

Medical Center Phase A – Orthopedic Service Line Summary of Transaction

Engagement: Valuation Consulting Services

Client: Ambulatory Surgery Center

Location: Southern U.S.

Subject In terest: *Fair Market Value* of 20 Class C equity units in an Ambulatory Surgery Center and the *Fair Market Value* and *Commercial Reasonableness* of certain co-management arrangements with the owners of the Ambulatory Surgery Center.

Description of Engagement:

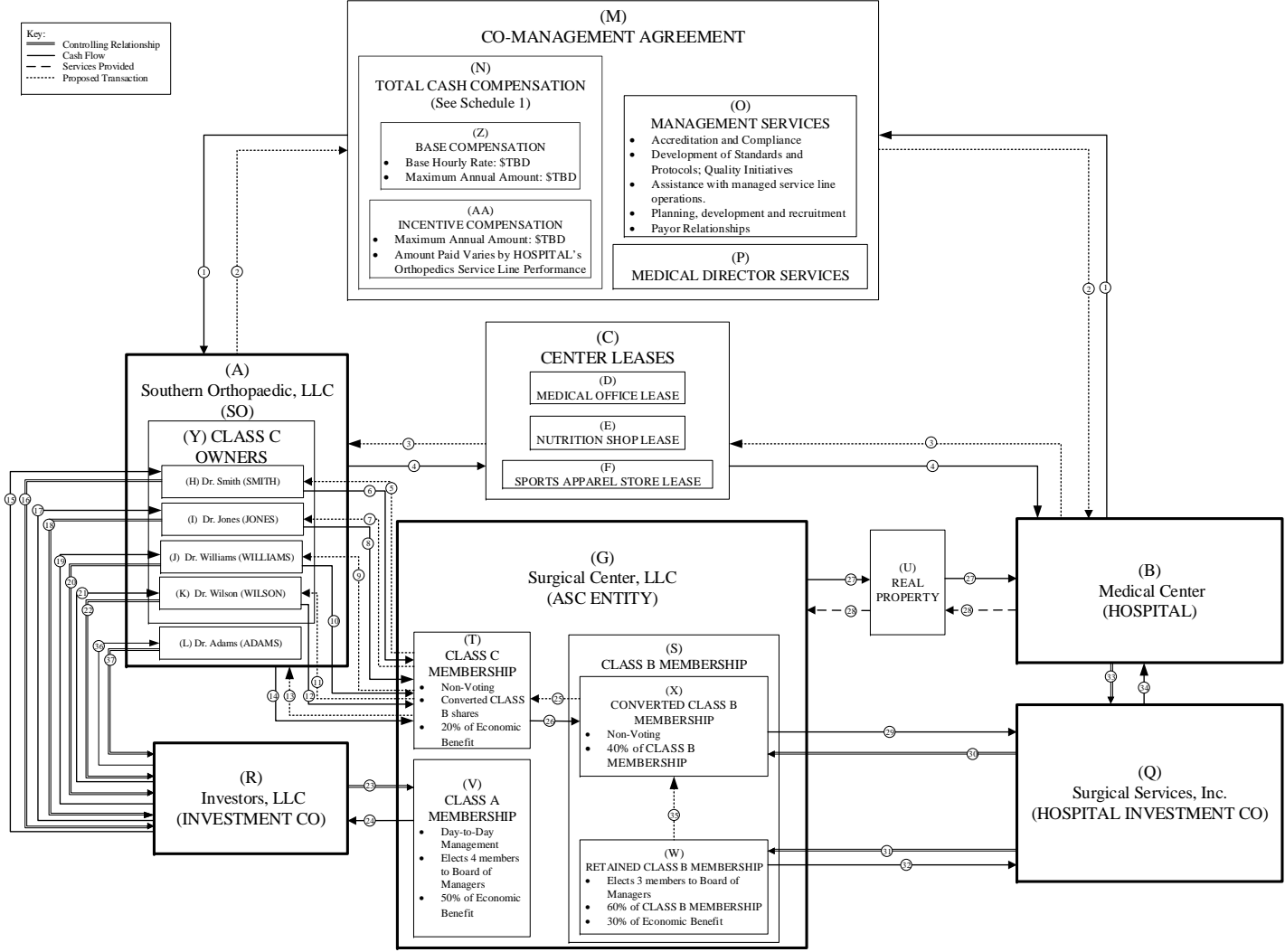
HCC was engaged by the Client to prepare a written valuation report related to the *Fair Market value* of an equity interest of 20 Class C units in an ambulatory surgery center on a minority, closely held basis for the purposes of assisting the Client in their consideration of a prospective transaction of the Subject Interest.

In addition, HCC was engaged by Client to prepare a written valuation report providing our conclusions and certified opinion as to whether the proposed compensation to be paid by the Client to certain orthopedic physicians for the provision of certain professional clinical, executive, administrative, medical directorship, and co-management orthopedic surgery services is within the range of *Fair Market Value* and is *Commercially Reasonable*, for the purpose of assisting the Client in their consideration of the prospective transaction.

See the following exhibits for a brief description of the prospective transaction.



Medical Center Phase A – Orthopedic Service Line Summary of Transaction



Medical Center Phase A – Orthopedic Service Line Summary of Transaction

Entities:

- (A) Southern Orthopaedic, LLC (SO) is a limited liability company which provides orthopedic care to a southern state.
- (B) Medical Center (HOSPITAL) is a regional medical center, offering highly specialized services such as heart surgery, radiation oncology, neurology, neurosurgery, plastic & reconstructive surgery, pulmonology, orthopedics, obstetrics, and inpatient & outpatient physical rehabilitation services. Medical Center has active staff physicians, courtesy physicians, consulting physicians, emergency medicine physicians, associate physicians and honorary physicians.
- (C) CENTER LEASES are MEDICAL OFFICE LEASE, NUTRITION SHOP LEASE and SPORTS APPAREL STORE LEASE.
- (D) MEDICAL OFFICE LEASE is for real property located in the Wellness Center (CENTER).
- (E) NUTRITION SHOP LEASE is for real property located in the CENTER.
- (F) SPORTS APPAREL STORE LEASE is for real property located in the CENTER.
- (G) Surgical Center, LLC (ASC ENTITY) is a four operating room ambulatory surgery center, located in southern United States. ASC ENTITY opened in XXXX as a 50-50 joint venture between INVESTMENT CO and HOSPITAL INVESTMENT CO.
- (H) Dr. Smith (SMITH) is an orthopedic surgeon specializing in sports medicine.
- (I) Dr. Jones (JONES) is an orthopedic surgeon specializing in sports medicine.
- (J) Dr. Williams (WILLIAMS) is an orthopedic surgeon specializing in sports medicine.
- (K) Dr. Wilson (WILSON) is an orthopedic surgeon specializing in hand surgery.
- (L) Dr. Adams (ADAMS), is an orthopedic surgeon specializing in foot and ankle surgery.
- (M) CO-MANAGEMENT AGREEMENT between SO and HOSPITAL is for the provision of MANAGEMENT SERVICES and MEDICAL DIRECTOR SERVICES.
- (N) TOTAL CASH COMPENSATION is comprised of BASE COMPENSATION and INCENTIVE COMPENSATION.
- (O) MANAGEMENT SERVICES are outlined in CO-MANAGEMENT AGREEMENT and include: accreditation and compliance; development of standards and protocols; quality initiatives; assistance with managed service line operations; planning, development and recruitment; and payor relationships.
- (P) MEDICAL DIRECTOR SERVICES are certain medical director services outlined in CO-MANAGEMENT AGREEMENT.
- (Q) Surgical Services, Inc. (HOSPITAL INVESTMENT CO) is a wholly owned subsidiary of HOSPITAL which was established to own 50% of the membership interest in ASC ENTITY.
- (R) Investors, LLC (INVESTMENT CO) is a limited liability company established to hold 50% of the membership in ASC ENTITY.
- (S) CLASS B MEMBERSHIP is 100% owned by HOSPITAL INVESTMENT CO. CLASS B MEMBERSHIP has voting rights and elects 3 of the 7 members of the Board of Managers.
- (T) CLASS C MEMBERSHIP is a subjugated form of membership that is formed when a Member transfers a membership stake outside of current members. CLASS C SHARES have no right to participate in the business and affairs of the ASC ENTITY but share in the economic benefits of owning ASC ENTITY.
- (U) REAL PROPERTY is located in southern United States.



Medical Center Phase A – Orthopedic Service Line Summary of Transaction

Entities Continued:

- (V) CLASS A MEMBERSHIP is 100% owned by INVESTMENT CO. CLASS A MEMBERSHIP has voting rights and elects 4 of the 7 members of the Board of Managers.
- (W) RETAINED CLASS B MEMBERSHIP includes 60% of CLASS B MEMBERSHIP and retains all voting rights of CLASS B MEMBERSHIP.
- (X) CONVERTED CLASS B MEMBERSHIP equals 40% of CLASS B MEMBERSHIP and has no voting rights in ASC ENTITY.
- (Y) CLASS C OWNERS are SMITH, JONES, WILLIAMS, and WILSON.
- (Z) BASE COMPENSATION is an hourly rate to be determined (TBD) up to a maximum TBD annual compensation.
- (AA) INCENTIVE COMPENSATION is an amount to be determined (TBD) based on the performance of the HOSPITAL's Orthopedic Service Line performance.

Relationships:

- (1) HOSPITAL pays SO for MANAGEMENT SERVICES and MEDICAL DIRECTOR SERVICES rendered under the CO-MANAGEMENT AGREEMENT.
- (2) SO renders MANAGEMENT SERVICES and MEDICAL DIRECTOR SERVICES, as set forth in the CO-MANAGEMENT AGREEMENT, to HOSPITAL.
- (3) HOSPITAL leases real property set forth in CENTER LEASES to SO.
- (4) SO pays HOSPITAL for NEW LEASES.
- (5) SMITH receives CLASS C MEMBERSHIP.
- (6) SMITH pays consideration for CLASS C MEMBERSHIP.
- (7) JONES receives CLASS C MEMBERSHIP.
- (8) JONES pays consideration for CLASS C MEMBERSHIP.
- (9) WILLIAMS receives CLASS C MEMBERSHIP.
- (10) WILLIAMS pays consideration for CLASS C MEMBERSHIP.
- (11) WILSON receives CLASS C MEMBERSHIP.
- (12) WILSON pays consideration for CLASS C MEMBERSHIP.
- (13) SO receives CLASS C MEMBERSHIP.
- (14) SO pays consideration for CLASS C MEMBERSHIP.
- (15) SMITH receives the economic benefit of ownership in INVESTMENT CO.
- (16) SMITH owns membership interest in INVESTMENT CO.
- (17) JONES receives the economic benefit of ownership in INVESTMENT CO.
- (18) JONES owns membership interest in INVESTMENT CO.
- (19) WILLIAMS receives the economic benefit of ownership in INVESTMENT CO.
- (20) WILLIAMS owns membership interest in INVESTMENT CO.
- (21) WILSON receives the economic benefit of ownership in INVESTMENT CO.
- (22) WILSON owns membership interest in INVESTMENT CO.



Medical Center Phase A – Orthopedic Service Line Summary of Transaction

Relationships Continued:

- (23) INVESTMENT CO receives the economic benefit of owning CLASS A MEMBERSHIP.
- (24) INVESTMENT CO owns 100% of the CLASS A MEMBERSHIP which represents 50% of the economic benefits of ASC ENTITY.
- (25) HOSPITAL INVESTMENT CO sells CLASS C MEMBERSHIP to SMITH, JONES, WILLIAMS, WILSON and SO.
- (26) HOSPITAL INVESTMENT CO receives consideration from CLASS C OWNERS for sale of CONVERTED CLASS B SHARES.
- (27) ASC ENTITY pays consideration to HOSPITAL for the lease of the REAL PROPERTY.
- (28) HOSPITAL leases real property to ASC ENTITY.
- (29) HOSPITAL INVESTMENT CO receives economic benefit of owning CONVERTED CLASS B SHARES.
- (30) HOSPITAL INVESTMENT CO owns 100% of the CONVERTED CLASS B SHARES.
- (31) HOSPITAL INVESTMENT CO owns 100% of all RETAINED CLASS B MEMBERSHIP shares.
- (32) HOSPITAL INVESTMENT CO receives the economic benefit of owning RETAINED CLASS B MEMBERSHIP shares.
- (33) HOSPITAL owns 100% of the stock in HOSPITAL INVESTMENT CO.
- (34) HOSPITAL receives the economic benefit of owning HOSPITAL INVESTMENT CO.
- (35) 40% of CLASS B MEMBERSHIP is converted from voting RETAINED CLASS B MEMBERSHIP shares to non-voting CONVERTED CLASS B SHARES.
- (36) ADAMS receives the economic benefit of ownership in INVESTMENT CO.
- (37) ADAMS owns membership interest in INVESTMENT CO.

