

JOINT VENTURE
LETTER OF INTENT

This letter of intent ("**Letter of Intent**" or "**LOI**"), effective as of August 22, 2013 ("**Effective Date**"), between Norton Healthcare, Inc., a Kentucky non-profit corporation ("**Norton**") and the University of Kentucky ("**UK**"), sets forth certain understandings in principle with respect to a contemplated affiliation of Kosair Children's Hospital, which is owned and operated by Norton, and Kentucky Children's Hospital, which is owned and operated by UK (the "**Joint Venture**"). Norton and UK are sometimes referred to herein individually as a "**Party**," and collectively as the "**Parties**," and Kosair Children's Hospital and Kentucky Children's Hospital are sometimes referred to herein as the "**Hospitals**".

PURPOSE

A. Norton and UK were formed, in part, to promote the general health and welfare of the citizens of the Commonwealth of Kentucky ("**Commonwealth**").

B. Increasing competition from other regional pediatric providers and the advent of the Affordable Care Act have prompted both Norton and UK to evaluate options to provide higher quality and more cost efficient care, more effectively serve a broader population and to better compete in the regional marketplace.

C. Norton owns and operates Kosair Children's Hospital in Louisville, Kentucky, which is the largest pediatric hospital in the Commonwealth.

D. UK owns and operates Kentucky Children's Hospital in Lexington, Kentucky.

E. UK and Norton believe that working together they can establish pre-eminent, national class pediatric academic medical centers operated as a cohesive, integrated, provider of pediatric services serving the entire Commonwealth and surrounding region.

F. Norton and UK will continue to meet the obligations and opportunities of their children's hospitals relative to the teaching, research, and clinical service needs of the Schools of Medicine of the University of Louisville and UK and will expand such opportunities where possible.

G. With the recognition that the cooperation and affiliation of Kosair Children's Hospital and Kentucky Children's Hospital is in the best interests of the citizens of the Commonwealth, Norton and UK intend to consummate the Joint Venture in the manner described below.

OVERVIEW OF CONTEMPLATED JOINT VENTURE TERMS AND CONDITIONS

1. **Intentions of the Parties.** The Parties intend to structure the Joint Venture as a joint venture agreement, joint operating agreement or other mutually agreed upon arrangement through which, together, they will more effectively compete in the regional and multistate specialty pediatric markets in which they provide care. Through the Joint Venture, the Parties will implement joint strategies and programs to minimize the outmigration of pediatric care from the Commonwealth, meet the needs and interests of the Commonwealth and pediatric patients and their families and maximize the impact of the resources, programs and services of Kosair Children's Hospital and Kentucky Children's Hospital.

2. **Integration.** In connection with the Joint Venture, the Parties will achieve clinical, operational and financial integration consistent with the following:

Clinical Integration. The Parties will jointly develop and implement case management programs, clinical guidelines and protocols, disease management programs, patient registries, utilization standards and practice management programs. The Parties will apply these programs to pharmacy usage, electronic prescribing, prevention of surgical infections, surgery process improvements and other Hospital programs. As part of their joint operation, administration and delivery of care to pediatric patients, the Parties will actively monitor and evaluate public health drivers of pediatric morbidity and mortality and review and refine their joint initiatives to enhance the availability, effectiveness, safety and quality of care provided by the Hospitals for patients throughout the Commonwealth.

Operational Integration, Financial Integration and Revenue Sharing. The Parties will jointly manage and engage in consolidated operations with respect to all aspects of patient care at the Hospitals, including without limitation, through joint implementation of patient care protocols, consolidated administration, joint protocols for professional and administrative staffing and personnel matters, jointly reviewing and combining approaches to supply chain, coding, billing and accounting, finance and revenue cycle programs and processes. To the maximum extent permissible, the Parties also shall undertake joint contracting with managed care plans and other payors. Additionally, the Parties will together pursue opportunities with respect to teaching, research and clinical services of the Schools of Medicine of UK and University of Louisville with a shared goal and commitment to jointly establishing the Hospitals as components of pre-eminent, national class pediatric academic medical centers recognized for providing cohesive, integrated and coordinated pediatric care throughout the Commonwealth. The increased availability of pediatric services in underserved areas of Kentucky also will be promoted.

Although the Parties will continue to own their respective assets and be responsible for their respective liabilities, they each will contribute capital, as necessary, for the joint operation and management of the Hospitals. Additionally, they will share in the profits and losses resulting from the operation of the Hospitals in proportions to be determined by the Parties. The Parties will jointly prepare and review capital and operating budgets and engage in joint decision making and financial stewardship regarding financial and resource commitments and expenditures to ensure the best use of health care investment dollars at the Hospitals. The Parties shall develop programs intended to provide savings to state government (Medicaid), other payers and the families of pediatric patients, as a result of the Parties' combined efforts to improve efficiencies and achieve reductions in the cost of caring for pediatric patients at the Hospitals and across the Commonwealth.

3. **Other Contemplated Initiatives.** In connection with the Joint Venture, the Parties will jointly promote Kentucky Children's Hospital, Kosair Children's Hospital, Kosair Children's Medical Center and the new Norton Women's and Kosair Children's Hospital in St. Matthews as a regional medical destination for pediatric services. They will strengthen partnerships and pediatric care consistency and continuity through the Commonwealth via joint outreach and affiliations and enhance their strategic alignment through joint planning and development in clinical education and research strategies. The Parties will jointly pursue expanded opportunities for research and the promotion of new knowledge focused primarily on pediatric health services delivery. Examples of potential pediatric initiatives to be undertaken jointly by the Parties include the following:

- Joint implementation of the Commonwealth's new perinatal guidelines by developing a statewide network and system of care by perinatal and neonatal care providers, which will help improve the care provided to high risk mothers and babies across the Commonwealth
- Joint recruitment, retention and placement of pediatric specialists in order to improve and expand the availability of pediatric specialty services at each of the Hospitals and to attract and retain specialists in the Commonwealth. These efforts are intended to help provide an environment that attracts, retains, and shares top talent and that is conducive to training of health care providers and scientists.
- Jointly develop and operate outreach clinics where feasible including multi-specialty pediatric clinics across the network in Kentucky by placing specialists on-site in clinics where feasible or by establishing telemedicine clinics.
- Work with the Kentucky Cabinet for Health and Family Services, the office of Medicaid services and, as applicable, the state's managed care organizations to develop a statewide system of care for all medically-complex pediatric patients, including high-cost

cases for the state's Medicaid patients, all for the purpose of improving clinical care, reducing costs to the state and patients, and maximizing services being provided as close to patients' homes as possible.

- Jointly develop and implement organized statewide programs for education, wellness and prevention, as well as early detection and intervention, to improve the health status of children across the Commonwealth, concentrating on identified areas of high need, such as for diabetes care.

4. **Governance:** The arrangement contemplated by the Parties will be governed in a mutually agreed upon manner set forth in the Joint Venture documents with representation by each of the Parties. The representation and relative rights and authorities of the Parties will take into account the various roles, responsibilities and contributions of each of the Parties with respect to the arrangement and shall comply with applicable law.

5. **Medical Staff Membership and Privileges.** The Hospitals will continue to have separate medical staffs, medical staff bylaws and rules and regulations.

6. **Joint Venture Documents; Other Agreements and Obligations.** The Joint Venture documents will include such agreements necessary or desirable to effectuate the Joint Venture, including, without limitation, such terms and conditions as are mutually agreed to by the Parties (the "**Joint Venture Documents**"). Nothing in this Letter of Intent or any agreement contemplated by it shall operate or be construed as obligating either Party to violate any explicit or implied obligations or covenants under any other agreement to which it or one of its affiliates is a party.

7. **Effective Date of Joint Venture.** Unless otherwise mutually agreed to by Norton and UK, the Joint Venture is expected to take effect on or before January 1, 2014 (the "**Joint Venture Effective Date**"). Between the Effective Date of this Letter of Intent and the Joint Venture Effective Date, the Parties will continue to operate Kosair Children's Hospital and Kentucky Children's Hospital, respectively, in the ordinary course of business and will notify one another of any material adverse developments.

8. **Charity Care; Nondiscrimination.** Each of Kosair Children's Hospital and Kentucky Children's Hospital will continue to be operated consistent with their charitable missions of promoting the health of the communities they serve, including the provision of charity care for the indigent based on community need. All care will be provided on a nondiscriminatory basis.

9. **Required Approvals; Conditions to Close.** The Joint Venture Documents will contain customary conditions with respect to the affiliation becoming effective, including the receipt of all required approvals, including, without limitation, corporate and governance approvals of the Parties, and all required state and federal governmental and regulatory approvals and clearances. The Parties shall promptly provide all required notices and cooperate on (i) completing and submitting all filings

and applications necessary to obtain required approvals for the Joint Venture and (ii) participating in any meetings with providers, governmental or university officials and other third parties as necessary or desirable to effectuate the Joint Venture.

10. **Confidentiality of Information.**

a. Subject to applicable law, each Party agrees that it will hold the Confidential Information (as defined below) provided by the other Parties in the strictest confidence. The Parties further agree that, subject to applicable law, they will not disclose, divulge or communicate, directly or indirectly, intentionally or inadvertently, the Confidential Information provided to them to any person, except directors, officers, employees, attorneys, accountants, agents and consultants of the Parties who need to know the disclosed Confidential Information to evaluate and provide advice regarding the Joint Venture. The obligations under this Section 10 shall survive the expiration or termination of this Letter of Intent. Notwithstanding any statement herein to the contrary, Norton may share this Letter of Intent with the University of Louisville.

b. The term "**Confidential Information**" shall mean and include, with respect to each of the Parties, any and all information disclosed or furnished by one Party to another Party, regardless of form and including all copies thereof, including the fact that discussions are taking place regarding the Joint Venture. By way of example, but not of limitation, Confidential Information with respect to a Party shall include: (i) any information that is specifically designated "Confidential" by the disclosing Party; or (ii) any information that a reasonable businessperson in the health care industry would treat as confidential or proprietary in nature.

c. Subject to applicable law, the restrictions set forth in this Section 10 shall not apply to Confidential Information with respect to a Party which:

i. Is, at the time of disclosure by such Party, a part of the public domain or which thereafter becomes a part of the public domain through no violation or breach of the provisions of this Letter of Intent; or

ii. The disclosing Party can demonstrate was properly in its possession prior to its receipt from another Party; or

iii. Is hereafter acquired by another party through an independent third party who has no obligation of confidence to such party as to which the Confidential Information relates.

11. **Due Diligence Review; Access to Information.** Completion of the Joint Venture is subject to agreement by the Parties on the Joint Venture Documents and satisfactory completion of a due diligence review by Norton and UK. Unless and until this Letter of Intent expires or is terminated, and subject to the terms and condition of this Letter of Intent, each Party will permit the other Party and its respective representatives, consultants, accountants, attorneys, lenders and other mutually agreed

upon representatives to complete a due diligence review of the other Party's business operations and facilities with respect to pediatric services. The scope and timing for the due diligence process will be mutually determined by the Parties.

12. **Expenses.** Each Party shall bear its own expenses including any due diligence costs in connection with the Joint Venture contemplated by this Letter of Intent regardless of whether Joint Venture Documents are executed.

13. **Termination.** This Letter of Intent will automatically terminate on the Joint Venture Effective Date unless sooner terminated. Either Party may terminate this Letter of Intent without penalty or recourse upon written notice to the other Party. Upon termination of this Letter of Intent, the Parties will have no further obligations hereunder except for the Binding Provisions set forth herein.

14. **Binding/Non-binding Provisions.** Except for Sections 10, 12, 13, 14, 15 and 20 of this Letter of Intent, which shall be binding on the Parties and their respective successors and assigns (the "**Binding Provisions**"), this Letter of Intent is not intended to be a binding agreement and shall not give rise to any obligations between the Parties. Except for the Binding Provisions, no binding contractual agreement shall exist between the Parties unless and until the Parties have executed and delivered the Joint Venture Documents. Nothing in this Letter of Intent shall obligate a Party to execute the Joint Venture Documents.

15. **Equitable Remedies.** The Joint Venture contemplated by this Letter of Intent is unique and the Parties acknowledge that the breach or threatened breach of the confidentiality provisions of this Letter of Intent would cause irreparable harm to the Party aggrieved by such breach for which an award of monetary damages would be inadequate. Accordingly, in addition to and not in limitation of any other remedies available for breach or threatened breach of confidentiality provisions of this Letter of Intent by any Party, the aggrieved Party shall be entitled to an injunction restraining the breaching Party from continuing such breach or threatened breach.

16. **Amendment; Waiver.** The provisions of this Letter of Intent may not be amended, waived, or terminated except by an instrument in writing signed by each Party hereto.

17. **Entire Agreement.** This Letter of Intent contains the entire understanding and agreement among the Parties hereto with respect to the subject matter hereof, and supersedes all prior discussions, understandings, and agreements (whether oral or written) between them with respect thereto.

18. **Public Announcements.** Any and all public announcements concerning this Letter of Intent or the Joint Venture shall be jointly planned and coordinated by and between the Parties. No Party shall act unilaterally in this regard, without the prior written approval of the other Party.

19. **Notices and Consents.** Each of the Parties shall cooperate in good faith to identify all governmental, contractual and other notices and consents necessary to effectuate the Joint Venture and to timely obtain all such notices and consents.

20. **Governing Law.** This Letter of Intent shall be governed by and construed in accordance with the internal laws of the Commonwealth of Kentucky, without giving effect to its conflicts of law provisions. Venue for any actions brought by either of the Parties with respect to this Letter of Intent shall be in Franklin County, Kentucky.

21. **Notices.** Any notices delivered under this Letter of Intent will be deemed delivered when personally delivered, or five days after they are deposited with the United States Postal Service, certified mail, return receipt requested, or upon delivery by reputable overnight carrier with signature upon receipt required, addressed to the Parties at their addresses set forth below. Any Party may change the address to which notices are to be sent by mailing written notice thereof to the other Party as provided in this Letter of Intent.

If to UK

University of Kentucky
301 Main Building
Lexington Kentucky 40506-0032
Attention: William (Bill) E. Thro, General Counsel

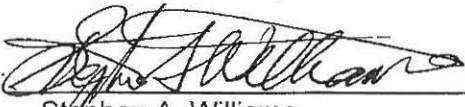
If to Norton:

Norton Healthcare, Inc.
4967 U.S. Highway 42, Suite 101
Louisville, Kentucky 40222-6363
Attention: Robert B. Azar, Chief Legal Officer

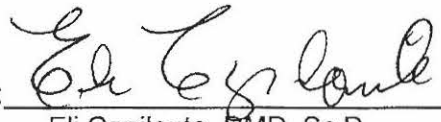
22. **Counterparts.** This Letter of Intent may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

The foregoing Letter of Intent is hereby agreed to by the Parties as of the Effective Date.

NORTON HEALTHCARE, INC.,
a Kentucky nonprofit corporation

By: 
Stephen A. Williams

UNIVERSITY OF KENTUCKY

By: 
Eli Capilouto, DMD, Sc.D

Its: Chief Executive Officer

Date: 8-22-13

Its: President

Date: 8-22-13

By: 
Michael Karpf, M.D.

Its: Executive Vice President for Health Affairs

Date: 8-21-13