

September 11, 2009

MEMORIAL
HERMANN

David Lopez
President & CEO
Harris County Hospital District
2525 Holly Hall Street
Houston, TX 77054

Dear David:

It has been five full weeks since Harris County Hospital District (HCHD) and Memorial Hermann executed a non-binding Letter of Intent regarding the sale of Memorial Hermann Southwest Hospital assets. Both parties agreed to this proposed transaction because it will greatly enhance access to critically needed specialty physician services and hospital beds for the underserved residents of Southwest Houston.

In order to achieve this increase in service capability, it is imperative that HCHD retain the excellent physicians currently practicing at Memorial Hermann Southwest Hospital. HCHD's early interactions with the physicians after the announcement of the transaction generated positive reaction from the physicians. However, it also created strong expectations that HCHD would quickly address the major issues the physicians had regarding the change of ownership. The physicians identified issues such as a private patient bed plan, what HCHD will pay the physicians to see their patients, and procurement of major managed care contracts.

Unfortunately, HCHD has not effectively addressed any of the physician's key issues during the past four weeks! This lack of timely response has caused significant concern and dissatisfaction among the physicians. As a result, if the physicians do not receive definitive answers in a very short period of time, there is a very strong probability the physicians will relocate their practices to other areas of the community. If this occurs, the closing of the transaction could be in jeopardy and the value of Memorial Hermann Southwest Hospital could be significantly impaired.

Memorial Hermann finds both of these outcomes to be unnecessary and unacceptable. Memorial Hermann will not stand by and let this important community hospital suffer an avoidable decline. We have a stewardship responsibility to maintain a strong hospital. **Therefore, if HCHD does not successfully accomplish all of the following actions by 12:00 p.m. on Friday, September 18, 2009, Memorial Hermann will immediately terminate the Letter of Intent for the sale of Memorial Hermann Southwest Hospital.**


The actions that need to be accomplished by this deadline are as follows:

- 1) Distribution of a document to the Memorial Hermann Southwest physicians definitively stating what HCHD will pay the physicians to see HCHD eligible patients and how HCHD will direct these patients to the physicians.

- 2) Distribution of a written plan to the physicians detailing the establishment of private patient floors and clinic space.
- 3) Distribution of a written statement to the physicians regarding their credentialing at the time the hospital transfers to HCHD.
- 4) Significant movement on the selection of a leadership team for Memorial Hermann Southwest Hospital as demonstrated by the execution of a contract for Dr. John Zerwas and the written commitment to retain some of the key members of the current hospital leadership team.
- 5) Written statement to the physicians regarding the status of obtaining major managed care contracts and a commitment to a weekly progress report on the status of the contracts.
- 6) Written commitment to Memorial Hermann that definitively sets a deadline to conclude the due diligence process and a firm date to close the transaction if our respective boards approve the definitive agreements.
- 7) Written commitment to Memorial Hermann stating HCHD will close the transaction upon approval of the respective board on the financial terms contained in the Letter of Intent (\$165 million at closing, plus \$10 million a year for 5 years for the cost of providing service to HCHD eligible patients) or at a mutually agreed allocation of the \$215 million purchase price, provided that in any event the amount at closing will not be less than \$165 million.
- 8) Distribution of a written plan describing how physician leases will be handled post closing of the transaction.

Memorial Hermann strongly feels this proposed transaction is the right thing to do for access to care in our community and for our respective organizations. It is imperative Memorial Hermann Southwest Hospital be maintained in a strong state through the due diligence process in order to achieve the desired outcome. If the steps outlined above are not implemented in the stated timeframe, then Memorial Hermann will be left with no other choice but to terminate the transaction for Memorial Hermann Southwest Hospital in an effort to preserve quality health care on the campus. This outcome can be avoided by prompt, definitive actions by HCHD.

Sincerely,


Dan Wolterman
President & CEO

DJW/pm

cc: Stephen DonCarlos, Chairman Harris County Hospital District
R. Gerald Bennett, Chairman Memorial Hermann Healthcare System
Robert G. Croyle, Chairman Memorial Hermann Hospital System