



Office of Legal Affairs

November 4, 2016

Jeff Mitchell
The Mitchell Law Firm
1700 Kraft Drive, Suite 2000
Blacksburg, Virginia 24060

Via: Email and US Mail

Dear Jeff,

This letter will follow up on our call this morning in which you asked for a description of the strategic options process that Wellmont Health System conducted.

Beginning in 2013, the Wellmont board engaged Kaufman, Hall and Associates to guide us through a process to determine the right path forward for Wellmont – a path that would position us to thrive, not just survive the headwinds in our industry. This was a multi-stage process.

During the preliminary phase, the Wellmont board sought to understand the current status of the organization and its challenges for the future. As a result of a diligent analysis, the board announced its intentions to seek a strategic partner in early 2014 as a proactive step to allow the organization to thrive into the future and issued an RFP to a confidential set of prospective partners.

Throughout the first two phases, updates were provided to the community as the board narrowed its list of candidates from around 12 initial serious inquiries/responses to 3 finalists. During this process the board made a defining choice to pursue a partnership with another not-for-profit health system based on a desire to continue to be a mission based community health system. It is important to note that the responses from potential partners were not binding documents and none of them remain as active proposals for consideration today. Because of the confidentiality requested by those potential partners to protect their own strategic direction, we are not at liberty to provide them.

In late 2014, we announced that Wellmont was entering the third phase of the strategic options process, which would end with the selection of a partner. The board turned its attention to due-diligence and partnership evaluation and closed out its period of public feedback.

From this public feedback and based on the board's deliberations Wellmont learned that:

- Protecting high quality healthcare, close to home is essential.
- Maintaining local control and governance is very important.
- Also important are keeping healthcare costs under control and supporting local academic institutions, as well as supporting economic growth.

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- The prospect of merger within the region was passionately supported by many regional leaders.
- We saw compelling potential benefits of a regional merger.

We spent significant time in discussions with the organizations we might partner with and in examining what each had to offer Wellmont as a prospective partner. We conducted site visits with potential partners. We had several specific considerations in mind—namely to continue bringing an important value proposition to the families and business in our region by offering high-quality care, with strong access, at the lowest possible cost. That requires that we gain new efficiency on one hand and find new ways of doing business on the other.

As a health system that cares about our employees and our region and has the community's best interests at heart, we wanted to work with a partner to find ways to achieve efficiency while minimizing impact on jobs and the economy. The reinvention of healthcare requires tens of millions of dollars in investment along with intellectual capital and infrastructure that will only be available to the systems who are strong financially and can spread those costs over a large organization. Rather than shrinking services and access points, scale achieved through the right partnership could also give us more flexibility to invest in our staff, improve our facilities and equipment, implement cutting-edge technology, and preserve more jobs and high-level services. The achievement of correct scale could result in immediate financial improvement through supply cost savings, back office savings, and cost of capital alone. These improvements should have a positive impact on the economic potential of our organization and the communities we serve.

With all these considerations in mind, in early 2015 the board determined that the best option for Wellmont and our region was a merger with Mountain States—a local health system known to us and other regional leaders who shares our commitment and vision for the future.

We announced in April of 2015 our intention to merge with Mountain States contingent on needed regulatory approvals under the COPA and Cooperative Agreement laws and remain convinced that this merger is the absolute best solution to address the complex needs of our region and the only option that will provide the significant benefits outlined in our mutual commitments.

Thank you for the opportunity to provide this overview of our process to you.

Sincerely,



Gary Miller
Executive Vice President/General Counsel
Wellmont Health System