

January 15, 2014

To: David L. Dunn, MD
Executive Vice President for Health Affairs
University of Louisville

Via Personal Delivery and USPS

Re: Efforts to Amend and Revise Existing Pediatric Academic Affiliation Agreement and Support Agreements between Norton Healthcare and University of Louisville, and Lease Agreement Between Norton Healthcare, Inc. and the Commonwealth of Kentucky

Dear David:

Despite our best efforts after more than three years of discussions between our organizations, we have determined that the two parties, unfortunately, are just not on the same page regarding developing a new pediatric academic affiliation agreement (AAA), new academic support agreements between our two organizations, or an agreement on what to jointly propose as amendments to the existing ground lease with the Commonwealth of Kentucky.

After months of focused negotiations, we do not believe mutually acceptable agreements can be developed at this time. Furthermore, it appears that further discussions would not only be unproductive at this juncture, but would be harmful to our ongoing relationship.

I want to assure you that we plan to continue our relationship with UofL, continuing to build on a successful academic relationship originating over 80 years ago. It is our desire that UofL will continue to be our primary academic partner in pediatrics and we will continue to operate Kosair Children's Hospital and conduct our business through our existing 2008 Master Academic Affiliation Agreement, the more than 135 current Academic Support and other agreements, and the 1981 Ground Lease Agreement with the Commonwealth.

We will continue to provide substantial financial support to UofL, per our Academic Support Agreements and other agreements, which we expect will exceed \$27.9 million in 2014. As you know, this amount of annual support has substantially increased from the \$7.3 million that we provided in 2003 and the \$17.9 million in annual financial support that we provided in 2010. This \$27.9 million includes \$3.9 million in additional support agreements which were approved in July, 2013 and are still awaiting your signature in order for us to begin funding. This amount also includes an additional \$2.7 million in support agreements, which we have attached to this correspondence, for various financial support requests from UofL faculty leaders at KCH. These funds will further support UofL faculty and the teaching and clinical programs at Kosair Children's Hospital and we believe are programmatically

and economically reasonable, even in the current uncertain healthcare environment.

As stated above, we intend to continue our historic relationship with U of L for pediatric services and do not intend to take any action that will cause UofL's pediatric training programs to lose their accreditation. We hope UofL pediatric faculty specialists will continue our 80+ year relationship to provide specialty services at KCH through the various agreements we have in place and will have in the future, as well as through their medical staff membership. It is our intent that UofL faculty members and others will continue to be included in our outreach programs, statewide pediatric initiatives, and in applicable joint activities which may be initiated as we explore how the Commonwealth's two children's hospitals could work together to improve pediatric care at the hospitals and throughout Kentucky.

As you know, after over two years of negotiations, representatives of our two organizations executed a term sheet on September 28, 2012 for a new pediatric academic affiliation agreement. Shortly thereafter, it became evident and was communicated that UofL did not desire or intend to honor that document, as it was executed. Furthermore, in our subsequent discussions throughout 2013, and intensely in September through mid-December, it became clear that you also did not intend for the 2012 executed term sheet to serve as the basis for the definitive agreements that we were attempting to prepare and finalize. Rather, it became evident, that you began to require "transformational changes" (as your staff described) in the basic nature of the 80 +year historic relationship between our children's hospital and UofL.

As to why you felt these "transformational changes" were suddenly a requirement for UofL, at this time, we are unclear, but your discussions with us and subsequent demands, ultimately veered so far away from our executed Term Sheet, it became evident that you did not have an intent to memorialize our agreed upon deal, but rather you chose to embark upon a series of negotiations with us for a relationship that we never agreed to in the Term Sheet, which has never existed in the history of the children's hospital, was not the context or basis for our 1962 affiliation agreement, our 1981 land lease agreements leading to the construction of the current hospital which opened in 1986, our 2003 master academic affiliation agreement, our current 2008 master academic affiliation agreement or the 135+ other agreements that are currently in place between our respective organizations. We do not fault you for trying to achieve the best arrangements possible for UofL. However, we believe the proper time to have done that would have been when the September, 2012 Term Sheet was being negotiated, not after it had been finalized and executed.

After serious deliberation, we have concluded that your stated requirements are simply not in the best interests of the community and Kosair Children's Hospital. As I have emphasized, our Board of Trustees and management take the stewardship of

Kosair Children's Hospital very seriously and make decisions based upon their responsibilities. Because Norton Healthcare has the ultimate accountability to the community, the Commonwealth, and to the regulatory and accreditation authorities for clinical quality, service and financial stability, our board and management must maintain appropriate authority to make decisions it believes to be in the best interests of the patients and community we serve, as well as to ensure that the hospital remains available for all physicians practicing in our community. At the same time, we certainly acknowledge that UofL must manage its own pediatric academic training programs.

I want to reiterate that we value the longstanding relationship with the University of Louisville School of Medicine, its Department of Pediatrics, and other departments with pediatric programs and services and it is our earnest hope that our relationship will continue long into the future. It is simply not constructive for us to continue to debate contract terms and provisions which we believe are not appropriate and reasonable for Kosair Children's Hospital and which would dramatically alter the manner in which we have historically and consistently operated the hospital, with great success, especially since the current Kosair Children's Hospital was opened in 1986.

Additionally, I want to reemphasize my personal discussions with you regarding how disappointed I was at your inappropriate initiation of ex-parte communications between our respective Board chairs and how counterproductive that activity actually was. Beyond that, the recent communications that occurred between you, your counsel or staff and the Attorney General's Office, the attendant mischaracterization of facts surrounding our ongoing discussions and your forwarding of confidential settlement communications between our respective outside counsel was simply unacceptable. At a critical time, where we needed to use our best efforts and professional sensibility to pull things together, these activities actually worked in the other direction and were out of bounds.

Finally, since fundamental questions have been raised about the interpretation of the 1981 land lease with the Commonwealth and you have attempted to declare us in breach of this agreement, we intend to continue with the Declaratory Judgment Action we filed in Franklin County to seek judicial interpretation of our respective rights and responsibilities. Consequently, we cannot extend the Tolling Agreement further, as the Declaratory Judgment Action needs to proceed in an orderly fashion through the judicial system to resolve our respective rights and responsibilities and determine the validity of your notice of breach of the Kosair Children's Hospital Land Lease.

Hopefully, when the environment is less polarized in the future, there will be a time when discussions regarding an updated affiliation agreement, support agreements, and land lease agreements can be productive. At this point, however, we believe that continuing our relationship under our current agreements is the best course of action.

We regret that our discussions and negotiations have concluded in this manner. We hope that every negotiation we enter into can yield favorable results for all parties involved. Unfortunately, this is not always the case and a mutually acceptable result for all involved was apparently not possible in this situation at this time.

Going back through my various files over the holidays, I was reminded of a series of negotiations between Norton and U of L School of Medicine regarding pediatrics and the operations of children's hospital that began in the mid-1960's and ultimately were discontinued in 1967 as Norton's predecessor organization and UofL could not agree to fundamental principles, which were very similar to the situation at hand. Despite their inability to reach a new agreement at that time, we continued our historic partnership in pediatrics and went on to provide excellent patient care and pediatric training for almost 50 years through today. We certainly hope that we can see past our current differences and continue our historic partnership and mutually beneficial collaboration that has brought such excellent pediatric training and patient care to our region and to the thousands of children and families that we have the privilege of jointly serving.

Sincerely, Stephen A. Williams
Chief Executive Officer
Norton Healthcare