately 88% of Morton's inpatients are admitted through the Emergency Department, which sees more than 50,000 patients

[4] http://lmi2.detma.org/lmi/lmi_lur_area.asp?AT=01&A=000025&Dopt=TEXT (unemployment – March 2011); and http://factfinder.census.gov/ (median family income; families below the federal poverty line).

per year. In response to this physician shortage, Morton has incurred substantial costs associated with recruiting and adequately compensating primary care and certain specialty physicians (e.g., Morton transfers, on average, approximately $2.6 million annually to MPA to enable MPA to recruit and adequately compensate physicians needed by the community). Despite this substantial subsidy, as a freestanding hospital with limited financial resources, Morton cannot afford to provide enough physicians to meet the needs of its community.

Morton's governmental payor mix (comprised of Medicare and Medicaid as measured by Net Patient Service Revenue) is 58%, compared to a state-wide average of 47.4%.[5] These government programs' payment rates are significantly lower than private insurers' rates, and often result in reimbursement that is less than the cost of providing care. Many hospitals are able to cover the shortfall with revenue from higher private insurer rates. However, Morton has private insurer rates that are among the lowest in the Commonwealth and well below the rates paid to all nearby hospitals in Southeastern Massachusetts.[6] Many hospitals are able to use their endowment income to supplement their operational income. Morton, however, serves an economically-disadvantaged community that lacks the resources to make significant charitable donations. Accordingly, Morton's endowment stands at a modest $463,000, and is unlikely to grow substantially.

During the past decade, Morton has maintained operating margins which were not sufficient to fund necessary capital expenditures or its pension plan obligations. As a result of these capital constraints, Morton has only been able to finance, on an emergency basis, the replacement of equipment and limited upgrades of technology and facilities. In addition, Morton has recently begun depleting its modest depreciation funds. These funds were set aside to fund necessary capital expenditures, but are instead being used to help cover operating costs. As a result, Morton's average-age-of plant, a key indicator of financial health, is 20 years, or twice the benchmark in Moody's investment grade criteria. This unacceptable situation is the result of deferred routine capital expenditures. Had it been able to do so, Morton should have spent an additional $25 million in routine capital expenditures. In addition, Morton's pension plan is underfunded by approximately $36 million, now requiring annual contributions in excess of $5 million, which is well beyond Morton's means. In November 2010, Morton achieved some savings by freezing its defined benefit pension plan for its non-union employees and replacing it with a defined contribution plan. However, Morton has been unable to reach an agreement with the MNA to do the same for its union employees, which results in incremental annual costs of approximately $2 million.

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[5] http://www.mass.gov/Eeohhs2/docs/dhcfp/r/pubs/10/hospital_reserves_report_and_all_appendices.pdf

[6] Morton's low private insurer rates are noted in the Attorney General's report, "Investigation of Health Care Cost Trends and Cost Drivers Pursuant to G.L. c. 118G, s. 6½(b)," dated January 29, 2010.

Morton has been able to continue to service its debt, which currently stands at approximately $28 million, in part by laying off employees (which is a great hardship for Morton, who needs their services, as well as for the employees), and, more recently, by eliminating certain clinical services. During 2010, Morton had to close two services (i.e., the 21-bed Transitional Care Unit and the Occupational Health Service) which had been operated at an aggregate loss of approximately $450,000 per year, but which were providing services needed by the community.

In summary, at this point in its long history, Morton is able to continue operations only by deferring necessary capital expenditures and required pension obligations, laying off needed employees, and eliminating needed clinical services that are not financially self-sustaining. In addition, Morton lacks the resources to recruit and adequately compensate sufficient physicians to meet community needs. This state of affairs led the Morton Board to conclude that Morton faces a very uncertain future as a stand-alone community hospital, and to begin the process described below.

III. PROCESS

During the Fall of 2009 and the Spring of 2010, led by its new Chief Executive Officer ("CEO"), Morton began to explore its options for remaining independent, including contracting with one or more Boston teaching hospitals in an attempt to bring capital and specialty physicians to Morton. However, this effort did not address the fundamental financial and other challenges facing Morton. The only contract Morton was able to execute was an arrangement it had begun to discuss prior to this period for Tufts Medical Center to supply pediatric hospitalists to Morton. In addition, Morton began receiving expressions of interest in acquiring Morton from two organizations with which Morton had been having clinical affiliation discussions, Caritas Christi (before its acquisition by Steward) and Vanguard Health Systems ("Vanguard"), which has an affiliation with Tufts Medical Center. The Morton Board also took note of the announcement in March 2010 of the agreement by Cerberus Capital Management, L.P., a well-capitalized company, to acquire the Caritas Christi system, which includes hospitals in the adjacent markets of Brockton and Fall River. Thereafter, the Morton Board began to consider more fundamental transactions that could meet the hospital's pressing needs.[7]

In August 2010, Morton Board leadership decided that it would need the assistance of qualified, independent advisors to assist it in evaluating Morton's alternatives. On August 19, 2010, the Morton Board engaged Navigant Consulting ("Navigant"),[8] which is a national consulting firm that specializes in advising health care and other organizations facing strategic, financial and other challenges. The Morton Board also

[7] The Morton Board consists of 26 trustees, comprised of 18 from the community, 7 from the Medical Staff, and the CEO.

[8] On October 15, 2010, Morton also engaged Navigant Capital Advisors, an affiliate of Navigant Consulting which has expertise in merger and acquisition transactions. Navigant Consulting and Navigant Capital Advisors are, collectively, referred to as "Navigant" in this letter.

engaged my law firm, Ankner & Levy, as legal counsel for this process, based upon my long-term relationship with Morton and my relevant transactional experience.

At a special meeting on September 8, 2010, the Morton Board met with Navigant to discuss the scope of the engagement, including evaluation of the feasibility of Morton continuing to operate as a stand-alone community hospital, and with legal counsel to be advised of its fiduciary obligations with respect to potential change-of-control transactions. During this meeting, the Morton Board stated its primary goal of enabling the hospital to continue to provide, on a long-term basis, essential health care services to the local community.

On October 6, 2010, Navigant delivered a report to the Morton Board, which concluded that it was unlikely that Morton could survive as a stand-alone hospital for more than another five years. See Exhibit B. In reaching this conclusion, Navigant considered:

- The national context for Morton's challenges, including the decades-long decline in admissions, length-of-stay, average daily census, staffed beds, and number of community hospitals; Medicare, Medicaid, and private insurer policies designed to reduce admissions and other utilization; the long-term trend for hospitals to become part of systems for access to capital and other reasons; and governmental (e.g., the Medicare shared savings ACO) and private insurer (e.g., Blue Cross' Alternative Quality Contract) initiatives designed to shift cost-of-care risk to providers based on quality and cost metrics and the consequent need for substantial investments in infrastructure and information technology to enable providers to effectively measure and manage the quality and cost of services provided to their patients.

- The Eastern Massachusetts context for Morton's challenges, including Morton's relatively low (and declining) market share in its PSA, despite being the only hospital physically located in the PSA; other hospitals with significant (and growing) market shares in the PSA; and Morton's status as the smallest and financially weakest hospital serving the PSA, in terms of staffed beds, admissions, average daily census, and net revenue.

- Morton's very weak financial condition. For example, Morton falls well below Moody's investment grade criteria.[9]

[9] See Exhibit B, slide 35. Please note that all calculations in this chart are based on the consolidated financial information of the Foundation and all of its affiliates including not only Morton and the other two Transferring Entities, but also Community Counseling of Bristol County, Inc., which is profitable.

	Moody's	Morton
Operating margin	2.2%	0.1%
Operating cash flow margin	8.9%	4.0%
Annual debt service coverage ratio	4.0x	1.7x
Current ratio	2.0	1.1
Days cash on hand	147	18
Cash to debt	105.6%	31.1%
Debt to capitalization	41.5%	170%
Debt to total revenue	35.0%	19.5%[10]
Average age of plant	10.0	20.1

In particular, days cash on hand, which is less than 15% of the Moody's criterion, poses a grave risk to Morton's ongoing operations. Combined with historically low operating margins and lack of access to capital, this requires Morton to operate with virtually no margin for error.

- Morton's inability to generate cash flow sufficient to adequately fund its debt service and pension plan liability, much less to fund essential capital expenditures and to recruit and adequately compensate physicians needed by its community.

- The likelihood that Morton's financial situation would continue to deteriorate and lead to the imposition of corrective actions by its creditors and the pension plan regulators.

Navigant also concluded that Morton had a small window of opportunity to negotiate an affiliation or acquisition on favorable terms while it still had some short-term financial viability, and while the market for hospital acquisitions in Eastern Massachusetts remained competitive and active.

Based on the Navigant report, and its considered judgment regarding Morton's current and future financial prospects, the Morton Board concluded that it would be impracticable, if not impossible, for Morton to continue to operate as an independent hospital. The Morton Board then created an Affiliation Subcommittee to work closely with Navigant and legal counsel to develop evaluation criteria, solicit proposals, and communicate with organizations that were potentially interested in acquiring Morton[11].

The Affiliation Subcommittee met with Navigant and legal counsel five times, in person or by teleconference, in October, November, and December 2010, to develop recommendations for the Morton Board with respect to a request for proposals ("RFP"),

[10] Moody's criterion does not include pension liabilities. Morton's ratio would be 39.2% as of September 30, 2010 if its pension liability were included.
[11] The Affiliation Subcommittee consists of 8 trustees, comprised of 5 from the community, 2 from the Medical Staff, and the CEO.

including evaluation criteria, and to identify potential acquirers. Exhibit C. At a special meeting on November 2, 2010, the Morton Board approved the evaluation criteria as expressed in a draft RFP. Copies of the RFP and a Confidential Information Memorandum ("CIM") are attached as Exhibits D and E. The evaluation criteria included:

- A long-term commitment to maintaining a full-service acute-care hospital in Taunton, including the clinical services currently offered by Morton and MPA, as well as an explanation of how the provision of health care services in Morton's service area would be consistent with the potential acquirer's strategic plans.

- The ability and commitment to fund Morton's future capital expenditures, in light of Morton's estimate that over the next five years the hospital will require a minimum of $25 million in deferred routine capital expenditures, plus additional capital expenditures for facility improvements and service initiatives.

- A plan for continuing and meaningful community input into the hospital's clinical and operational decisions.

- Plans to retain Morton's and MPA's employees, including the assumption of the existing collective bargaining agreement with MNA, Morton's Medical Staff and physician contracts; and plans with regard to any employees displaced in connection with a transaction, including opportunities to relocate within the acquiring system and severance benefits.

- Access to resources such as: a physician network;[12] competitive managed care contracts; better discounts on purchasing hospital supplies; participation in research and teaching programs; administrative and operational support; and clinical specialty services not currently provided by Morton.

Navigant advised the Board that no national non-profit hospital organization (all of whom are religiously affiliated) was likely to be interested in acquiring a stand-alone hospital in Massachusetts. Navigant then contacted fifteen local and regional non-profit organizations, but only three indicated an interest in considering an affiliation with Morton. The Morton Board authorized Navigant to send the RFP and CIM to the three non-profit organizations, as well as to Steward and Vanguard, each of whom had previously indicated interest in acquiring Morton. Each of these organizations appeared to be financially qualified. Each of them executed Confidentiality Agreements, which allowed them to receive the RFP and CIM and conduct an initial due diligence investigation of the Transferring Entities.

[12] Please note that "physician network" is generally understood to mean the capability of providing case management, referral management and other care management modalities.

Three organizations subsequently submitted initial written proposals: Southcoast, Steward, and Vanguard. Southcoast is a non-profit corporation that operates one licensed acute-care hospital with campuses located in Fall River, New Bedford, and Wareham. Steward and Vanguard are for-profit organizations. Steward has corporate offices in Boston and operates eight licensed acute-care hospitals in Eastern Massachusetts. Vanguard has corporate offices in Nashville, Tennessee and operates one licensed acute-care hospital in Eastern Massachusetts and one in Central Massachusetts.

On December 20, 2010, the Morton Board decided that the proposals from Southcoast and Steward were worthy of further consideration and authorized the Affiliation Subcommittee to work with Navigant and legal counsel to meet and otherwise communicate with Southcoast and Steward representatives for the purpose of negotiating the terms of the proposals and putting them into the form of definitive agreements that each proposer would be willing to sign if selected by the Morton Board. These discussions continued for several months, during which time Southcoast and Steward conducted due diligence reviews of Morton, while Navigant and members of the Affiliation Subcommittee conducted due diligence reviews of Southcoast and Steward, including meetings with members of their boards and management and visits to several of their facilities.

In addition, Southcoast and Steward were each provided opportunities for their chief executive officer, along with other members of their senior management team, to make presentations in person to the Morton Medical Staff and to the Morton Board on March 16 and 23, 2011, respectively.

At the March 23, 2011 Morton Board meeting, Navigant provided the Board with a comparative ACO readiness assessment of Southcoast and Steward. Based on five criteria (i.e., leadership and development; quality and risk management; care integration and coordination; physician alignment; and technology), Steward was ranked in level 4 (fully developed) or 5 (robust), while Southcoast was ranked in levels 2 (partially developed) or 3 (moderately developed). Navigant also noted that Southcoast is dependent on the performance of an external network, Tufts Medical Center's NEQCA, of which Southcoast is but one of several members, for compliance with several of the ACO-readiness criteria, while Steward has built its own infrastructure for these ACO capabilities and is therefore not dependent on any other organization.[13] Exhibit F.

Navigant then assisted the Affiliation Subcommittee and the Morton Board in comparing the proposals and the results of the due diligence reviews of Southcoast and Steward. Exhibits G and H. The Affiliation Subcommittee, after extensive discussion and deliberation at meetings held on March 24 and March 28, 2011, made a unanimous recommendation that the Morton Board accept the Steward proposal. After extensive

[13] Being a member of an external network involves the risk that the network does not become ACO-ready as quickly as the member would like. Without NEQCA, Southcoast would have dropped to level 1 (limited development) or level 2 for most criteria used in the Navigant analysis.

discussion and deliberation at meetings held on March 25 and March 29, on March 29th the Morton Board (meeting jointly with the Foundation, MPA, and MPI Boards) unanimously accepted the Steward proposal. On March 29, 2011, Morton and Steward signed the APA.

IV. THE CHOICE OF STEWARD

The Morton Board and the Affiliation Subcommittee carefully considered the proposals made by Southcoast and Steward, relied upon the advice of qualified, independent experts, exercised their business judgment, and concluded, for the reasons set forth below, that the Steward proposal was the only reasonably viable proposal available to Morton.

A. Steward has committed to appoint a substantial portion of the current Morton Board to a Steward Morton Hospital board that will have significant authority with respect to Morton's operations and finances, including approval of: (1) borrowings in excess of $500,000; (2) substantial changes in clinical services; (3) capital and operating budgets, including prioritization of capital investments; (4) applications for Determinations of Need; (5) strategic plans; (6) Medical Staff credentialing; and (7) community benefit plans. The initial members of this board will be nominated by the Morton Board, and thereafter the members of the board will be nominated by the then-current board members. In contrast, Southcoast planned to merge the Morton corporation into the Southcoast corporation, resulting in the elimination of a local board focused on the needs of the hospital and the community it serves. The Morton Board believes that meaningful and ongoing local control and accountability is crucial to ensuring that the hospital remains responsive to community needs.

B. Steward has committed to adding or enhancing services needed by the local community, including, subject to the approval of the new Morton board and receipt of any necessary regulatory approvals, enhancing women's health services, expanding obstetrics, replacing the mobile MRI unit and otherwise improving the hospital's imaging capacity, and establishing a cancer care center (including installation of an on-campus linear accelerator to provide radiation therapy services). The Morton Board also noted Steward's strong commitment to providing as much care in the local community as possible, so as to reduce need for patients to seek care at higher-cost and less convenient facilities (e.g., Boston's teaching hospitals; Southcoast). In contrast, Southcoast's model is for each campus to operate both as a local community hospital and as a regional resource. Each Southcoast hospital campus has a specialized "signature service" designed for the region served by all of Southcoast. In the Morton Board's judgment, the greater Taunton community will be best served by Steward's commitment to maximizing the services available locally and focusing capital and other resources on each local hospital and its service area, and not on a larger region.

C. Steward has committed to keep Morton's acute-care hospital open for ten years (subject to a limited exception), while Southcoast was willing to commit to only seven years. Although Steward has the right to close the hospital as early as the end of the seventh year if Morton suffers two consecutive years of negative operating margins, in the Morton Board's judgment closure prior to the end of the tenth year is a remote risk because, despite its financial challenges, Morton has not had negative operating margins in the past, and because Steward will be required to make substantial capital and program investments that will likely improve Morton's operating margins.

D. Steward will expend or commit to expend $25.5 million in the first year, $59.5 million in the second through fifth years, and $25-35 million in the sixth through tenth years, for a total of $110-120 million over ten years. In contrast, Southcoast proposed to make capital expenditures of $84 million over seven years, without specifying when the expenditures would be made. Southcoast stated that no specific capital commitments would be made until completion of a six-month, post-closing strategic planning process. For a hospital that has lacked access to capital for many years and has both substantial and pressing immediate and long-term capital and other needs, Steward's willingness to make a significant and front-loaded capital commitment was of great importance in the Morton Board's judgment, because these investments in facilities and services are critical to Morton's ability to continue to care for its patients.[14]

E. Steward has already spent more than $100 million for system-wide clinical and operating systems, and the hospital will have access to these systems for a very modest local implementation cost and with no pro-rated capital allocation to the hospital for these existing central infrastructure investments. For example, the hospital will have access to Steward's Tele-ICU system, which will enable its Intensive Care Unit to be monitored continuously by intensive care specialist physicians at a central facility serving all Steward hospitals. In addition to the capital investment in such technology, the Morton Board noted that Steward has significant experience in effectively deploying technology such as computerized physician order entry ("CPOE") in community hospital settings. Steward reported that it has implemented CPOE successfully in all of its hospitals, leading to an 80% reduction in medical errors.

F. The Steward commitment includes several elements that will significantly enhance the hospital's ability to attract and retain needed physicians. As with any hospital, the recruitment and retention of physicians is essential, but it has also been a longstanding challenge for Morton, as demonstrated by Taunton's federal designation as a primary care Health Professional Shortage Area and Morton's annual $2.6 million subsidy for MPA. By joining Steward's contracting network, Steward Health Care Network, the Medical Staff physicians will benefit from participation in a larger system

[14] The Morton Board believes that Steward has the financial capacity to meet its obligations under the proposed transaction, because Steward currently has approximately $1 billion of available cash and credit facilities. In addition, Steward is owned by an affiliate of Cerberus Capital Management, L.P., which affiliate has available cash and credit facilities of approximately $2.5 billion.

while maintaining their primary affiliation with the hospital. For example, as a result of the proposed transaction, all Medical Staff physicians who join Steward Health Care Network will have the opportunity to obtain malpractice insurance from Steward's "captive" insurance subsidiary, TRACO, which is expected to yield a significant reduction in premium expense for the physicians. In contrast, Southcoast's "captive" insurance coverage would only have been available only to the minority of Medical Staff physicians who were willing to become employees of Southcoast's physician-practice subsidiary, rather than remain in independent practice. The Medical Staff physicians will also have the opportunity to use Steward's system-wide call center, Steward Direct, which facilitates referrals for specialty services and otherwise assists in the coordination of patient care. In addition, Steward will also provide support for the Medical Staff physicians with respect to the implementation of electronic medical record ("EMR") systems, which is essential for their effective participation in insurer quality improvement and cost control initiatives. In contrast, as of early 2011 Southcoast was in the early stages of implementing an EMR system within its physician-practice subsidiary, had recently switched EMR vendor relationships, and did not expect to have completed EMR roll-out for the subsidiary until the end of 2011.

G. Steward has already made a substantial investment in technology, personnel, and operating systems to help it respond effectively to the challenges posed by the rapidly-changing health care marketplace and the requirements of state and federal health care payment reform. In particular, in the Morton Board's judgment, based on Navigant's advice, only those hospitals and physicians that can collectively bear, and, more importantly, effectively manage, significant financial and medical risk for patient care, and deliver high-quality care at an acceptable cost, will survive in the future. Insurers are increasingly expecting hospitals and physicians to be prepared to collaborate clinically, and share financial risk. The Morton Board, with Navigant's assistance, including the ACO readiness assessment discussed above, determined that Steward, with its fully-deployed personnel, information technology and other systems, was the only reasonably viable alternative for Morton to be part of a clinically and financially integrated health care delivery system. Therefore, the Steward proposal represented the hospital's best option for long-term viability.

H. Following the presentations by Steward and Southcoast to the Medical Staff, further discussion occurred among members of the Medical Staff regarding the relative merits of the physician-related elements of the proposals. Dr. Charles Thayer, who is on the Morton Board and the Affiliation Subcommittee and is a long-standing and highly-respected member of the Medical Staff and of the Taunton community generally, was asked to solicit the opinions of as many Medical Staff members as possible regarding the proposals. Dr. Thayer reported that it was the consensus of the Medical Staff that the Steward proposal was preferred by them for the reasons set forth in paragraphs F and G above. The Affiliation Subcommittee and the Morton Board took into account the Medical Staff's consensus, because strong physician support is essential for the hospital's survival.

After considering these and other relevant factors, the Morton Board unanimously concluded that the Transaction was the only reasonably viable alternative for maintaining over the long term Morton's locally-focused, acute-care hospital with a meaningful role for community members in hospital governance and the ability to provide "accountable care" in accordance with market demands and regulatory requirements.

V. NO CONFLICTS OF INTEREST

Although the CEO is compensated for her services as CEO and several physician Board members are compensated, on a fair-market-value basis, for the services they provide to Morton, none of the Board members are compensated for their service on the Board. No member of the Morton Board, nor any of their immediate family or associated businesses, will benefit financially from the Transaction. There has been no discussion regarding compensation for service on the Steward Morton Hospital board. At the outset of the affiliation process, each independent member of the Morton Board was requested to complete a Conflicts of Interest Memorandum confirming that neither they nor any family member or associated business had any financial relationship with any of the proposers. The independent Board members updated the Conflicts of Interest Memorandum during the week prior to the March 29th decision, and made the same confirmation. The Morton CEO, and all other Morton employees, will be offered equivalent positions by the Steward entity that will operate the hospital, but none of them will be compensated either by Morton or by Steward for causing the Transaction to be considered or completed. Although there are several physicians serving on the Morton Board, two of whom also serve on the Affiliation Subcommittee, any financial arrangements they may make with Steward organizations to receive the types of practice enhancements described above will be no different than the arrangements available to any other physician on the Medical Staff.

VI. BENEFITS TO THE PUBLIC

For the reasons described above, the proposed transaction is in the public interest and otherwise in compliance with the requirements of Section 8A(d), including:

- Long-term preservation and improvement of a lower-cost, high-quality community hospital in Taunton.
- Protecting approximately 1,200 jobs as well as the interests of approximately 1,800 pension plan beneficiaries (as of October 1, 2010).
- Funding $110-$120 million in much-needed investment over the next 10 years, with $25.5 in the first year and $59.5 million in next four years.

- Funding physician recruitment and compensation in a federally-designated primary care Health Professional Shortage Area.

- Maintenance of Morton's charity care and other community benefits at current levels.

- Payments of local property tax and state sales tax, which, collectively, Steward estimates to be approximately $11 million over the first five years.

- Participation by the hospital and its Medical Staff in an ACO designed to improve the quality and better control the costs of care provided to their patients.

VII. FAIR VALUE WILL BE PAID

The financial consideration to be paid by Steward for the Transferring Entities' assets is approximately $53 million, consisting of approximately $28 million for repayment of debt, less $11 million net cash on hand available for debt defeasement,[15] plus approximately $36 million[16] for assumption of the pension plan liability. The Transferring Entities' earnings before interest, depreciation and amortization ("EBIDA") for fiscal year 2010 was approximately $4.1 million. Therefore, the financial consideration will be approximately 13 times fiscal year 2010 EBIDA, which is well above the typical consideration paid in recent sales of hospitals nationally. Navigant reports that median financial consideration for recent hospital acquisitions is approximately 6.7 times EBIDA. See Exhibit H, slides 6, 10, and 13. Therefore, Morton will receive fair value for its assets in compliance with Section 8A(d)(iv).

VIII. CONCLUSION

During the past eight months, the Morton Board and the Affiliation Subcommittee made a significant effort, with the assistance of Navigant and legal counsel, to investigate alternatives for the long-term continuation of Morton's mission of providing locally-controlled acute-care hospital services to the community. The Morton Board first determined that Morton could not long continue as an independent organization, and then sought proposals from several financially-qualified non-profit and for-profit organizations interested in acquiring Morton.

In the final analysis, the ultimate consideration for the Morton Board was whether the proposer shared Morton's vision for providing acute-care hospital services to the community. In the Morton Board's judgment, Steward's was the only reasonably viable proposal because it will maintain a local board and a focus on local (not regional) clinical

[15] After retaining approximately $15 million of cash to maintain a Working Capital Ratio of 1.5.
[16] The pension liability was calculated by The Angell Pension Group, Inc. as of May 9, 2011, based on a termination assumption.

services, which is consistent with the Morton Board's vision for meeting the health care needs of the local community. In addition, the Steward proposal will provide the hospital with the resources necessary to improve its facilities and services, recruit and adequately compensate physicians needed by the community, provide and manage health care services in accordance with the goals of health care reform, and better realize the hospital's potential for benefiting the residents of the community. Steward was the only proposer with information technology, personnel, and other systems necessary to ensure Morton's long-term survival as part of a large-scale and effective clinically and financially integrated health care delivery system. Furthermore, no other proposer has achieved Steward's level of ACO readiness or is likely to do so in time to help Morton adapt to ongoing, and accelerating, payment reform. As a part of the Steward system, the hospital will be able to improve the quality, and control the costs, of the care it provides to its community. The Morton Board decided that Steward's proposal, resources, and track record constituted Morton's one and only opportunity to guarantee the hospital's long-term future.

Morton respectfully requests that the Attorney General find that the Transaction complies with Section 8A(d)(1)(i)-(v) and assent to its approval by the Supreme Judicial Court. Morton welcomes the Attorney General's investigation of the proposed transaction.

Sincerely,

Peter Braun

Enclosures