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August 23, 2013

Via Email Transmission & USPS Delivery

David L. Dunn, MD
Executive Vice President for Health Affairs
University of Louisville
Abell Administration Center
323 E. Chestnut Street
Louisville, KY 40202

Dear Dr. Dunn:

These are indeed challenging times in healthcare. We are all being challenged to explore new partnerships and collaborative endeavors to ensure that our respective missions continue into the future and that our resources are best utilized for the benefit of the people we have the privilege of serving. As you know, I have reached out to you several times since our brief conversation yesterday afternoon was cut short. We received a telephone call from Jerry Johnson this morning, after another request for a face to face meeting. Mr. Johnson indicated that you would not meet with us because of litigation and it is certainly your prerogative not to meet with us at this time. In the absence of a face to face meeting in which we could engage in a professional dialog, I wanted to provide you with additional information to give you ample background, context and rationale for our response to your most recent correspondence and draft agreement as well as our recent initiatives. I am hopeful that this will make any meeting we may have in the future more productive.

The Norton Healthcare ("NHC") children's hospital has been the designated pediatric teaching hospital for UofL's School of Medicine ("UL") for over 50 years. It has been a mutually beneficial and successful affiliation which has served both institutions and the public well. Together, we have developed a great children's hospital and outpatient services, developed a successful outreach program of specialty clinics, developed excellent teaching programs to train physicians and other clinicians and have advanced pediatric research in selected areas.

We strongly desire to continue the KCH/UL relationship, and we are fully committed to meeting our obligations under all of our existing agreements. Over the years, NHC has made investments in both capital infrastructure and equipment as well as pediatric program investments totaling over \$500 million benefiting both the UofL Department of Pediatrics as well as the children of the Commonwealth. NHC fully intends to continue to invest in its future through additional facilities, technology, programs and services. We provide 100 pediatric residency slots and approximately \$25 Million annually in support of UL pediatric faculty, resident training, research, and related clinical programs. We have always fully met all contractual obligations to UL since the beginning of our relationship. To our knowledge there are no outstanding financial contractual obligations. We have continued to increase our financial support to UL over the

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years, an example of which is an additional \$3.6 Million in support that we committed just two weeks ago. We anticipate continuing to increase our support, commensurate with our growing clinical services, to provide additional funds to the UL School of Medicine over time.

As you know, we currently have in place a Master Affiliation Agreement dated 2008, which renews automatically annually. Our respective teams have worked over two years to attempt to develop a revised academic affiliation agreement for pediatrics and their work culminated in an executed Term Sheet (“Term Sheet”) dated September 28, 2012. Subsequently, we prepared a draft revised academic affiliation agreement based on that Term Sheet. As you also know, this process was affected by the announcement of the University of Louisville’s Joint Operating Agreement for University Hospital and your public disclosure that within the corresponding agreements, UL gave Denver, Colorado-based Catholic Health Initiatives (“CHI”) the option of taking the pediatric academic affiliation away from Norton Healthcare and Kosair Children's Hospital, in the future, if certain conditions were met.

Your legal counsel has subsequently informed us that you no longer desired to pursue finalizing the revised academic affiliation agreement based on the executed Term Sheet. Your counsel ultimately introduced to us a totally new draft agreement and acknowledged it had significantly different terms in multiple areas and would create a very different relationship than we have had for over five decades. While your counsel indicated UL’s continued desire to maintain a pediatric affiliation agreement with NHC, she also indicated you required “radical change” in the new agreement and moreover, her transmittal letter stated that the proposed agreement was your “final position”.

As you know, in the September 28, 2012 Term Sheet, signed by Dr. Jerry Rabalais, Dr. Brad Keller, and Mike Bukosky, collaboration with the University of Kentucky was expressly contemplated. Norton’s general collaboration with the University of Kentucky is well known.

NHC management and our board of trustees have carefully reviewed the terms of your proposed new agreement. While we continue our desire to update pediatric academic affiliation agreement, we do not believe it to be in Kosair Children’s Hospital's best interest to execute the document that you have presented. Consequently, until we can both agree on a mutually beneficial revised pediatric academic affiliation agreement, we will continue to operate under our current 2008 Master Affiliation Agreement and our other existing agreements until such time as new terms can be mutually agreed to. Again, we want to emphasize our desire and intent to continue our pediatric academic affiliation with UL, building on our historic successes and the great opportunities that we have together.

Healthcare is going through rapid evolution throughout our nation as it responds to the implementation of the Affordable Care Act, intensifying competition and many other demands of the healthcare marketplace. These pressures are resulting in rapid consolidations and other alignment relationships among providers, just as you have done with CHI. In pediatrics, regional competition has been mounting over recent years. Kentucky's two children's hospitals have served the Commonwealth for decades and they too must be more competitive to the region. For

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pediatric hospitals, it is increasingly difficult to have the critical mass and volumes necessary to support pediatric specialists and sub-specialists. This is a challenge we have faced together for many years. There is also a national movement underway by the Children's Hospital Association to create centers of excellence for medically complex children. These centers would be those with sufficient resources and volumes of patients to receive the Center of Excellence designation. Separately, pediatric centers the size of ours and Kentucky Children's Hospital would find it difficult to compete with larger regional centers for these designations. Together, we can compete.

Norton Healthcare (and its predecessor organization) has owned and operated Louisville's primary children's hospital for over 121 years, and takes very seriously our stewardship of its mission, well-being, and future. As stated above, NHC has invested over \$500 million in Kosair Children's Hospital and we continue to invest in its future through additional technology, programs and services and in new pediatric facilities for the region such as Kosair Children's Medical Center Brownsboro and Norton Women's and Kosair Children's Hospital in St. Matthews. With help of community partners, such as Kosair Charities, we have been able to continue our century-old policy of caring for Kentucky's children without regard to their ability to pay, as well as to continue to provide state-of-the-art facilities, technology, highly talented physicians and other clinicians, but each year these efforts get more challenging.

Kentucky is an unhealthy state and that includes its children. Kentucky's 1.1 million children make up 25% of the Commonwealth's population. One in four of Kentucky's children live in poverty, which contributes to challenges of getting timely preventive care, early diagnosis and intervention of childhood or chronic diseases, as well as to getting access to pediatric specialty services when needed. Widespread childhood obesity has resulted in rapidly increasing rates of diabetes in children. Conditions like asthma continue to increase at concerning rates. Kentucky also has one of the highest rates of children who smoke cigarettes.

There is an opportunity to improve coordination of statewide programs for pediatric healthcare. More and more children enter the Medicaid or KCHIP program each year. Lack of pre-natal care, especially for young and/or poor mothers, results in a high rate of infants with low birth weight and many other conditions requiring complex and expensive care for newborns, often at the expense of the Commonwealth and therefore its taxpayers.

The list of healthcare challenges goes on and on, and makes a strong case for more leadership and more coordination of children's healthcare programs and services in Kentucky. The recent update of the state health plan relative to improving pre-natal and neo-natal care throughout the Commonwealth causes Kentucky's two children's hospitals to be increasingly and appropriately looked to for leadership in addressing the needs and improving healthcare of Kentucky's children and working with other pediatric providers statewide. The challenges are huge, but so are the opportunities to make a difference.

Norton Healthcare leadership (management and board) has spent considerable time in carefully evaluating multiple strategic options to determine how to most effectively compete in the

regional marketplace as well as to address numerous other challenges and opportunities pertaining to Kosair Children's Hospital. Ultimately, we have determined that development of a relationship between Kentucky's two children's hospitals would be in the best interests of both hospitals as well as for pediatric healthcare across Kentucky. We were not surprised to learn that UK had been undergoing a similar review with similar conclusions.

We believe that by combining the work of Kentucky's two children's hospitals, we best serve the Commonwealth in advancing pediatric care, as well as benefiting both UK and UL in their respective medical education, clinical and research missions. This initiative, indeed, will be a win for everyone, especially for Kentucky's children.

Simply stated, together, we can better meet the daunting challenges of the "new world of healthcare" and, together, we can do so many more good things for Kentucky's children than we can accomplish separately. Together, we can not only maintain and expand the scope of tertiary and quaternary care for pediatric patients in Kentucky, but we have the opportunity to develop a preeminent, national class, collaborative, pediatric academic medical model and a cohesive, integrated delivery system for pediatric care for the entire Commonwealth and surrounding region. Thus, we have the opportunity to make real, substantial improvements in the health status of children across Kentucky, as well as achieve other goals more fully enumerated in our executed Letter of Intent.

As we have discussed, Kentucky's two children's hospitals have entered into the Letter of Intent to develop a Joint Venture to bring together and operate the two children's hospitals. The two organizations will continue to own their own respective hospitals (no merger of assets or liabilities). The two hospitals will maintain separate medical staffs, as they do now. The specific organizational structure for the joint venture will be determined over the next few months. The operations and the clinical services will be evaluated over time to accomplish the goals set forth in the Letter of Intent. No changes in the names of the hospitals are anticipated due to this initiative. Through coordinated joint planning, long-range decisions will be made, based on what will best serve the children of the Commonwealth and the needs of our academic partners.

NHC/Kosair Children's Hospital sincerely desires a continued long term affiliation agreement with UL in pediatrics. We will continue to meet our contractual obligations to UL and to periodically expand programs and funding support, just as we have done recently, and grow services and programs in pediatric clinical services, education and research. Our long-standing affiliation will not be diminished. To the contrary, we believe through this innovative and progressive initiative between Kentucky's two children's hospitals, we can do much more. We believe that with the two children's hospitals working together, better serving the pediatric healthcare needs of children across the entire Commonwealth in a coordinated fashion, there will also be new, beneficial opportunities for the advancement of the faculty and the educational, clinical, and research programs in both UL School of Medicine and the UK College of Medicine and beyond.

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Under this new initiative, we will continue to operate under the current 2008 Master Affiliation Agreement with UL, until it may be updated or modified through our mutual agreement, and we are willing to continue working on that. We will also comply with the terms of all of our other existing agreements. The two children's hospitals will continue to have separate medical staffs. There will be new opportunities for UL faculty through new programs/services, such as the new Norton Women's and Kosair Children's Hospital in St. Matthews and expanded services at Kosair Children's Medical Center Brownsboro, as well as expanded outreach clinics. UL pediatric faculty and leadership will be important players in the planning process. In addition, UK has indicated it will make available medical staff membership and clinical privileges at Kentucky Children's Hospital for pediatric faculty of UL, to enhance collaboration and shared resources, should such be desirable.

The Letter of Intent, between Norton Healthcare and the University of Kentucky, makes the commitment and begins the process of bringing the two children's hospitals together for the good of the Commonwealth and Kentucky's children. Norton Healthcare and the UK College of Medicine (as well as the UL School of Medicine) are dedicated to promoting the general health of the Commonwealth of Kentucky's citizens, including its children. Indeed, our organizations were expressly formed to serve this purpose. In furtherance of those stated purposes, bringing together the work of the two children's hospitals will improve and expand pediatric healthcare and services for the benefit of the citizens of the Commonwealth of Kentucky, in the very best traditions of all these institutions.

This process has been initiated by those who have stewardship responsibility for Kentucky's two children's hospitals: Norton Healthcare and the University of Kentucky. The final agreement will be between the two organizations, but as the planning process begins, there will be many needs and opportunities for many others to be part of that process, including physicians, clinicians and faculty from each hospital and medical school, as well as the many children's service organizations across Kentucky and from leaders from the communities we serve. We want the process to be inclusive and collaborative. Over the next few weeks, the planning process will further take shape. We anticipate that the process will take several months, although some implementation actions could begin as decisions are made. We are also committed to transparency. As decisions are made, we will keep the respective constituencies and communities informed.

We sincerely hope that UL will come to believe that this is a tremendous opportunity, not only for the two children's hospitals to work together, but for the two academic medical centers, the two medical schools, and indeed the local and state-wide medical communities to do so, all in a great collaborative to advance children's healthcare in the Commonwealth.

While the challenges of today's complex healthcare environment are daunting, the opportunities are also great to make great improvements in our nation's healthcare system. That is also true right here in Kentucky. We have before us the opportunity to make great strides in the healthcare services for Kentucky's children and, hence, to improve their health status. We look forward to working with you and other UL leaders to make these opportunities become reality.

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Please don't hesitate to contact me at any time. I look forward to our further discussions.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen A. Williams". The signature is fluid and cursive, with a large initial "S" and "W".

Stephen A. Williams
Chief Executive Officer

cc: Gerard P. Rabalais, M.D.