


**Appraisal of the Full and Fair Market
Value of the Assets of Meadowlands
Hospital Medical Center as of July 31, 2010**

Presented to:

OFFICE OF THE ATTORNEY GENERAL
 **THE STATE OF NEW JERSEY**
DEPARTMENT OF LAW & PUBLIC SAFETY

August 13, 2010

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August 13, 2010

Mr. Jay A. Ganzman
Deputy Attorney General
State of New Jersey Division of Law
Richard J. Hughes Justice Complex
25 Market Street
P.O. Box 106
Trenton, New Jersey 08625

Dear Mr. Ganzman:

Pursuant to your request, Navigant Consulting, Inc. ("Navigant Consulting" or "NCI") has prepared an independent appraisal (or "valuation") of the full and fair market value of the assets of Meadowlands Hospital Medical Center ("MHMC" or "Meadowlands Hospital" or the "Hospital") in connection with the State of New Jersey Office of the Attorney General's ("Attorney General") review of the proposed sale of the assets of the Hospital by Liberty Healthcare System, Inc. ("Liberty" or the "Seller") to MHA, LLC ("MHA"), in accordance with the Community Health Care Assets Protection Act, N.J.S.A. 26:2H-7.11, et seq. ("CHAPA").

Our valuation analysis was performed as of July 31, 2010 (the "Valuation Date") and in accordance with the retention letter dated July 9, 2010 and counter-signed by you on July 13, 2010. Our compensation for this assignment was not dependent in any way on the substance of our findings or conclusions. Our analysis was based, in part and where indicated, upon information provided by the Attorney General and Liberty management. We have assumed that the information provided to us is complete and free of material misrepresentations.

Based on our review of information provided to us, independent research and analysis, and our informed judgment, we estimate the full and fair market value of the assets of MHMC as follows:

Summary of Fair Market Value – Value in Place	Low Value		High Value
Real Property	\$ 10,700,000	to	\$ 11,300,000
Personal Property	2,859,000	to	3,459,000
Inventory	<u>741,000</u>	to	<u>741,000</u>
Total	14,300,000	to	15,500,000



We understand that this report will be part of the public record of the Attorney General's CHAPA review and we reserve the right to respond to and explain our analysis, reasoning, and conclusions. The following report and accompanying appendices provide a detailed explanation of the basis of our analysis and conclusions. Please contact Jerry Chang at 404.602.3462 with any questions.

Very truly yours,
Navigant Consulting, Inc.

A handwritten signature in black ink that reads "Jerry M. Chang". The signature is fluid and cursive, with the first name "Jerry" and last name "Chang" clearly legible.

By: Jerry M. Chang, CFA
Director

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I. Introduction

Summary of Engagement

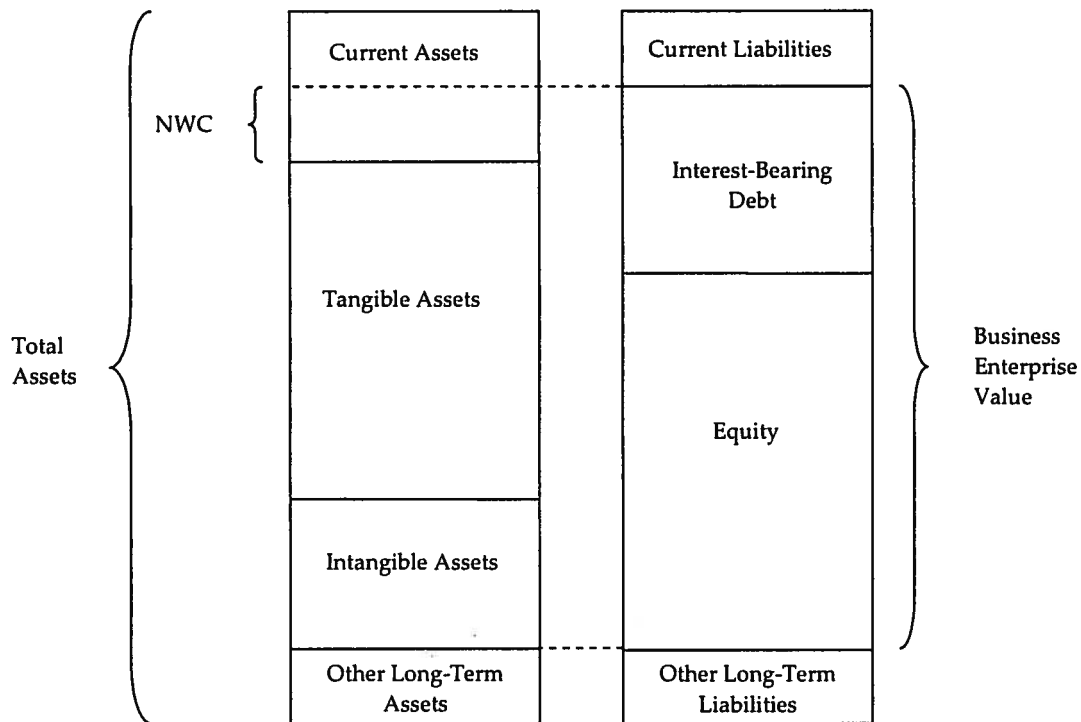
Navigant Consulting was engaged to prepare an independent appraisal of the full and fair market value of the assets of MHMC in connection with the Attorney General's review of the proposed sale of the assets of the Hospital by Liberty to MHA in accordance with CHAPA.

Our valuation analysis was performed as of July 31, 2010 and in accordance with the retention letter dated July 9, 2010 and counter-signed by the Attorney General on July 13, 2010. Our analysis is based, in part and where indicated, upon information provided by the Attorney General and Liberty management. We have assumed that the information provided to us is complete and free of material misrepresentations.

For the purposes of our valuation analysis, we relied upon the following definition of fair market value ("FMV") from IRS Revenue Ruling 59-60:

...the price at which an entity (asset) would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.

The components of a hospital's total asset value can be depicted as follows:



However, it is our understanding that the proposed sale by Liberty to MHA would exclude certain Hospital assets, including, but not limited to the following:

- The business and related license to operate and provider number(s) of Liberty Rehabilitation Institute ("LRI")¹;
- All accounts and notes receivable owed or payable to the Hospital
- All cash, cash equivalents and securities;
- All deposits and prepaid assets and expenses;
- All employment agreements and severance agreements between the Hospital and any employees; and
- All collective bargaining agreements related to the Hospital.

¹ The personal property related to LRI, including equipment, would be included in the transaction according to the asset purchase agreement and discussions with Liberty management.

In estimating the full and fair market value of the Hospital's assets, Navigant Consulting conducted various procedures, including but not limited to the following:

- Review and analysis of relevant documents and data provided by Liberty management regarding MHMC, including historical and projected financial and operational results;
- Consideration of factors that would impact future financial and operational performance;
- Review of budgets and long-term financial and operational projections for Hospital;
- On-site interviews with the management of the Hospital and Liberty concerning:
 - the nature and operations of the business, including the historical financial and operational performance of the Hospital
 - existing business plans, future financial and operating performance estimates, and budgets for the Hospital
 - the assumptions underlying the business plans, estimates, or budgets, as well as the risk factors that could affect planned financial and operating performance, including expected patient volume, payer mix, service line mix, reimbursement expectations, market competition, and physician relationships;
- Telephone interview with the Scott Regan of Vizzion regarding the Hospital's performance improvement plan and Mr. Regan's sustainability and outmigration analysis;
- Telephone interview with the management of MHA regarding the anticipated financial and operating performance of the Hospital post-acquisition and the key assumptions driving the anticipated performance;
- On site inspection of MHMC by Navigant Consulting professionals to view Hospital facility and operations, as well as conducting a field site analysis on real and personal property ;
- Review of three sets of completeness question responses submitted to the Attorney General by Liberty's legal counsel;
- Review of MHA's CON application (and responses) related to the proposed transfer of ownership;
- Review of transaction-related documents including the letter of intent and asset purchase agreement;
- Analysis of the industry, as well as the economic and competitive environments in which the Hospital operates;
- Analysis of the performance and market position of the Hospital relative to its competitors;
- Analysis of the earning capacity of the Hospital;
- Consideration of goodwill or other intangible value;
- Analysis of financial data of similar publicly-traded companies or transactions;
- Consideration of premiums relating to majority ownership position;

- Valuation analysis of the Hospital utilizing accepted valuation methodologies including (as appropriate and applicable):
 - Discounted Cash Flow Method
 - Similar Transactions Method
 - Guideline Company Method
 - Adjusted Net Assets Method
- Analysis of other facts and data considered pertinent to this valuation to arrive at our conclusions; and
- Preparation of this narrative report describing the procedures performed and key assumptions

Summary of Proposed Transaction

The proposed transaction involves the sale of substantially all of the assets of MHMC, a New Jersey nonprofit corporation, to MHA, a New Jersey limited liability company. Both the Hospital and Liberty are recognized tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Based on a review of MHA's CN application, MHA intends to continue to operate an acute care facility at the Hospital's current location following the closing of the proposed transaction.

MHA and Liberty entered into an asset purchase agreement on January 8, 2010 (the "Purchase Agreement") pursuant to which MHA agreed to purchase substantially all of the assets of MHMC from Liberty for an aggregate purchase price of \$15.0 million, while assuming certain liabilities of the Hospital, subject to the fulfillment of certain conditions (collectively referred to as the "Transaction"). At the time the Purchase Agreement was signed, MHA deposited \$1.0 million into an escrow account which would be deducted from the purchase price at closing.

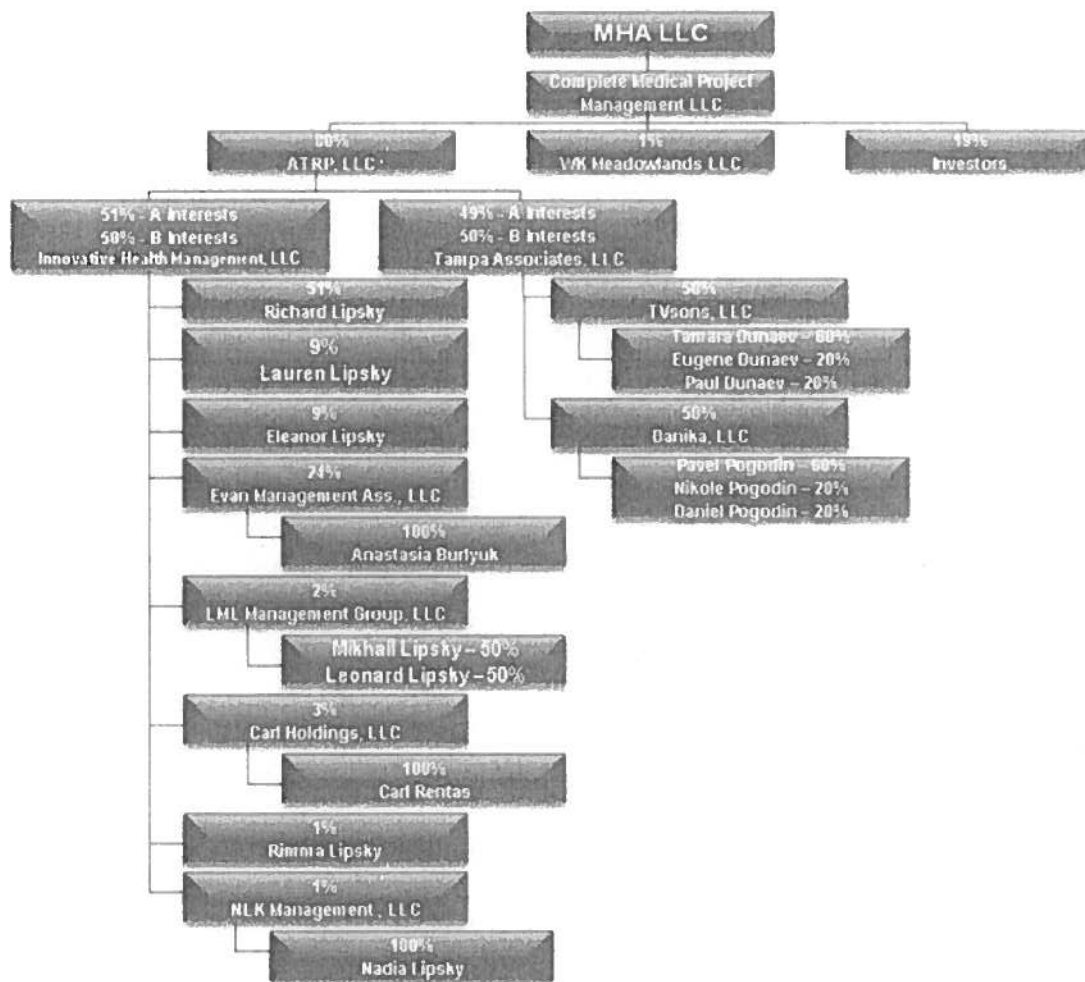
The purchase price of \$15.0 million is payable in a \$10.0 million cash payment at the close of the Transaction and the issuance of a \$5.0 million promissory purchase note payable due to Liberty six months after the closing date. The promissory note is secured by a lien against the real property of the Hospital purchased in the Transaction. Further, Liberty has agreed to enter into a promissory revolver note where it will, upon written request from MHA, loan to MHA an amount of up to \$1.0 million during the nine month period following the closing date of the Transaction.

Additionally, as part of the Transaction, MHA agreed to lease back to the Seller certain floor space and equipment relating to LRI, an inpatient rehabilitation unit located at the Hospital and, as mentioned previously, is excluded from the Transaction. To facilitate the transition of Hospital's operations from Liberty to MHA, the parties intend to enter into a transition services arrangement under which MHA will purchase certain items and services from Liberty.

The summary above does not purport to describe all of the details and terms of the Transaction and is included in this report for the purpose of providing general background of the Transaction. This summary may omit material terms of the final Purchase Agreement, which may be further revised after the issuance of our final report.

Description of MHA, LLC

MHA is a wholly owned subsidiary of Complete Medical Project Management, LLC ("CMPM"), a New Jersey limited liability company. It is our understanding that CMPM is owned 80% by ATRP, LLC ("ATRP") and 20% by passive investors. Both ATRP and CMPM are managed by Richard Lipsky, MD and Tamara Dunaev. The primary owners of MHA currently own and operate three ambulatory surgery centers: (i) Roseland Ambulatory Surgery Center, (ii) Essex Surgery Center, and (iii) Bergen Ambulatory Surgery Center. The purposed ownership chart of MHA is presented below:



II. Subject Hospital

Overview and Background

MHMC, located in Secaucus, New Jersey, is a 234-bed acute care hospital that is currently a part of Liberty Health System. The Hospital was founded as a for-profit corporation under the name Riverside Hospital in 1976 by a group of doctors led by Dr. Paul Cavalli. It is our understanding that a deed restriction exists related to the Hospital's real property that states the property can be used only for "hospital and/or related medical purposes and shall not be used for any other purpose."² The Hospital later became a non-profit entity in 1986 and was renamed Meadowlands Hospital. Liberty acquired MHMS in 1994.

MHMC is licensed by the New Jersey Department of Health and Senior Services (the "Department") as a General Acute Care Hospital. The facility is located at 55 Meadowlands Parkway in the City of Secaucus in Hudson County. The licensed bed capacity of MHMC is as follows:

Service	Beds
Medical/Surgical	138
OB/Gyn	22
Pediatric	26
Adult ICU / CCU	14
Intermediate bassinets	4
Total	204

Source: CN application

In addition to the above noted bed capacity, MHMC is licensed to operate thirty (30) Adult Comprehensive Rehabilitation beds; however, the LRI business is excluded from the Transaction.

Business Description

MHMC provides a full range of services, including obstetrics, cardiology, operating rooms, a same day surgery unit, pediatrics and a variety of imaging and diagnostic services. MHMC is certified by the American College of Radiology. The Hospital also has an emergency department. The emergency department is staffed by board-certified emergency department physicians and is supported by a team of healthcare professionals. The Hospital also performs numerous elective procedures in its Same Day Surgical Center.

MHMC's Center for Acute Pulmonary Care helps transition medically complex patients from ventilator dependency and is staffed by a multi-disciplinary team of experts and

² Property deed dated December 18, 1972.

services that include laboratory, pharmacy, radiology, operating room, critical care units, wound care, advanced nutrition, physical and occupational therapy.

The Hospital's LifeSpan is a comprehensive program designed for patients recovering from cardiac or pulmonary disease, diabetes or requires a structured weight loss program by working to enable patients to achieve their optimal physical, psychological and vocation health. MHMC's SleepCare Center provides overnight monitoring and testing procedures, including computerized monitoring systems that record brain waves, muscle activity, respiration and heart rhythms.

The following table details the historical volume and payer mix experienced at MHMC, excluding the LRI business:

Volume and Payer Mix	Years Ended December 31,		5 Mos. Ended
	2008	2009	5/31/2010
Admissions			
Managed Care/Commercial/Blue Cross/Other	2,655	2,360	878
Medicare	1,315	1,316	460
Medicaid	291	173	87
Charity Care/Self Pay	533	572	145
Medicaid HMO	1,160	1,107	390
Total Admissions	5,954	5,528	1,960
Discharged Patient Days			
Managed Care/Commercial/Blue Cross/Other	8,492	7,064	2,768
Medicare	9,465	8,996	3,453
Medicaid	1,867	946	556
Charity Care/Self Pay	1,956	2,286	543
Medicaid HMO	3,802	3,517	1,128
Total Inpatient	25,582	22,809	8,448
Total Surgeries			
Inpatient	1,264	1,236	336
Outpatient	2,129	2,052	927
Total Surgeries	3,393	3,288	1,263
Emergency Visits	19,568	20,886	7,889
Outpatient Registrations	25,592	28,140	12,181

Source: Liberty management

III. Economic Overview³

Introduction

An overview of the trends in the economy and financial markets were considered in order to provide a perspective on the environment in which MHMC operated in the period leading up to the Valuation Date. The following is an overview of the United States ("U.S.") economy for the first quarter ended March 30, 2010. The purpose of this economic analysis is to assess the state of the economy and any impact of the current and future outlook on the MHMC's business and related assets.

General Economic Conditions

Gross Domestic Product

The U.S. Department of Commerce reported that the nation's economy, as indicated by the Gross Domestic Product ("GDP"), increased at an annual rate of 3.2% in the first quarter. This was the third straight quarter of economic growth. The economy grew at a 5.6% annualized rate last quarter. The GDP is the total market value of goods and services produced in the U.S. economy and are generally considered the most comprehensive measure of economic growth.

The largest contributions to growth came from personal consumption expenditures and a rise in inventory investment, which added 2.55 and 1.57 percentage points to the GDP, respectively.

Despite this quarter's growth, the economy contracted by 2.4% in 2009. The economy grew by 0.4% and 2.1% in 2008 and 2007, respectively.

The 2009 decrease in real GDP primarily reflected negative contributions from nonresidential fixed investment, exports, private inventory investment, residential fixed investment, and personal consumption expenditures that were partly offset by positive contributions from federal government spending.

Consumer Spending

Consumer spending, also referred to as personal consumption, accounts for approximately 70% of the U.S. GDP. Consumer spending grew by 3.6% during the first quarter of 2010. This was the largest quarterly increase in three years. Consumer spending grew by 1.6% in the fourth quarter of 2009.

Durable goods spending increased 11.3% this quarter, compared with an increase of 0.4% in the previous quarter. Nondurable goods spending increased 3.9% this quarter, compared

³ Economic Outlook Update 1Q, 2010, Business Valuation Resources;

with an increase of 4.0% last quarter. Services spending increased 2.4% this quarter after increasing 1.0% in the previous quarter.

This quarter's growth in consumer spending increased the first-quarter change in GDP by 2.55 percentage points. This compares with an increase of 1.16 percentage points to the GDP in the previous quarter, and an increase of 1.96 percentage points to the GDP in the third quarter of 2009.

Consumer spending declined by 0.6% in 2009 and 0.2% in 2008, but grew by 2.6% in 2007.

Government Spending

Total government spending decreased at a rate of 1.8% in the first quarter. Government spending fell 1.3% in the fourth quarter of 2009 but grew 2.6% in the third. This quarter's decline in government spending had a negative 0.37 percentage point effect on the first-quarter GDP. The previous quarter's decline in government spending had a negative 0.26 percentage point effect on the fourth-quarter GDP. Total government spending grew by 1.8% in 2009, 3.1% in 2008, and 1.7% in 2007.

Federal government spending increased at a rate of 1.4% this quarter. Federal government spending remained unchanged in the previous quarter but grew 8.0% in the third quarter of 2009. Federal government spending grew by 5.2% in 2009, after growing 7.7% in 2008 and 1.3% in 2007.

State and local government spending fell by 3.8% this quarter, after decreasing by 2.2% in the previous quarter. State and local government spending declined 0.2% in 2009, after growing 0.5% in 2008 and 2.0% in 2007.

Josh Bivens, an economist with the Economic Policy Institute, finds the decline in state and local government spending particularly troubling. "This decline is surely in part a function of the extreme fiscal crisis facing states. Given balanced budget rules at the state-level, this implies that states will be cutting spending and/or raising taxes for years to come and hence exerting a powerful drag on growth".

Consumer Price and Inflation Rates

Inflationary pressures remained essentially flat in the first quarter. The Federal Open Market Committee ("FOMC") stated in their most recent release that they expect inflation to "remain subdued for some time."

According to the U.S. Department of Commerce, the price index for gross domestic purchases increased 1.7% in the first quarter. The price index for gross domestic purchases measures prices paid by U.S. residents. In the fourth quarter, the index increased 2.0%. Excluding food and energy prices, the price index for gross domestic purchases increased by 1.1% in the first quarter, compared with an increase of 1.5% in the previous quarter.

The U.S. Department of Labor reported that the seasonally adjusted Producer Price Index for Finished Goods increased 0.7% in March. The Producer Price Index for Finished Goods measures inflationary pressures before they reach consumers. March's rise followed a 0.6% decline in February and a 1.4% increase in January. On an unadjusted basis, prices for finished goods advanced 6.0% for the 12 months ended March 2010, their largest year-over-year gain since an 8.8% rise in September 2008.

The U.S. Department of Labor reported that the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1% (seasonally adjusted) in March. The index was unchanged in February and increased 0.2% in January. Over the last 12 months, the index increased 2.3% before seasonal adjustment. The index decreased 0.3% in 2009 after increasing 3.8% in 2008 and 2.9% in 2007.

Unemployment and Personal Income

The U.S. Department of Labor reported that unemployment averaged 9.7% during the first quarter, down from 10.0% in the previous quarter. At the start of the recession in December 2007, the unemployment rate was 5.0%.

Job growth continued in temporary help services, education and health care, manufacturing, wholesale trade, retail trade, leisure and hospitality, and government. The largest gains in health care employment were in ambulatory health care services and in nursing and residential care facilities. Federal government employment increased due to the hiring of temporary workers for Census 2010. Job losses continued in financial activities, information, and construction.

The U.S. Department of Labor reported that average hourly earnings (nonsupervisory) increased to \$18.91 in the first quarter, up from \$18.77 in the previous quarter. Average weekly earnings increased to \$628.33 in the first quarter, up from \$621.91 in the previous quarter. The U.S. Department of Commerce reported that current-dollar personal income increased \$115.1 billion (3.9%) in the first quarter, compared with an increase of \$92.5 billion (3.1%) in the fourth.

Personal current taxes increased \$73.3 billion in the first quarter, in contrast to a decrease of \$1.9 billion in the fourth.

Disposable personal income increased \$41.7 billion (1.5%) in the first quarter, compared with an increase of \$94.4 billion (3.5%) in the fourth. Real disposable personal income was unchanged in the first quarter, compared with an increase of 1.0% in the fourth.

Personal outlays increased \$130.4 billion (5.0%) in the first quarter, compared with an increase of \$96.5 billion (3.7%) in the fourth. Personal saving—disposable personal income less personal outlays—was \$340.8 billion in the first quarter, compared with \$429.3 billion in

the fourth. The personal saving rate—saving as a percentage of disposable personal income—was 3.1% in the first quarter, compared with 3.9% in the fourth.

Consumer Spending and Confidence

Consumer spending, also known as personal consumption rose this quarter marking three consecutive quarterly increases. Consumer spending increased at an annual rate of 3.6% in the first quarter, the largest increase in three years. This comes after last quarter's increase of 1.6%. Consumer spending declined 0.6% in 2009, after dropping 0.2% in 2008 and increasing 2.6% in 2007.

Consumer spending on durable goods, items meant to last three or more years, increased at a rate of 11.3% in the first quarter after growing 0.4% in the fourth. Consumer spending on durable goods declined 3.9% in 2009, after decreasing 4.5% in 2008 and increasing 4.3% in 2007.

Spending on nondurable goods, items such as food and gasoline, increased 3.9% in the first quarter after increasing at a rate of 4.0% in the fourth. Consumer spending on nondurable goods decreased by 1.0% in 2009, after decreasing 0.8% in 2008 and increasing 2.5% in 2007.

Service expenditures grew at a rate of 2.4% in the first quarter after increasing 1.0% in the previous quarter. Consumer spending on services grew 0.1% in 2009, compared with increases of 0.7% in 2008 and 2.4% in 2007.

The Conference Board Consumer Confidence Index, which had increased in January, dipped in February before rising again in March. The Conference Board, which surveys 5,000 households, reported that its Consumer Confidence Index stood at 52.3 in March—up from 46.4 in February but down from 56.5 in January. This Index is still well up from an all-time low of 25.3 seen during the first quarter of 2009. The Consumer Confidence Index is an indicator designed to measure consumer confidence, which is the degree of optimism on the state of the economy that consumers are expressing through their activities of saving and spending.

A month-on-month decreasing trend in the Consumer Confidence Index suggests consumers have a negative outlook on their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns. Opinions on current conditions make up 40% of the index (the Present Situation Index), with expectations of future conditions comprising the remaining 60% (the Expectations Index).

Real Estate

Economic growth and a recovering job market are typically good news for housing. While housing starts and building permits grew at an increasing rate this quarter, existing home sales dropped and new home sales reached a record low in February. Housing inventories

continue to rise while demand remains weak, putting downward pressure on prices. Lawrence Yun, Chief Economist with the National Association of Realtors®, reported that the homeowner vacancy rate fell to 2.6% in the first quarter (from 2.7% in the prior quarter.) The rental vacancy rate fell to 10.6% in the first quarter (from 10.7% in the previous quarter.) Still, both vacancy rates are above historical norms. Both the National Association of Realtors® and the Mortgage Bankers Association® expect mortgage rates to trend up through 2010 and 2011.

Economic Outlook

The economy has now grown for three consecutive quarters, indicating a steady, though modest, recovery. This quarter's GDP grew at a rate of 3.2%, down from a rate of 5.6% in the previous quarter. The decreasing rate was somewhat expected, as the federal government's stimulus policies peaked last quarter and state and local governments cut back on spending in the face of a budget crises.

Despite the growth, some economists remain leery. "It's a recovery, but by any standard it's still a muted recovery," said Diane Swonk, chief economist at Mesirow Financial in Chicago. "At the end of the day, none of this really matters unless we can get the employment machine going, which is coming, but very slowly."

According to Consensus Economics, Inc., publisher of Consensus Forecasts - USA, the real GDP is forecasted to increase at a rate of 3.2% in the second quarter of 2010, then at a rate of 2.8% in the third (percentage change from previous quarter, seasonally adjusted annual rates). They forecast real GDP to grow 3.2% in 2010, 3.1% in 2011, and 3.4% in 2012 (average percentage change on previous calendar year). In the long term, they predict real GDP to grow by an average annual rate of 2.5% between 2016 and 2019. Every month, Consensus Economics surveys a panel of prominent U.S. economic and financial forecasters for their predictions on a range of variables including future growth, inflation, current account and budget balances, and interest rates.

According to the survey, consumer prices will increase 2.1% in 2010, 1.9% in 2011, and 2.2% in 2012. In the long term, Consensus Forecasts - USA forecasts consumer prices will grow at an average annual rate of 2.3% between 2016 and 2019. They forecast producer prices to increase 3.9% in 2010 and 1.8% in 2011. They also expect real disposable personal income to grow 1.4% in 2010 and 2.5% in 2011.

The participants in The Livingston Survey released their newest predictions in December. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project real GDP to grow at an annual rate of 2.6% between 4Q 2009 and 2Q 2010. They then expect GDP to increase at an annual rate of 3.0% between 2Q 2010 and 4Q 2010.

The Survey also noted that forecasts for the unemployment rate have been revised upward for 2010 and are expected to remain relatively high through the end of next year. The forecasters expect the unemployment rate will rise to 10.3% by June 2010, up from their previous estimate of 9.8%. They expect unemployment to drop slightly to 9.9% by December 2010.

The forecasters in The Livingston Survey have increased their predictions for consumer price ("CPI") inflation. They expect CPI inflation to average 2.2% in 2010, up from the previous estimate of 1.7%. They predict CPI inflation will be 1.8% in 2011. Inflation (as measured by the consumer price index) is predicted to average 2.4% over the next 10 years, slightly lower than the forecast of 2.5% reported in the prior 16 surveys, and thus representing the first change in expected inflation since the survey of December 2001. The Survey estimates producer price (PPI) inflation will average 2.4% in 2010—up from the previous estimate of 1.3%—before averaging 2.2% in 2011.

The forecasters from the Survey have increased their previous projections for future S&P 500 values. They expect the S&P to rise to 1,155.2 by June 30, 2010 before climbing to 1,197.0 by December 31, 2010. They believe the S&P will end 2011 at 1,250.0.

The FOMC left the target for the federal funds rate unchanged at a range of 0% to 0.25% this quarter. In their last meeting this quarter, the FOMC stated economic activity has continued to strengthen and the labor market began stabilizing. They also noted that household spending increased moderately, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit.

Impact on MHMC Valuation

The economic downturn and the resulting layoffs and high unemployment rate has increased the number of people who have lost their health insurance along with their jobs, as well as employed patients who can no longer afford to pay for their own insurance. Furthermore, those patients that remained insured tend to have higher deductibles. Individuals who suffer health problems may fear leaving or cannot afford to take time from work. This has culminated in potential patients postponing elective procedures that they would, under normal circumstances, elect to have completed.

MHMC has faced increased financial challenges due to falling admissions as many potential patients now are postponing elective procedures. Additionally the uninsured population tends to have increasing difficulties in obtaining health services from doctors willing to treat them. Therefore, uninsured patients often forgo routine medical care and often the only resource is to go to the emergency rooms, thereby placing a larger burden on MHMC's emergency rooms and increases the risks of providing non-reimbursable services or unprofitable charity care.

IV. Industry Overview

Introduction

An analysis of the healthcare industry is essential to developing an understanding of the industry's impact on the future outlook of MHMC. Industry data was compiled from several sources, including the Healthcare Facilities Industry Survey published by Standard & Poor's on May 20, 2010. The following sections provide: (i) an overview and general discussion of the healthcare industry, (ii) recent news in the healthcare industry, (iii) future trends in the healthcare industry, (iv) the outlook for the healthcare industry, and (v) the impact on our valuation.

General Overview

On, March 21, 2010, the US House of Representatives passed H.R. 3590, the Patient Protection and Affordable Care Act, ratifying the previously passed Senate version of the healthcare reform bill, sending it to President Obama's desk for his signature. Seven days later, over the objections of many Republican members, both houses of Congress passed a series of amendments and changes to the bill, known as the reconciliation bill—or, more formally, as H.R. 4872, the Health Care and Education Reconciliation Act of 2010—paving the way for President Obama's signature and ushering in the most significant healthcare reform in the US since the passage of Medicare in the 1960s. While the changes will take place gradually over the course of the next several years, the changes to the provision and delivery of healthcare in the US promises to be dramatic and costly. The Congressional Budget Office estimated the cost of both bills at \$938 billion over the 10 years from 2010 to 2019, and they were estimated to reduce deficits by \$143 billion over that period.

Certain elements of the bills (collectively referred to as "the Acts") will become effective within six months of passage: insurance companies are barred from denying coverage to children with pre-existing conditions and prohibited from cancelling policies of people who get sick; children are permitted to stay on their parents' insurance policies until their 26th birthday; and seniors will receive a \$250 rebate to aid in closing the Medicare Part D coverage gap (the so-called donut hole). However, most of the legislation's more sweeping features—those with far greater impact on the sector—do not become effective until 2014. These include the establishment of subsidies for the 32 million currently uninsured to help them purchase insurance; the establishment of state health insurance exchanges where individuals and small businesses can buy insurance; and generally mandating that individuals who lack health insurance purchase it or face a penalty. Although the implementation of healthcare reform faces many logistical hurdles (described below), it appears that broad-based universal coverage for most Americans will become a reality in short order.

As noted above, healthcare reform will extend healthcare insurance coverage to approximately 32 million of the previously uninsured by 2019, but will also impose a number of requirements and responsibilities on individuals, employers, and the states (who fund a portion of coverage via Medicaid).

The healthcare reform law requires individuals and their families to purchase insurance if they are not covered by an employer, provides tax credits to help those in need pay for the coverage, and issues financial penalties to those who choose not to purchase insurance. It sets rules requiring employers to provide coverage for their employees, along with tax breaks to help them do so, and sets penalties if they do not. It encourages the expansion of Medicaid eligibility and provides funding to the states to set up special health plans to cover those ineligible for Medicaid but too poor to pay for their own coverage out-of-pocket.

In addition, the Acts require each state to set up a mechanism, known as health insurance exchanges ("American Health Benefit Exchange") by 2014, via which insurers will compete for the business of individuals and predominantly small employers who have not been able to obtain coverage at the same favorable rates as large employers. In addition, states may form regional exchanges. Each plan participating in an exchange must meet standardized affordability, basic benefit, and consumer protection requirements, as well as state requirements. The legislation also appropriates \$6 billion to finance the creation of the Consumer Operated and Oriented Plan ("CO-OP") program, to support the establishment of not-for-profit, member-run health insurance companies that would be offered through the exchanges. Although the concept of such a program is to foster competition in all 50 states and the District of Columbia, Standard & Poor's believes that the competitive dynamics would be unchanged; a CO-OP would just be an additional insurer in a field of many in the market.

The Acts require US citizens and legal residents to have health insurance or pay a penalty of the greater of \$695 per year up to a maximum of three times that amount (\$2,085) per family or 2.5% of household income. The penalty does not become effective until 2014 and will be phased in over the course of several years, with financial hardship exemptions granted for individuals for whom the premium cost exceeds 8% of income. Standard & Poor's believes that because the penalties are small relative to household income (and likely less than the cost of annual premiums); they may not be enough by themselves to incent most people to purchase insurance. Even so, the sharp rise in the penalty amount from 2014 to 2016 might induce some of the uninsured to purchase at least basic coverage.

Employer Obligations

The legislation does not mandate employers provide health insurance coverage to employees. However, under certain circumstances, an employer that employed at least 50 full-time employees, on average, during the prior calendar can be assessed a penalty of \$2,000 per year if it does not offer health insurance benefits at all to its employees, or if it does not offer coverage that is "affordable" to its employees.

In order to help small employers with the cost of this coverage, the federal government is offering incentives to employers to provide coverage and subsidies to help defray the cost. For example, from 2010 to 2013, the federal government will provide a health insurance tax credit of up to 35% (25% for tax-exempt employers) of the employer's contribution to the cost of providing health insurance. This will apply to employers with 25 or fewer "full-time equivalent" employees with average annual wages of no more than \$50,000, as long as the contribution is at least 50% (or more) of the total cost of providing coverage.

Full credit is available to smaller employers (i.e., 10 or fewer employees and wages under \$25,000), but is phased out as the number of employees and/or amount of average wage increases. In 2014, the tax credit rises up to 50% for businesses with 25 or fewer employees and average wages up to \$25,000 and lesser amounts for tax-exempt businesses. After 2014, the credit is available for two consecutive years and fully phases out for firms where the average annual salary is \$50,000 or greater. Larger employers (i.e., greater than 200 employees) will be required to automatically enroll employees into insurance plans offered by the employer, though those employees may then choose to opt out of coverage.

Expansion of Medicaid Eligibility

Medicaid eligibility will be expanded to cover all non-Medicare-eligible individuals under age 65 (children, pregnant women, parents, and adults without dependent children) with incomes up to 133% of the Federal Poverty Level ("FPL")—approximately \$30,000 in today's dollars—as of 2014, based on modified adjusted gross income (as under current law and excluding undocumented immigrants). States may voluntarily expand coverage up to the 133% FPL level beginning April 2010. For most states, all newly eligible adults are guaranteed a basic benefit package equal to those provided via the exchanges. As part of the Acts, the federal government will subsidize 100% of the additional Medicaid funding to states to cover the newly enrolled from 2014 to 2016, with the subsidies declining each succeeding year to 90% for 2020 and afterward. States that have already expanded Medicaid eligibility to adults with incomes of up to 100% FPL will receive a phased-in increase in federal medical assistance percentage so that by 2020 they receive the same 90% funding as other state with these populations. The legislation extends the current reauthorization period of the State Children's Health Insurance Program ("SCHIP") until September 30, 2015.

To help non-Medicare-eligible individuals and those with incomes of 100%–400% of the FPL (approximately \$22,000–\$88,000) not enrolled not in an employer-sponsored plan, the federal government will provide premium credits to help purchase health insurance coverage through the exchanges. The premium credits will be tied to the second-lowest-cost plan in an area and will be set on a sliding scale, based on income.

The Economic Stimulus Bill

Due to the rising cost of health insurance, the increasing impact of uncompensated care, and the increasing numbers of unemployed who lost employer-based health insurance coverage during the recession, President Obama began looking for ways to address the problem. The first response was the enactment, in February 2009, of the \$787 billion ARRA, also known as the economic stimulus bill.

This law affected the healthcare facilities industry in several ways. It provided supplemental funding for Medicaid, subsidies for the continuation of group-based health insurance coverage, and additional funding and incentives to support the build-out of the nation's healthcare information technology infrastructure. Standard & Poor's believes these will have varied effects on the healthcare investment landscape.

The law provides approximately \$87 billion in additional Medicaid funding to states over a period through December 2010. Because of this supplemental funding, they anticipate that states that had previously been contemplating cuts in Medicaid reimbursement levels due to budget shortages in 2009 will now enact less severe cuts. They believe this will be most beneficial for skilled nursing facilities and, to a lesser extent, for profit hospitals, as Medicaid reimburses about 40% of skilled nursing care but only 10% of hospital care.

However, since Medicaid enrollment is directly related to unemployment, Standard & Poor's believes the worsening unemployment situation will offset much of the law's effect. Standard & Poor's believes the net result will be to keep the financial positions of most acute care hospitals from worsening even further, but not to mitigate the full effect of the recession on unreimbursed care.

In addition, the bill provided another \$25 billion to subsidize 65% of the cost to purchase continuing health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") for those who have become unemployed. Standard & Poor's believes this should be most beneficial to the acute care hospitals, as it should allow individuals and families who previously may not have been able to afford COBRA to maintain their healthcare coverage, thereby limiting the number of people who would lose coverage. However, Standard & Poor's sees the impact of these provisions as limited due to the high cost of premiums, which will average approximately \$500 a month for a family of four, even with the subsidy. As a result, at the margin, Standard & Poor's believes this plan's main impact will be to help keep conditions from getting any worse.

Healthcare Information Technology

Lastly, the stimulus package provides another \$20 billion for investments and incentives to spur the adoption of healthcare information technology ("HCIT"). While the details of the plan have yet to be laid out, it will likely involve direct grants to providers and other Medicare incentives. Although there are clearly inefficiencies in the US healthcare system that they think could be improved via HCIT, given the large and disparate number of IT

systems among providers and payers, Standard & Poor's believes the ultimate benefit remains to be seen.

Impact on Healthcare Facilities

Universal healthcare legislation is generally considered favorable for healthcare facilities providers, due to its potential to reduce the costs associated with bad debts and uncompensated care. However, Standard & Poor's believes that caution is warranted. Although the goal of the legislation is to provide insurance coverage to 94% of all non-elderly residents (excluding undocumented immigrants) by reducing the uninsured by 32 million by 2019, this still leaves an estimated 23 million people uncovered by 2019, and there's no guarantee that the estimates of those who will purchase coverage will prove correct. In addition, the new rules and regulations regarding coverage do not occur at once, but are phased in over a multi-year period, leading to a disbursed reduction in the uninsured. Although concessions and reimbursement cuts will be needed to fund reform in the near term, any extension of health insurance coverage to the currently uninsured is unlikely to provide any meaningful benefits before 2014 at the earliest, in our view. Thus, Standard & Poor's does not see these newly insured as having coverage for hospital services, preventive care, or other forms of treatment that would aid facilities in reducing their uncompensated care costs or bad debt charges before then.

In addition, even after coverage is in place for the previously uninsured, Standard & Poor's Equity Research expects margin degradation, as they see a large ramp-up in administrative costs in order to ensure that facilities have the proper administrative facilities and capacity in place to handle and process these newly insured in a timely and compliant fashion. Moreover, since Standard & Poor's continues to expect employer-sponsored plans to be the primary means by which Americans obtain health insurance coverage and given our forecast of high unemployment levels through 2010, they expect the numbers of those who lack coverage to grow. Approximately 8.2 million Americans have lost their jobs since the recession began in December 2007, and many of those are now losing their extended coverage under COBRA. Therefore, they expect the ranks of the uninsured and the size of the uncompensated-care problem to rise well into 2010. As a result, they expect to see near-term weak fundamentals in the facilities industry outweighing the long-term beneficial impacts of healthcare reform.

Industry Trends

As the cost of hospital care continues to outpace the overall inflation rate and the cost of healthcare delivery gains increased attention, containing and reducing costs remain a priority. Although the Medicare pricing outlook remains favorable in the near term, federal and state budget problems and federal cost-cutting could pressure both Medicare and Medicaid reimbursement in the future.

Information Technology Investments

There are potentially substantial savings from investments in healthcare information technology, including electronic medical/health records ("EMR" and "EHR"), decision support systems, and computerized physician order entry. These expected savings are the primary impetus behind ARRA's proposed \$20 billion investment in HCIT.

HCIT is in its nascent stages in the US: a recent article in FT Health magazine estimated that about 20% of doctors' offices and 10% of hospitals have "some form" of HCIT. The ARRA provided major funding for the use of healthcare information technology, including EHR, a nationwide electronic exchange, and the use of health information to improve the quality and coordination of care. As noted above, the ARRA provides approximately \$20 billion in HCIT infrastructure grants, to be allocated mostly between 2011 and 2015, as well as incentives to encourage doctors, hospitals, and other providers to electronically exchange patients' health information, and penalties for hospitals not going electronic by 2015.

Preventative Care & Disease Management

One potential source of healthcare savings that President Obama does not specifically estimate would be the establishment of nationwide disease management and disease prevention programs implemented under the auspices of universal healthcare legislation. According to the Chronic Disease Overview from the Centers for Disease Control and Prevention, approximately 45% of the US population (133 million people) lived with at least one chronic condition in 2005 (latest available), with the medical care for those with chronic conditions accounting for approximately 75% of medical costs. For example, of the leading causes of death in the US, the cost of heart disease and stroke is projected at approximately \$448 billion in 2008. The treatment of cancer, the second leading cause of death and increasingly a chronic illness, is estimated at \$89 billion annually.

Utilization

Inpatient admissions (admissions requiring an overnight stay) are one of the main determinants of facility utilization in the hospital industry and, ultimately, of the industry's utilization rate. According to the American Hospital Association ("AHA"), a national trade organization for hospitals, healthcare networks, and providers, the number of inpatient admissions per 1,000 persons remained relatively flat between 2003 and 2006 at 118-119 per 1,000 persons. However, in 2008, it ~~climbed modestly~~ ^{decreased} to a level of 117.6, and remained near the lowest rate in the last 20 years. In addition, the rate of growth in hospital admissions declined from just over 2% in 2000 to -0.2% in 2007, according to the AHA.

The decline in admissions was, in part, a reflection of a dramatic shift in the number of procedures performed on an outpatient basis that were formerly done in the hospital. Between 2000 and 2007, according to the AHA, the number of Medicare-certified ambulatory surgical centers ("ASCs") grew at a compound annual growth rate ("CAGR") of more than 7%, while the number of procedures performed on an outpatient basis grew about 5% on an annual basis. While the rate of growth slowed to about 4% per year between

2007 and 2009, according to the Ambulatory Surgery Association, over 22 million procedures annually were performed in ASCs in 2008.

Uncompensated Care

Uncompensated care is that which hospitals write off as uncollectible for one of several reasons: it is bad debt, is provided as charity care, or is provided at a discount to those without insurance (known as self-pay discounts). According to the latest available data from the American Hospital Association, a national hospital and healthcare organization, the level of uncompensated care has risen steadily in recent years, from \$21.5 billion in 2001 to \$36.4 billion in 2008 (latest available), a compound annual growth rate of approximately 8%. From 2007 to 2008, uncompensated care grew at a CAGR of approximately 7.1%, down slightly from the rate of 8.6% seen between 2006 and 2007, but still stubbornly high.

Although it appeared that this trend had begun to stabilize in the first quarter of 2007, they now believe that the decline in the rate of increase in uncompensated care seen at that time was attributable to bad debt write-offs taken by a number of hospitals. In our view, this did not reflect a change in industry fundamentals and, in fact, uncompensated care rose again through the remainder of 2007. Based on company reports and industry sources, Standard & Poor's believes uncompensated care remained relatively stable at approximately 20% as a percentage of revenues in the fourth quarter of 2009 for the five publicly traded hospital companies they follow.

Physician Supply

Industry researchers estimate a physician shortage of 200,000 by 2020, with the problem most severe in rural areas and within certain specialties, such as psychiatry and emergency medicine. Hospitals, in an effort to recruit such physicians, often are forced to raise wages and to offer signing bonuses and lucrative relocation packages. In addition, hospitals are increasingly looking to hire physicians as employees, to improve service levels and utilization rates; many physicians find this an attractive way to improve quality of life issues by working fewer and shorter shifts, albeit at lower total compensation.

The physician shortage appears to be most acute in certain specialties, particularly pediatrics, internal medicine, orthopedic surgery, and obstetrics/gynecology, each of which experienced average compensation increases in 2008 of 7.1%, 5.7%, 5.6%, and 5.6%, respectively, according to the 2009 Physician Compensation Survey conducted by Modern Healthcare magazine.

Changing Demographics

According to the US Census Bureau, the proportion of the US population older than age 65 is projected to grow from 12.6% in 2007 to 14.5% in 2015 and to 18.2% in 2025. While this trend has garnered much attention, its impact on healthcare providers is unclear. On the one hand, seniors require more healthcare services and will certainly drive up utilization. On the other hand, rising costs and potential changes to reimbursement rates could pressure

providers, despite the rising demand. In addition, the age distribution of the population changes slowly from year to year.

Industry Outlook

Consolidation, M&A Expected to Reaccelerate

The healthcare facilities industry has seen a decline in consolidation activity that mirrors the market as a whole. According to data compiled by Irving Levin Associates Inc., a publisher of merger, acquisition, and venture capital data on the healthcare industry, there were a total of 53 hospital merger and acquisitions with a total dollar volume of approximately \$1.68 billion in 2009. This is down approximately 35% in dollar volume and 12% in number of transactions from 2008, when 60 transactions totaling about \$2.58 billion were completed. Both of these figures are down dramatically from the peak of 55 transactions totaling approximately \$35 billion in dollar volume in 2006.

Another factor supporting interest in the sector is the fact that healthcare facilities companies often own large portions of the real estate underlying their facilities, which gives potential acquirers the ability to leverage or sell these properties to support strategic transactions. Acquisitions can give other potential buyers economies of scale in purchasing of supplies and attracting key physician talent, as well as leverage in negotiations with managed care providers—potentially resulting in lower costs and higher revenues.

Operating Outlook Remains Neutral

Throughout the for-profit US hospital industry, the operating environment was generally disappointing for most of 2009. Volume growth was weak, with same-store adjusted admissions growth ranging from less than one percent to negative for most of the year, while growth in revenue per adjusted admission generally remained in the low single-digit range.

Other negative factors included surgery volumes and collections. Hospital surgery volumes continued to decline, as doctors performed an increasing number of procedures in outpatient office settings and as specialty hospitals gained popularity. In addition, as the economic recession worsened and the unemployment rate climbed, both acute care and specialty hospitals saw declining rates of elective procedures. Deteriorating collections from uninsured patients, accompanied by higher levels of charity care and self-pay discounts, resulted in significantly higher provisions for doubtful accounts, which in turn pressured reported profits.

Standard & Poor's anticipates that operating trends at most hospital companies will remain fairly negative for 2010, but could improve modestly if the recession ends during the year. Increasingly, they see the stocks being affected by company-specific concerns and expect them to trade more on fundamentals in their individual markets than as an industry. While

they see it as a positive that the anxiety over healthcare reform has been lifted, they expect investors to be disappointed near term as industry conditions remain challenging.

Reflecting this increase in bad debt expense, Standard & Poor's anticipates that the total amount of uncompensated care will increase again in 2010, after rising through most of 2009. However, given the sensitivity of this statistic to economic conditions, their near-term forecast has limited visibility. On the positive side, increases in private pay rates are likely to remain in the mid- to high-single-digit range, while Medicare increases are likely to remain in the low single-digit range.

Impact on MHMC Valuation

The rapidly changing landscape of the healthcare industry will likely add additional uncertainty to MHMC's future outlook. Certain aspects of the recently passed healthcare regulations and industry trends would likely be favorable to MHMC such as potential reduction in costs associated with bad debts and uncompensated care.

However, other industry trends would likely be unfavorable to MHMC due to the Hospital's current situation such as increased importance of hospital/physician alignment, bundling of payments, shifts in volume from a hospital setting to an outpatient setting, physician and nurse shortages, and the additional costs related to healthcare information technology requirements.

V. Local Market Overview

Introduction

An analysis of the local market is essential to developing an understanding of the historical, current and future operations of MHMC. Local market data was compiled from several sources, including the U.S. Bureau of the Census, the New Jersey Hospital Association and the State of New Jersey Department of Health and Senior Services. The following sections provide: (i) an overview and general demographics of Hudson County, New Jersey and the City of Secaucus, (ii) overview of other area hospitals, (iii) the impact on our valuation.

Demographic Overview

MHMC is located in Secaucus, New Jersey. Located within Hudson County, Secaucus has a town population of 15,931 according to the 2000 Census. Hudson County occupies 47 square miles and is located in the heart of New York metropolitan area Tri-State Region. It is bordered by the Hudson River and Upper New York Bay to the east and Newark Bay and the Hackensack River to the west.

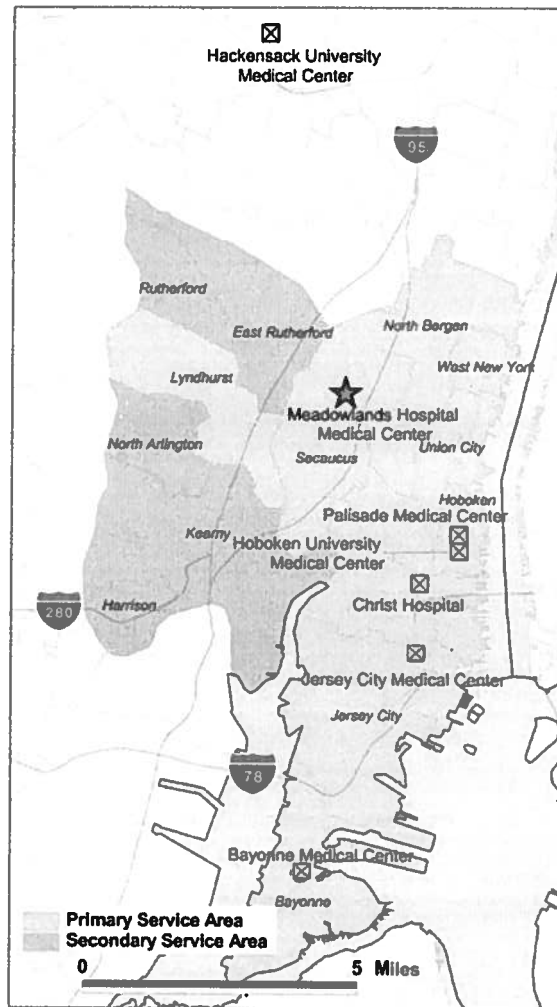
As of the United States 2000 Census, Hudson County's population was 608,975 with 230,546 households and 143,630 families residing in the county. The population density was 13,044 people per square mile making it the sixth-most densely populated county in the United States and the densest county in New Jersey. It is estimated that 34.6% of the population was non-Hispanic whites, 15.1% was African-American, 11.0% was Asian and 41.0% of the population was Latino.

The median income for a household in the county was \$40,293, and the median income for a family was \$44,053. The per capita income for the county was \$21,154 and about 13.3% of families and 15.5% of the total population were below the poverty line, making it one of the poorest counties in New Jersey.

Area Hospitals

MHMC's primary service area includes Lyndhurst, West New York, North Bergen, Union City, Bayonne, Secaucus, Hoboken and portions of Jersey City. The secondary service areas of MHMC include Kearny, Harrison, North Arlington, Rutherford and East Rutherford. These areas are serviced by a number of acute care providers similar to that of MHMC, as well as local physicians' offices and outpatient medical centers. The following table and map identify the hospitals which lie in MHMC service areas. The New Jersey

Hospital Name	Distance to MHMC
Bayonne Medical Center	8.8 Miles
Christ Hospital	4.1 Miles
Jersey City Medical Center	5.3 Miles
Palisade Medical Center	4.0 Miles
Hackensack University Medical Center	6.4 Miles
Hoboken University Medical Center	4.0 Miles



New Jersey Hospital Industry Outlook

According to an annual survey conducted by New Jersey Hospital Association, the New Jersey acute hospital industry faces a number of difficulties. While there have been signs of an economic recovery, the downturn continues to impact New Jersey hospitals through the loss of jobs and services. The survey revealed that nearly half of the state's hospitals reduced

jobs by laying off employees and eliminating vacant positions and a full third of hospitals froze employee wages in 2009. Additionally, nearly 25 percent of hospitals curtailed services in 2009. Exacerbating the financial difficulties, 82 percent of hospitals said they experienced an increase in charity care patients in 2009, and a full 100 percent of hospitals reported a decline in fund raising and philanthropy to support healthcare initiatives for the community. Combined with a drop in Medicare and Medicaid reimbursements this situation has had a devastating effect on the New Jersey hospital industry, resulting in 11 closed hospitals and 6 other hospitals filing for bankruptcy since 2007.

Outmigration Analysis

Mr. Scott Regan, a healthcare consultant hired by Liberty, performed a Hudson County outmigration analysis dated July 27, 2010 that showed that the total market size shrinking and patient outmigration from Hudson County to other New Jersey counties increasing from 2007 to 2009. According to Mr. Regan's analysis, Hudson County lost 18,294 net inpatient admissions in 2009. Mr. Regan mentioned that the market size is shrinking due to weak population growth and lower utilization of inpatient hospital services.

Impact on Valuation

According to Mr. Regan, The MHMC service region is essentially analogous to a "doughnut with MHMC in the middle." Mr. Regan stated that he plotted the office locations of all the physicians in the Hospital's service area and most were located on the "edge of the doughnut" located closer to the Hospital's competitors, including Hackensack University Medical Center, Hoboken University Medical Center, and Jersey City Medical Center. Mr. Regan further stated that very few physicians and specialists resided in Secaucus due to the relatively isolated location. In addition, the worsening outmigration statistics from Hudson County does not bode well for MHMC future which is generally in a weaker financial position than the other Hudson County area hospitals.

Liberty management also indicated that fewer new physicians are willing to relocate to the Secaucus area despite their best recruiting efforts. Existing physicians in the Hudson County area have cited MHMC's location in a predominantly commercial and industrial area with relatively less populated residential areas in the nearby proximity as a disadvantage compared to other hospitals in the service area. A recent survey, which is illustrated in the following chart, shows that physicians view two competing area hospitals (Hackensack and Jersey City) as the preferred hospitals within the area. MHMC did not make the top ten on either of these two surveys.

2009 New Jersey Hospital Rankings by Doctors	
More than 350 Beds	Fewer than 350 Beds
1. Hackensack University Medical Center	1. Jersey City Medical Center
2. Morristown Memorial Hospital	2. Chilton Memorial Hospital
3. Robert Wood Johnson University Hospital	3. Deborah Heart and Lung Center
4. Saint Barnabas Medical Center	3. University Medical Center at Princeton
5. Valley Hospital	4. Virtua Voorhees Hospital
6. Overbrook Hospital	5. Hunterdon Medical Center
7. Englewood Hospital & Medical Center	6. Robert Wood Johnson University Hospital
8. Newark Beth Israel Medical Center	7. Virtua Marlton Hospital
9. UMDNJ-University Hospital	8. Saint Clare's Hospital
10. Cooper University Hospital	9. Saint Mary's Hospital
	10. Newton Memorial Hospital

Source: Castle Connolly Medical Ltd, 2010

VI. General Valuation Methodology and Definitions

Valuation Approaches

In completing our valuation assignment, we considered the three generally accepted approaches to value: income, market, and cost. The theory of these approaches is outlined as follows:

Income Approach

There are several variants of the income approach. One of these variants is the discounted cash flow ("DCF") method. In the DCF method, the cash flows anticipated over several periods, plus a terminal value at the end of that time horizon, are discounted to their present value using an appropriate rate of return. The DCF and other prospective models are considered to be the most theoretically correct methods to valuing an income producing business because they explicitly consider the future benefits associated with owning the business.

Another income approach method is based on capitalizing some measure of financial performance such as earnings or dividends, using a capitalization rate that reflects both the risk and long-term growth prospects of the subject firm. In capitalizing a historical measure of financial performance, it is important to remember that historical results serve as a proxy for future performance. Both the required rate of return used in the DCF model and the capitalization rate reflect capital market conditions and the specific circumstances of the subject health system.

Market Approach

In the market approach, the value of a hospital is estimated by comparing the subject hospital to similar hospitals or "guideline" hospitals whose securities are actively traded in public markets or have recently been sold in a private transaction. This method is applied as the price per unit of a measure of financial performance or position, and equates to a multiple approach, using price-to-earnings before interest and taxes or similar market/transaction derived multiples applied against the appropriate financial measure generated by the subject to indicate value.

In using merger and acquisition data to develop indications of value, it is important to have adequate knowledge of the terms of the transaction to be able to make appropriate valuation judgments regarding the subject. For example, seller financing or the use of restricted stock to pay for an acquisition may require an adjustment relative to an all cash deal.

Cost Approach

The cost approach estimates a hospital's value based on an analysis of the value of its individual assets. The adjusted net book value method involves estimating the FMV of all assets on the balance sheet, and then subtracting the estimated FMV of the liabilities. A common application of the adjusted book value method is valuing an entity whose sole function is investing in other businesses.

The Adjusted Net Assets Method represents one methodology employed in the Cost Approach. In this method, a valuation analysis is performed for a hospital's identified fixed, financial, and other assets. The derived aggregate value of these assets is then "netted" against the estimated value of all existing and potential liabilities, resulting in an indication of the value. An ongoing business enterprise is typically worth more than the fair market value of its underlying assets due to several factors: (i) the assets valued independently may not reflect economic value related to the prospective cash flows they could generate; (ii) this approach may not fully reflect the synergy of the assets but rather their independent values; and (iii) intangible assets inherent in the business such as reputation, superior management, proprietary procedures or systems, or superior growth opportunities are very difficult to measure independent of the cash flow they generate. The value of the assets may be perceived as providing a pricing "floor" in the absence of earnings.

Standard of Value

We have concluded that the appropriate standard of value for our valuation analysis is FMV. Our conclusion was based on our review of New Jersey statutory law (N.J.S.A. 26:2H-7.11), the nonprofit status of the Hospital, and our experience with similar hospital transactions.

As stated previously, we relied upon the following definition of FMV from IRS Revenue Ruling 59-60:

...the price at which an entity (asset) would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.

FMV should be distinguished from strategic (or investment) value for the purposes of this valuation. The strategic value of a hospital is the value to a specific owner or prospective owner. Therefore, strategic value considers the owner's or prospective owner's knowledge, capabilities, expectations of risks and future earnings, and other factors. An example of strategic value is when a transaction provides unique motivators or synergies to a particular buyer that is not available to the typical buyer.

Premises of Value

Various premises of value may be considered under the FMV standard of value. In general, four premises of value are typically considered⁴:

1. Value in Continued Use, as Part of a Going Concern

Value in continued use, as a mass assemblage of income producing assets, and as a going concern business enterprise.

2. Value in Place, as Part of a Mass Assemblage of Assets

Value in place, as part of a mass assemblage of assets, but not in current use in the production of income, and not as a going-concern business enterprise

3. Value in Exchange, in an Orderly Disposition

Value in exchange, on a piecemeal basis (not part of a mass assemblage of assets), as part of an orderly disposition. This premise contemplates that all of the assets of the business enterprise will be sold individually and that they will enjoy normal exposure to their appropriate secondary market.

4. Value in Exchange, in a Forced Liquidation

Value in exchange, on a piecemeal basis (not part of a mass assemblage of assets), as part of a forced liquidation. This premise contemplates that all of the assets of the business enterprise will be sold individually and that they will experience less than normal exposure to their appropriate secondary market.

For our valuation analysis, we considered each of the possible premises of value and selected the premise that was most appropriate based on our analysis of the Hospital's current and projected financial and operational outlook, as well as the most likely transaction scenario.

Selected Methodology

Each of the valuation approaches described above may be used to develop an indication of the FMV of the Hospital's assets; however, the appropriateness of certain approaches and the premise of value can vary depending on the specific facts and circumstances of the entity being valued, the assumed transaction, and the information available.

⁴ Shannon P. Pratt, Robert F. Reilly, and Robert P. Schweih, *Valuing Small Businesses & Professional Practices*, Third Edition, 1998, pp 46-47

Typically, for service-oriented, income-producing entities, the income and market approaches are performed in order to estimate the FMV of a business on a going concern basis. However, for businesses that are not currently generating positive cash flow from current operations and are not projected to generate positive cash flow in the future, a going concern premise of value may not be possible. In such cases, the valuation exercise may focus on a FMV analysis under a Value in Place or Value in Exchange premise as described above utilizing a market and/or asset-based approach.

We understand that MHMC has experienced material cash flow and income losses since 2008. Therefore, in order to fully assess whether the Hospital can operate into the future as a going concern, we held in-depth discussions with Liberty management and analyzed historical financial and operational data related to MHMC, as well as previous performance improvement initiatives.

In addition, our data analysis and discussions with Liberty management included the future outlook related to the Hospital in the context of numerous factors, including geographic location, service lines, supporting physicians, competition, payer mix, state support, healthcare reform, and excluding the LRI business.

Based on our analysis and discussions, we concluded that the Hospital is not a going concern business and therefore, its assets should be valued under the premise of **Value in Place, as Part of a Mass Assemblage of Assets** ("Value in Place"). As summarized above, the premise of Value in Place assumes that the Hospital's assets are in place, but not in current use in the production of income, and not as part of a going-concern business enterprise. Furthermore, this premise of value assumes that all assets will continue to be used in the manner for which it/they was/were originally intended which is consistent with the prospective buyer's stated intent to operate the Hospital as a general acute care hospital with similar levels and types of services.

In order to estimate the full and fair market value of the Hospital's assets under the premise of Value in Place, we performed an independent fair market valuation of the Hospital's real and personal property.

VII. Valuation Analysis

As indicated above, we understand that MHMC has experienced material cash flow and income losses since 2008. Therefore, in order to fully assess whether the Hospital can operate into the future as a going concern, we held in-depth discussions with Liberty management and analyzed historical financial and operational data related to MHMC, as well as previous performance improvement initiatives.

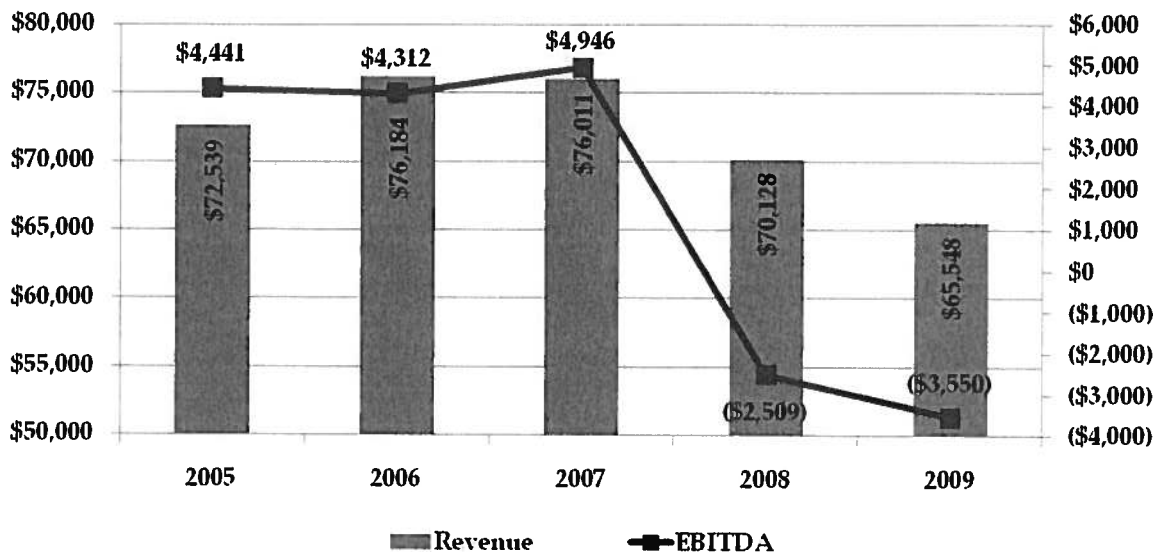
In addition, our data analysis and discussions with Liberty management included the future outlook related to the Hospital in the context of numerous factors, including geographic location, service lines, supporting physicians, competition, payer mix, state support, healthcare reform, and excluding the LRI business.

Below, we describe the basis for our conclusion that the Hospital is not a going concern business.

Historical Operational and Financial Performance

MHMC's overall financial performance deteriorated significantly after the 2007 fiscal year. The deterioration was driven predominantly by reduced admission volume and other elective services, as well as other factors previously discussed. MHMC experienced a significant drop in revenue in the 2008 fiscal year which led to EBITDA of negative \$2.5 million in that year, down significantly from the \$5.0 million positive EBITDA recorded a year earlier. Moreover, the losses have continued in 2009 and for the five months ended May 31, 2010 despite Liberty management's performance improvement initiatives. The following chart illustrates the severity of the financial downturn that MHMC has experienced.

MHMC Historical Financial Performance



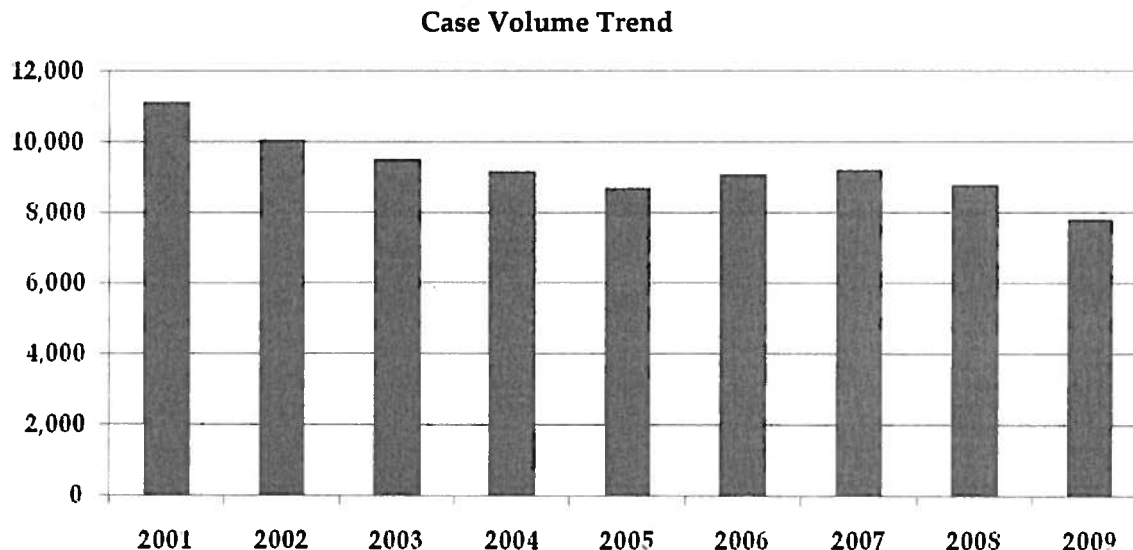
MHMC's operating losses combined has led to a rapidly declining cash position. To continue operations, cash infusions to MHMC from Liberty were necessary. As stated in the audited financial statement notes, these "due to affiliates" intercompany loans have no fixed repayment term nor is interest charged. Liberty management confirmed during our discussions that there is no written legal note and there is no written accounting policy concerning the intercompany account. However, as a practical matter, MHMC's cash needs flow through the intercompany account. Net operating expenditures, MHMC's share of corporate costs, capital expenditures and debt payments are the other typical monthly charges and credits to the intercompany account.

In conducting our analysis of the historical financials we undertook a "normalization" process in order to adjust for any non-recurring revenues or expenses in the audited financials.

In addition, we excluded both revenue and expenses from LRI since that business is excluded from the Transaction. Management provided us with internal financials that isolated LRI so we could recast the Hospital's historical income statement, net of LRI and non-recurring items. Exhibit 2.3 details the normalization amounts on a historical basis and Exhibit 2.4 illustrates MHMC's recasted historical income statement.

As part of our historical analysis, Liberty Management provided us with a summary of the Hospital's total case volume trend from 2001 to 2009, as well as the 2009 trend which was compiled during 2009. The graph below reflects the Hospital's general downward trend in case volume since at least 2001. Liberty management stated that their data demonstrates

that the Hospital's volume erosion has been occurring for much of the past decade and did not simply begin with the overall economic downturn during the past few years.



Source: Liberty Management

During our on-site visit with MHMC's administrator, Mr. Martin Baicker, we learned that the economic downturn has drastically impacted the volume of elective procedures performed at the Hospital. This has further challenged the Hospital's already eroding volumes.

Stagnant and Aging Physician Referral Network

Liberty management indicated that there are a variety of factors that have contributed to the recent volume declines that have been driving MHMC's eroding financial performance in recent years. One of the primary factors is MHMC's stagnant and aging physician referral network. The inability of Hospital management to strengthen and expand its physician referral network continues to be a future threat to the viability of MHMC since the Hospital has seen increased attrition recently as existing physicians continue to age according to Liberty management. Initiatives such as hiring a physician recruiter from Jersey City Medical Center were not successful according to management.

Based on our management discussions and research, it appears that most area practitioners simply prefer partnering with and referring patients to competing hospitals in the area. Much of the problem appears to be geographical in nature. Liberty management indicated that fewer new physicians are willing to relocate to the Secaucus area despite their best recruiting efforts. Existing physicians in the Hudson County area have cited MHMC's location in a predominantly commercial and industrial area with little residential areas in the nearby proximity as a disadvantage compared to other hospitals in the service area.

As indicated previously, Scott Regan mentioned that the MHMC service region is essentially analogous to a “doughnut with MHMC in the middle.” Mr. Regan stated that he plotted the location of all the physicians in the Hospital’s service area and most were located on the “edge of the doughnut” located closer to the Hospital’s competitors, including Hackensack University Medical Center, Hoboken University Medical Center, and Jersey City Medical Center. Mr. Regan further stated that very few physicians and specialists reside in Secaucus due to the relatively isolated location. Mr. Regan also mentioned that many patients find the Hospital less convenient to travel to relative to other area hospitals.

“30-60-90 Day Improvement Plan”

Based on our discussions with and information provided by Liberty management, an improvement plan was initiated at MHMC in May 2009 in order to attempt a turnaround of the Hospital’s eroding business performance. We understand that Mr. Regan was hired by Liberty management to implement the plan with assistance from Mr. Baicker.

The improvement plan included a number of initiatives, including cost savings, staff consolidation, and services consolidation. During our onsite visit to the Hospital, Mr. Baicker emphasized to us that the essence of the improvement plan was to cut costs and improve volume. Mr. Baicker stated that Hospital management cut costs drastically and “into the bone” since the Hospital is understaffed in some areas. Liberty management believes that additional staff cuts would not be possible without sacrificing patient safety and quality. In addition, Mr. Baicker stated that for nine months, a concerted attempt was made to build and strengthen relationships with referring physicians. However, even though the Hospital experienced some initial volume spikes, it did not realize sustainable volume growth since physicians were not willing to alter their referral patterns materially in the long term.

Liberty management also stated to us that the Hospital experienced unexpected volume decreases in areas not considered in the improvement plan, specifically related to pediatric and obstetrics volume. Although the Hospital’s payer mix has not changed materially in recent years, Liberty management indicated that the Hospital has been experiencing an unexpected reduction in infrequent and large indemnity-type commercial cases than the Hospital had experienced in the past. The Hospital’s CFO explained to us that the indemnity cases typically paid well on a percentage of charges basis or with significant stop loss payments.

Ultimately, the improvement plan had very limited success overall according to Mr. Baicker and Liberty management.

State of New Jersey Sustainability Funding

Liberty management indicated that based on discussions with state officials, the State of New Jersey is not interested in supporting MHMC with sustainability funding. During our on-site interviews, Liberty management stated that this is due to a number of reasons including state budgetary shortfalls and the perception that there is insufficient bed demand to support the Hospital on a go forward basis. Liberty management stated that the State of New Jersey believes that existing hospitals (including Hoboken University Medical Center, St. Mary's Hospital, and Hackensack University Medical Center) can support the area's population sufficiently.

Projected Operational and Financial Performance

Liberty management was not able to provide Navigant Consulting with a financial projection that reflected the Hospital generating positive cash flow in the future. The Hospital's 2010 proposed operating budget (including LRI) that was provided to Navigant Consulting reflected an anticipated income shortfall of approximately \$7.8 million and an EBITDA shortfall of \$5.7 million. For the year to date May 31, 2010 income statement (again, including LRI), the Hospital reported an actual EBITDA shortfall of approximately \$3.1 million. This translates to an annualized EBITDA shortfall of \$7.4 million.

We understand that Mr. Regan also conducted a sustainability analysis dated July 16, 2009 that concluded that the Hospital was not sustainable based on current and forecasted volume and revenue trends. The analysis also concluded that record volume levels would be required and sustainable, reimbursement would have to be dramatically improved, and an influx of new physicians or a partnership with a healthcare provider was necessary in order to boost patient volume. Liberty management indicated during our discussions that it had not been successful in increasing the base of referring physicians, even after transferring Jersey City Medical Center's physician recruiter to assist with physician recruitment. Therefore, the necessary volume improvements were not achievable.

Valuation Analysis Conclusion

Based on our analysis described above, we concluded that the Hospital is not a going concern business and therefore, its assets should be valued under the premise of Value in Place. As summarized previously, the premise of Value in Place assumes that the Hospital's assets are in place, but not in current use in the production of income, and not as part of a going-concern business enterprise. Furthermore, this premise of value assumes that all assets will continue to be used in the manner for which it/they was/were originally intended which is consistent with the prospective buyer's stated intent to operate the Hospital as a general acute care hospital with similar levels and types of services.

In order to estimate the full and fair market value of the Hospital's assets under the premise of Value in Place, we performed an independent fair market valuation of the Hospital's real

and personal property. Please refer to Appendix C and D for details of our real and personal property fair market valuations.

VIII. Summary and Recommendation

Based on our review of information provided to us, independent research and analysis, and our informed judgment, we estimate the full and fair market value of the assets of MHMC as follows:

Summary of Fair Market Value – Value in Place	Low Value		High Value
Real Property	\$ 10,700,000	to	\$ 11,300,000
Personal Property	2,859,000	to	3,459,000
Inventory	<u>741,000</u>	to	<u>741,000</u>
Total	14,300,000	to	15,500,000

Appendix A: Listing of Information Sources

We have relied upon sources including, but not limited to the following:

- Selected audited and unaudited operational and financial data of MHMC;
- Selected transaction and regulatory documents, including letter of intent, asset purchase agreement, three sets of completeness question responses related to the CHAPA application; and MHA's CON application;
- Interviews with Liberty and MHMC management;
- Interviews with MHA management;
- Interview with Scott Regan;
- "Liberty Health Outmigration Analysis" by Scott Regan, July 27, 2010
- "MHMC Sustainability Analysis" by Scott Regan, July 16, 2009
- "Selected Interest Rates," Federal Reserve Statistical Reserve;
- "Stocks, Bonds, Bills, and Inflation 2010 Yearbook", Ibbotson Associates, Inc.;
- "Economic Outlook Update Q1, 2010" Business Valuation Resources;
- Bloomberg;
- Capital-IQ;
- U.S. Bureau of the Census;
- State of New Jersey Department of Health and Senior Services;
- Standard & Poor's - Healthcare Facilities Industry Survey, May 20, 2010;
- Selected Internet sites; and
- Other sources, as noted.

Appendix B: Statement of Limiting Terms and Conditions

1. **Report Distribution** – This report has been prepared solely for the purpose stated in our retention letter and should not be used for any other purpose. Except as specifically stated in the report, neither our report nor its contents is to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, loan agreement, or other agreement or document without our prior written approval. In addition, except as set forth in the report, our analysis and report presentation are not intended for general circulation or publication (other than in accordance with regulatory requirements), nor are they to be reproduced nor distributed to other third parties without our prior written consent.
2. **Scope of Analysis** – The appraisal of any financial instrument or business is a matter of informed judgment. The accompanying appraisal has been prepared on the basis of information and assumptions set forth in the attached report, associated appendices, our underlying work papers, and these limiting conditions and assumptions.
3. **Nature of Opinion** – Neither our opinion nor our report are to be construed as a fairness opinion as to the fairness of an actual or proposed transaction, a solvency opinion, or an investment recommendation, but, instead, are the expression of our determination of the fair market value of the underlying assets and liabilities between a hypothetical willing buyer and a hypothetical willing seller in an assumed transaction on an assumed valuation date. For various reasons, the price at which the assets and liabilities might be sold in a specific transaction between specific parties on a specific date might be significantly different from the fair market value as expressed in our report.
4. **Lack of Verification of Information Provided** – With the exception of audited financial statements, we have relied on information supplied by the Liberty management, Hospital management, and other sources without audit or verification. We have assumed that all information furnished is complete, accurate and reflects Liberty management's good faith efforts to describe the status and prospects of the Hospital at the valuation date from an operating and a financial point of view. As part of this engagement we have relied upon publicly available data from recognized sources of financial information, which have not been verified in all cases.
5. **Reliance on Forecasted Data** – Any use of Liberty management's projections or forecasts in our analysis does not constitute an examination or compilation of prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants ("AICPA"). We do not express an opinion or any other form of assurance on the reasonableness of the underlying assumptions or whether any of the prospective financial statements, if used, are presented in conformity with AICPA presentation guidelines. Further, there will usually be differences between prospective and actual results because events and circumstances frequently do not occur as expected and these differences may be material.

6. **Subsequent Events** – The terms of our engagement are such that we have no obligation to update this report or to revise the valuation because of events and transactions occurring subsequent to the Valuation Date.
7. **Legal Matters** – We assume no responsibility for legal matters including interpretations of either the law or contracts. We have made no investigation of legal title and have assumed that owner(s) claim(s) to property are valid. We have given no consideration to liens or encumbrances except as specifically stated. We assumed that all required licenses, permits, etc. are in full force and effect. We assume no responsibility for the acceptability of the valuation approaches used in our report as legal evidence in any particular court or jurisdiction. The suitability of our report and opinion for any legal forum is a matter for the client and the client's legal advisor to determine. We assume that the Employee Agreement provided by Management is legally enforceable and is the most recent document available.
8. **Testimony** – Neither Navigant Consulting, Inc. nor any individual signing or associated with this report shall be required to give testimony or appear in court or other legal proceedings unless specific arrangements have been made in advance.
9. **USPAP** – Excluding the Real Property Appraisal found in Appendix C, our engagement is not required to be conducted pursuant to the Uniform Standards of Professional Appraisal Practice.
10. **Verification of Legal Description or Title** – As part of this engagement, we will not assume any responsibility for matters of a legal nature. No investigation of legal description or title to the property will be made and we will assume that your claim to the property is valid. No consideration will be given to liens or encumbrances which may be against the property, except as specifically stated as part of the financial statements you provide to us as part of this engagement. Full compliance with all applicable federal, state, local zoning, environmental and similar laws and regulations is assumed, unless otherwise stated and responsible ownership and competent property management are assumed.

Appendix C: Real Property Appraisal

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Certification

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are complete only by the accompanying assumptions and limiting conditions and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- Navigant Consulting, Inc. has not performed any prior real estate appraisal or consulting assignments involving the subject property.
- Jarrett T. Schleyer performed an inspection of the property on August 3, 2010.
- I have performed within the context of the competency provision of the Uniform Standards of Professional Appraisal Practice.
- Greg Bergdale, Consultant, provided professional assistance with market research and site/comparable inspections.
- Lorena Redding, MAI (Director) and Deborah B. Kling (Associate Director) provided professional assistance in reviewing the analyses presented and the report.
- As of the date of this report, Lorena Redding, MAI has completed the requirements of the continuing education program of the Appraisal Institute.



Jarrett T. Schleyer
Senior Consultant
Certified General
New Jersey Temporary Visiting
Practice Permit No. TP 087-10

Statement of Assumptions and Limiting Conditions

This valuation opinion report has been prepared pursuant to the following general assumptions and general limiting conditions:

1. We assume no responsibility for the legal description or matters including legal or title considerations. Title to the subject assets, properties, or business interests is assumed to be good and marketable unless otherwise stated.
2. The subject assets, properties, or business interests are appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. We assume responsible ownership and competent management with respect to the subject assets, properties, or business interests.
4. The information furnished by others is believed to be reliable. However, we issue no warranty or other form of assurance regarding its accuracy.
5. We assume that there is full compliance with all applicable federal, state, and local regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.
6. We assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, private entity or organization have been or can be obtained or renewed for any use on which the valuation opinion contained in this report is based.
7. Possession of this valuation opinion report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed or their external auditors without our written consent and, in any event, only with proper written qualifications and only in its entirety.
8. We, by reason of this valuation, are not required to give testimony, or to be in attendance in court with reference to the assets, properties, or business interests in question unless arrangements have been previously made.
9. This valuation opinion report has been prepared in conformity with, and is subject to, the requirements of the code of professional ethics and standards of professional conduct of the professional appraisal organizations of which we are members.
10. Use and disclosure of the contents of this report are governed by the Bylaws and Regulations of the Appraisal Institute. The Appraisal Institute reserves the right to authorize its representatives to review this report and its supporting documentation. Confidential distribution of copies of this report in its entirety may be made subject to the sole control of the addressee; however, excerpts may not be given to any third party without prior written consent.
11. No part of the contents of this report (especially any conclusions of value, the identity of the appraisers, or the firm with which the appraisers are associated) shall be disseminated to the public through advertising, public relations, news, sales, or other media without our prior written consent and approval.
12. We assume no responsibility for any financial reporting judgments which are appropriately those of management. Management accepts the responsibility for any related financial reporting with respect to the assets, properties, or business interests encompassed by this valuation.
13. The valuation opinions contained within this report are valid only as of the indicated date and for the indicated purpose.

Special Assumptions and Limiting Conditions

This appraisal has been prepared pursuant to the following special assumptions and limiting conditions:

1. This Appendix is a part of a larger valuation report and assignment ("overall report") and is not intended to be relied upon separately.
2. The hospital currently has a Certificate of Need ("CON") in place. We have been asked, however, to estimate the value of the real estate without any intangible assets or CON included. The personal property was valued separately by Navigant Consulting and is not included in this Appendix.
3. In the overall report, Navigant Consulting concluded that the Hospital is not a going-concern business and therefore, its assets should be valued under the premise of Value in Place, as Part of a Mass Assemblage of Assets ("Value in Place"). This premise of Value in Place assumes that the Hospital's assets are in place, but not in current use in the production of income, and not as part of a going-concern business enterprise. Furthermore, this premise of value assumes that all assets will continue to be used in the manner for which it/they was/were originally intended. This is consistent with the prospective buyer's stated intent to operate the hospital as it currently exists, which is as a general acute care hospital with similar levels and types of services.
4. We understand that the Transaction may include the Seller leasing back a portion of the real estate and the equipment. The terms of this lease have not been established. Our value premise is fee simple.

Summary of Salient Facts and Conclusions

Property	Meadowlands Hospital 55 Meadowlands Parkway Secaucus, NJ 07094	
Property Tax Identification Number	Block 21, Lot 6	
Owner of Record	Liberty Riverside Healthcare Inc.	
Date of Value	July 31, 2010	
Inspection Date	August 3, 2010	
Date of the Report	August 12, 2010	
Gross Land Area (Sq. Ft.)	871,200	
Gross Land Area (Acres)	20.0	
Usable Land Area (Sq. Ft.)	466,092	
Usable Land Area (Acres)	10.7	
Number of Buildings	Two	
Power Plant & Maint. Shop Square Footage	5,850	
Hospital Building Square Footage	188,616	
Hospital and Power Plant Gross Building Area (GBA)	194,466	
Current Occupancy (Owner Occupied)	100%	
Year Built	1976 / Partial Bldg. Renov. 2004 - 2010	
Zoning Designation	CP (Commercial Park)	
Floodplain Map Panel Number and Date	34003C0262G	
Flood Map Effective Date	September 30, 2005	
Flood Plain Location	AE - Inside the Flood Plain	
Assessed Value - Hudson County (2010)	\$33,024,700	
Land/Building Values per Hudson County	\$8,000,000 / \$25,024,700	
Real Estate Taxes (2010)	Exempt	
Highest and Best Use as Improved	Hospital (interim use)	
Property Rights Appraised	Fee Simple	
Estimated Exposure Time	Nine to Twelve Months	
Fair Market Value Range Indications		
Cost Approach		
Land Valuation	\$5,500,000	\$5,500,000
Depreciated Site Improvements	\$260,000	\$260,000
Depreciated Building Value (Building As If Vacant)	<u>\$4,940,000</u>	to <u>\$5,540,000</u>
Indicated Value Range Via Cost Approach	\$10,700,000	to \$11,300,000
Sales Comparison Approach		
Number of Listings and Sales	One Listing	and Five Sales
Range of Dates of Sale	Currently Listed	to February-07
Range of Prices per Unit (Unadjusted)	\$35.33	\$135.19
Range of Prices per Unit (Adjusted)	\$35.33	\$110.59
Concluded Value Indication per Sq. Ft.	\$55.00	to \$58.00
Indicated Value Range Via Sales Comparison	\$10,700,000	to \$11,300,000
Income Capitalization Approach	Not Applicable	
NCI Fair Market Value Range	\$10,700,000	to \$11,300,000
Fair Market Value per Sq. Ft. Range	\$55.02	to \$58.11

Nature of the Assignment**Property Identification**

The subject of this real estate report is a 194,466 square foot hospital facility identified as Meadowlands Hospital ("MHMC"). The legal description identifies the property as Lots 5-23, Block 16, situated in Secaucus, Hudson County, New Jersey. The Hudson County tax assessor identifies the property as Block 21, Lot 6. Meadowlands Hospital's physical address is 55 Meadowlands Parkway, Secaucus, New Jersey 07094.

Objective of the Valuation

The objective of the valuation report is to estimate the fair market value of the individual tangible real estate components of the Meadowlands Hospital as of July 31, 2010.

Use and Users of the Valuation

Navigant Consulting was engaged to prepare an independent appraisal of the fair market value of the tangible real estate assets of MHMC in connection with the New Jersey Attorney General's review of the proposed sale of the assets of the Hospital by Liberty to MHA in accordance with the Community Health Care Assets Protection Act ("CHAPA"). The intended user of this report is the State of New Jersey Office of the Attorney General. We understand that this report will be part of the public record of the Attorney General's CHAPA review.

Report Type

This is a summary appraisal which is an appendix to an overall valuation and analysis. It cannot be relied upon independently from the overall report. This section has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP"), 2010-2011 Edition.

Summary Appraisal: *A written report prepared under Standards Rule 2-2(b) or 8-2(b).*

According to USPAP, the following items must be included:

- Identity of the client and any intended users, by name or type
- Intended use of the appraisal
- Summary information sufficient to identify the real estate involved in the appraisal, including the physical and economic property characteristics relevant to the assignment
- Real property interest being appraised
- Type and definition of value and cite the source of the definition
- Effective date of the appraisal and the date of the report
- Summary of the scope of work used to develop the appraisal
- Summary of information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusions
- Use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal
- Summary of support and rationale for the Highest and Best Use selected
- All extraordinary assumptions and hypothetical conditions; and state how their use might have affected the assignment results

- A signed certification in accordance with Standards Rule 2-3

This report incorporates a summary of all information significant to the solution of the appraisal problem. It also includes summary descriptions of the Meadowlands Hospital and the Secaucus area.

Scope of the Appraisal

During our analysis Navigant Consulting has relied upon:

- Site inspection of the hospital facility on August 3, 2010
- Inspection of comparable land and improved listings and sales
- Site survey prepared by Job & Job Consulting Engineers, dated September 1986
- Discussions with Liberty employees and Mr. Jay A. Ganzman, Deputy Attorney General, State of New Jersey Division of Law
- Floor plans of the hospital facility
- Hospital market research from the New Jersey Hospital Association
- CoStar listing and sales database
- Conversations with local brokers and tax assessors in northern New Jersey
- Marshall & Swift Valuation Service

Our valuation is based on the data described above. The business (including the CON) and personal property were valued separately by Navigant Consulting and are not included in this real estate appraisal appendix.

Competency Provision

Jarrett T. Schleyer has experience appraising similar properties, meeting the USPAP competency provision.

Effective Dates of Appraisal

Jarrett T. Schleyer physically inspected the subject site on August 3, 2010. The valuation date is July 31, 2010. The appraisal is based upon market conditions observed at that time.

Fair Market Value Definition

We have concluded that the appropriate standard of value for our valuation analysis is fair market value ("FMV"). Our conclusion was based on our review of New Jersey statutory law (N.J.S.A. 26:2H-7.11), the nonprofit status of the Hospital, and our experience with similar hospital transactions.

As stated previously in the overall report, we relied upon the following definition of FMV from IRS Revenue Ruling 59-60:

...the price at which an entity (asset) would change hands between a willing buyer and willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of all relevant facts.

In order to estimate the fair market value of the Hospital's assets under the premise of Value in Place, we performed an independent fair market valuation of the Hospital's real property. This includes the land, site improvements, and buildings. This premise of Value in Place assumes that the Hospital's assets are in place, but not in current use in the production of income, and not as part of a going-concern business enterprise. Furthermore, this premise of value assumes that all assets will continue to be used in the manner for which it/they was/were originally intended. This is consistent with the prospective buyer's stated intent to operate the Hospital as it currently exists, which is a general acute care hospital with similar levels and types of services.

History

Meadowlands Hospital was developed in 1976 and is currently operated as an acute care hospital. It was acquired by Liberty Riverside Healthcare, Inc. on March 30, 1994 for \$16,658,000 or \$85.66 per square foot. The hospital facility has not reportedly changed ownership within the past three years.

The proposed transaction involves the sale of substantially all of the assets of MHMC, a New Jersey nonprofit corporation, to MHA, a New Jersey limited liability company. Both the Hospital and Liberty are recognized tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Based on a review of MHA's CON application, MHA intends to continue to operate an acute care facility at the Hospital's current location following the closing of the proposed transaction.

MHA and Liberty entered into an asset purchase agreement on January 8, 2010 (the "Purchase Agreement") pursuant to which MHA agreed to purchase substantially all of the assets of MHMC from Liberty for an aggregate purchase price of \$15.0 million, while assuming certain liabilities of the Hospital, subject to the fulfillment of certain conditions (collectively referred to as the "Transaction"). At the time the Purchase Agreement was signed, MHA deposited \$1.0 million into an escrow account which would be deducted from the purchase price at closing.

Property Rights Appraised and Value Definitions

The property rights appraised are the fee simple estate ownership of the land, site improvements, and buildings (without personal property and the business). The fee simple estate is defined as, "*Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*"¹

Exposure Period

The concept of fair market value assumes the hypothetical sale of a property given reasonable exposure on the market. Further, the exposure time is presumed to precede the effective date of

¹ The Dictionary of Real Estate Appraisal, Fourth Edition, Page 113.

the appraisal. Exposure time is defined in USPAP Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Market Value Estimates" as:

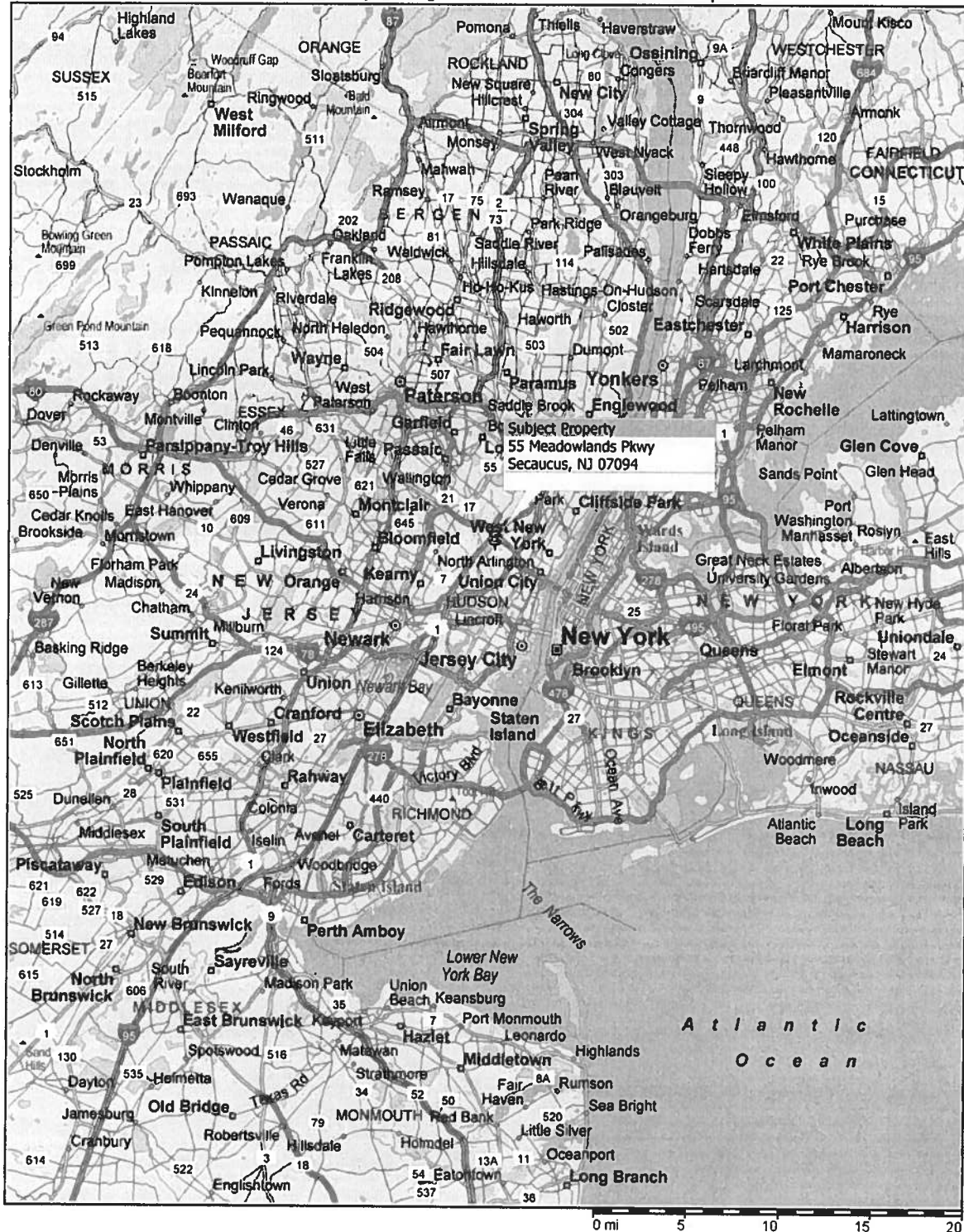
The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market.

Exposure time is different for various types of real estate and under various market conditions. It is noted that the overall concept of reasonable exposure encompasses not only adequate, sufficient, and reasonable time but also adequate, sufficient, and reasonable effort. The best estimate of exposure time is a function of price, time, use, and current market conditions for the cost and availability of funds. This is seen as an integral part of the appraisal process and the estimate of market value.

In estimating the length of time the property would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of this appraisal, we considered information gathered on comparable sales and historical and current market conditions. After analyzing the aforementioned factors, we believe the reasonable exposure time to sell the property would have been nine to twelve months.

Regional Map

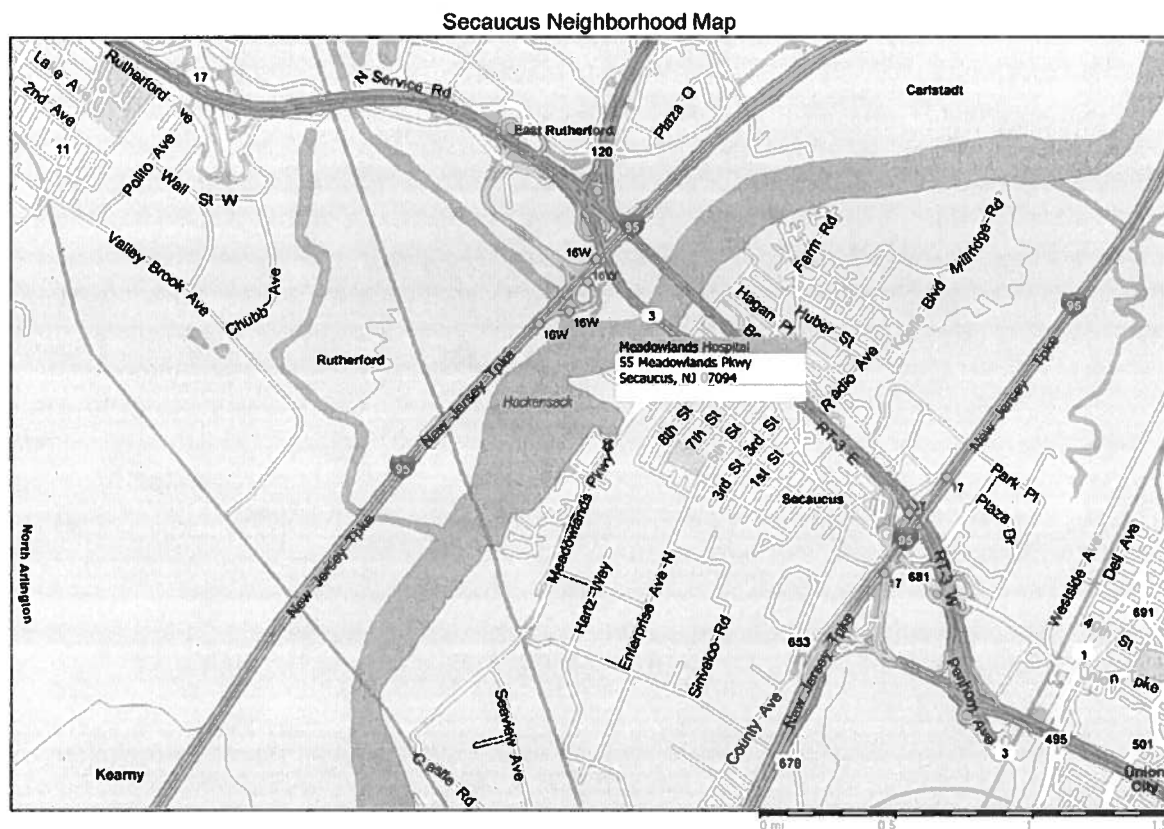
New York-Northern New Jersey-Long Island, NY-NJ-PA Metropolitan Statistical Area



Secaucus Area Description

A Healthcare Industry Overview, Economic Overview, and a Local Market Overview are provided in the main section of the overall report. The Meadowlands Hospital is located in Secaucus, New Jersey approximately seven miles northeast of Newark and four miles west of New York City via the Lincoln Tunnel. The subject site has frontage on the Hackensack River and is located across the street from the North American headquarters of Panasonic Corporation. The site is located within close proximity to multiple commuting thoroughfares including: Interstate 95/New Jersey Turnpike (one mile to the south and east), Route 3 West/Lincoln Tunnel (half mile to the north), Interstate 280 (four miles to the southwest), and Interstate 80 (five miles to the southwest). Meadowlands Hospital's immediate neighborhood consists mainly of industrial, office, research and development, commercial, and residential uses.

Most of the commercial development in Secaucus is somewhat aged with little new construction occurring in the past decade. Few vacant land sales have occurred in the past five years and only one comparable active listing is currently on the market. Reportedly, the active listing has been on the market for over a year. This lack of sales and listing activity indicates minimal demand for new development in the near-term. A map including the Meadowlands Hospital and the surrounding neighborhood follows.



Site Description

Site Area	Gross Site Area – 871,200 square feet or 20.0 acres Net Site Area - 466,092 usable square feet - or 10.7 acres
Shape	Rectangular, conducive to development
Utilities	Available to site
Slope	Level
Soil Conditions	Unknown, assumed adequate for development
Environmental Factors	Value assumes adverse conditions do not exist
Streets & Access	Adequate vehicular access from Meadowlands Parkway
Visibility & Exposure	Average for medical use
Zoning	CP – Commercial Park
Parcel ID	Block 21, Lot 6, Hudson County
Legal Description	Lot 5-23 in Block 16 (full legal description is included in addenda)
Assessed Value 2010	<p>\$33,024,700 – according to Mike Jaeger, the Secaucus Assessor, the tax assessment of \$33,024,700 has been the same since a countywide reassessment in 1991. At the time, the assessment was based on construction costs. Three things would trigger a reassessment on the property, none of which pertain to the current hospital standing:</p> <ol style="list-style-type: none"> 1) A fire that causes significant damage 2) A tax appeal with supporting documentation 3) Significant construction that would increase the value <p>The current assessed value is almost double the \$16,658,000 previously paid for the hospital in 1994. It appears that the hospital is over assessed. According to Mike Jaeger, who is aware of the negotiated purchase price and anticipates our valuation would result in a value significantly below the assessed value, there is currently an assessment appeal at the Hudson County level [by the buyer].</p>
Land/Building	\$8,000,000 /\$25,024,700
Property Taxes (2010)	Exempt (non-profit status) – according to the financial statements, the hospital has not been paying real estate taxes.
Flood Zone Area	Zone AE (defined as area inside the hazardous floodplain) Map No. 34003C0262G, effective September 30, 2005

Easements

The property includes typical drainage and sanitary sewer easements around the perimeter of the site.

To the north of the building there is a portion of the subject site (9.3 acres) that is submerged in the Hackensack River. This land is not currently suitable for development and was not considered in the usable acreage of the subject site.

According to FEMA, the Meadowlands Hospital is situated in an "AE" defined flood hazard area. The applicable FEMA map is included in the addenda of this appendix. The Special Flood Hazard Area is subject to inundation by the one percent annual chance flood and is defined as follows:

- *The one percent annual chance flood (100-year flood), also known as the base flood, is the flood that has a one percent chance of being equaled or exceeded in any given year. The Special Flood Hazard Area is the area subject to flooding by the one percent annual chance flood. Areas of Special Flood hazard include Zones A, AE, AH, AO, AR, A99, V, and VE. The Base Flood Elevation is the water-surface elevation of the one percent annual chance flood.*

Improvement Description

Property Name	Meadowlands Hospital
Property Address	55 Meadowlands Parkway, Secaucus, NJ 07094
Property Location	West side of Meadowlands Parkway and east of the Hackensack River.
Property Type	Acute Care Hospital
Year Built	1976; Meadowlands Hospital underwent partial renovations from 2004 to 2010. The renovations include the following: update and expansion of the second floor in 2004, lobby renovation in 2005, renovation of Liberty Rehabilitation suite in 2006, and renovation of the same day surgery unit in 2010.
No. of Buildings	Two – the hospital building is connected to a small power plant building by a raised enclosure; this connects the mechanical systems to the hospital.
No. of Stories	Five (hospital building), One (power plant & maintenance shop)
Ceiling Height	13 feet
Property Description	Meadowlands Hospital is a 204-bed acute care hospital that is currently a part of Liberty Health System. According to Liberty staff, approximately 165 beds are currently being utilized. In addition to the above noted bed capacity, MHMC is licensed to operate 30 adult comprehensive rehabilitation beds. MHMC provides a full range of services including obstetrics, cardiology, operating rooms, a same day surgery unit, pediatrics, rehabilitation, and a variety of imaging and diagnostic services. MHMC is certified by the American College of Radiology. The Hospital also has an emergency department, as well as performs numerous elective procedures in its Same Day Surgical Center.
Construction Class & Quality	Class A - Average
Market Classification	Class A
Gross Building Area	188,616 square feet - hospital building <u>5,850 square feet – power plant & maintenance shop</u> 194,466 square feet total
Parking	325 surface parking spaces
ADA Compliant:	Yes
HVAC	Chilled water, gas-fired
Elevators	Five

Interior Finishes	The level of finish is typical for the age of the improvements. The flooring is carpet, vinyl, and tile. Walls are painted drywall and ceilings are acoustic drop ceilings.
Sprinklers	Building is fully-sprinklered
Condition	Average for age

Approaches to Value

In appraising real estate for fair market value, the professional appraiser has three approaches from which to select: sales comparison, income, and cost. Although all three valuation procedures are considered, the inherent strengths of each approach and the nature of the subject property must be evaluated to determine which will provide supportable estimates of fair market value. The appraiser then selects one or more of the appropriate approaches in arriving at a final value estimate.

Sales Comparison Approach

The sales comparison approach estimates the value of a property by comparing it to similar properties sold on the open market. To obtain a supportable estimate of value, the sales price of a comparable property must be adjusted to reflect any dissimilarities between it and the property being appraised.

The sales comparison approach is most useful in the case of simple forms of real estate such as vacant land and single-family homes, where the properties are homogeneous and the adjustments are few and relatively simple to compute. In the case of complex investments such as shopping malls, hospitals, office buildings, restaurants, and lodging facilities, where the adjustments are numerous and more difficult to quantify, the sales comparison approach loses some of its reliability. Land valuations rely primarily on the sales comparison approach. It is also utilized as support for the income and cost approaches. The sales comparison approach can also be used to extract external obsolescence.

Income Approach

The income approach analyzes a property's ability to generate financial returns as an investment. The appraisal estimates a property's operating cash flow, projecting revenue and expenses. Inherent to the income approach is the capitalization of the resulting net operating income. Through an income capitalization procedure, the value of the subject property is calculated. The income approach is often selected as the preferred valuation method for operating properties because it most closely reflects the investment rationale of knowledgeable buyers. This approach, however, is utilized for income producing properties and is not typically relied upon for facilities that are not currently or expected to generate income in the near future, such as the subject.

Cost Approach

The cost approach estimates market value by computing the current cost of replacing the property and subtracting any depreciation resulting from physical deterioration, functional obsolescence, and external (or economic) obsolescence. The value of the land, as if vacant and available, is then added to the depreciated value of the improvements to produce a total value estimate. The cost approach is most reliable for estimating the value of new and/or special-purpose properties; however, as the improvements deteriorate and market conditions change, the resultant loss in value becomes increasingly difficult to quantify accurately.

External obsolescence is not inherently a part of the cost approach. According to The Appraisal of Real Estate, *"external obsolescence is a temporary or permanent impairment of the utility or salability of an improvement or property due to negative influences outside the property. External Obsolescence may result from adverse market conditions. Because of its fixed location, real estate is subject to external influences that usually cannot be controlled by the property owner, landlord, or tenant."*² External obsolescence, if it exists in the marketplace, must be estimated and applied to the cost approach.

² The Appraisal of Real Estate, 13th Edition, Page 392

Highest and Best Use Analysis

In order to determine the appropriate approach to value, one must consider the subject's highest and best use. One considers first the highest and best use as if vacant and then applies the same analysis to the property considering the existing improvements. Highest and best use is defined as the reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value. The following italicized excerpts regarding highest and best use are from *The Appraisal of Real Estate*, Twelfth Edition, 2001.

Fundamentally, the concept of highest and best use applies to land alone because the value of the improvements is considered to be the value they contribute to the land. Land is said to have value, while improvements constitute to the value to the property as a whole. The theoretical emphasis of highest and best use analysis is on the potential uses of the land as though vacant. In practice, though, the contribution of value of the existing improvements and any possible alteration of those improvements must be recognized, so the highest and best use of the property as improved is equally important in developing an opinion of market value of the property.

In the development of an appraisal, the appraiser must distinguish between highest and best use of the land as though vacant, and highest and best use of the property as improved. Appraisal theory holds that as long as the value of a property as improved is greater than the value of the land as though vacant, the highest and best use is the use of the property as improved. The timing of a specified use is an important consideration in highest and best use analysis. In many instances, a property's highest and best use may change in the foreseeable future. In such situations, the immediate development of the land or conversion of the improved property to its future highest and best use is usually not financially feasible.

The intensity of a use is another important consideration. The present use of a site may not be its highest and best use. The land may be suitable for a much higher, or more intense, use. For instance, the highest and best use of a parcel of land as though vacant may be for a 10-story office building, while the office building that currently occupies the site has only three floors.

In addition to being reasonably probable, the highest and best use of both the land as though vacant and the property as improved must meet four implicit criteria. That is, the highest and best use must be:

- 1) Physically possible*
- 2) Legally permissible*
- 3) Financially feasible*
- 4) Maximally productive*

The value of land is generally determined as though vacant. When land is already vacant the reasoning is obvious—an appraiser values the land as it exists. When land is not vacant, however,

its contribution to the value of the property as improved depends on how it can be put to use. Land values are not penalized so long as the existing buildings have economic value. If the buildings no longer have value, then demolition is appropriate.

A purchaser who wants to build a higher density project on a site may pay a price for the property that includes no value, or even negative value, for the existing improvements. The potential use, not the exiting use, usually governs the price that will be paid for land if that use is economically feasible.

In some cases an appraiser may conclude that the highest and best use of a parcel is to hold the land for investment purposes—i.e., to remain vacant or to be employed in some interim use until development is justified by market demand. This frequently occurs when there is external obsolescence present in the market—e.g., when real estate markets are temporarily oversupplied, extremely high financing costs impair development, a major plant in the area closes, a major environmental disaster occurs during early phase of redevelopment project, or other similar situations.

The highest and best use of a property as improved may be continuation of the existing use, renovation or rehabilitation, expansion, adaptation or conversion to another use, partial or total demolition, or some combination of these alternatives. In identifying and testing highest and best use, special considerations are required to address interim uses (including land held for investment purposes). The use to which a site or improved property is put until it is ready for its future highest and best use is called an interim use. Thus interim use is a current highest and best use that is likely to change in a relatively short time—say, five to seven years. Farms, parking lots, golf courses, old buildings, and temporary buildings may be interim uses. An interim use may or may not contribute to the value of the land or the improved property. If an old building or other use cannot produce gross revenues that exceed reasonable operating expenses, it does not contribute to the property value. If the net return of the improvements is less than the amount that could be earned by the vacant land, the buildings do not have contributory value. Indeed the value of an improved property may be less than the value of the land as though vacant when demolition costs are considered. During the transition to a new use, the value contributed by old improvements to an improved property makes the land and the existing improvements worth more than the vacant land.

Highest and Best Use of Land As Though Vacant

Physically Possible

The size, shape, and availability of utilities impose no physical constraints upon the uses possible for the subject property. The subject site consists of 20 acres, with approximately 10.7 useable acres. The usable acreage does not have any apparent physical aspects that would impede development. The remaining 9.3 acres are submerged in the Hackensack River and are not considered developable. The entire site is situated in the AE flood zone which typically requires flood insurance.

Given the site's location along Meadowlands Parkway in the city of Secaucus, a variety of uses are physically possible for the site. The property is rectangular in shape, has good access and frontage, and therefore physically could support a wide variety of possible uses.

Legally Permissible

According to Commercial Park ("CP") zoning requirements, a variety of commercial uses are permitted including medical, office, retail, restaurant, hotels, and marinas. The zoning requirements allow for a maximum floor area ratio of 1.25 which translates to a 582,615 square foot building on the 466,092 usable square foot portion of the site.

In addition, a deed restriction from 1972 states the property can only be used for "hospital and/or related medical purposes and shall not be used for any other purpose. This covenant shall run with the land, and may only be waived by the Grantor (Hartz Mountain Industries, Inc) or its successors and assigns."³

Therefore the legally permissible use of the land is limited to hospital and/or related medical purposes.

Financially Feasible and Maximally Productive

The subject is located in the city of Secaucus along Meadowlands Parkway with frontage along the Hackensack River. The site is situated across the street from the North American headquarters of Panasonic Corporation. Panasonic's corporate campus consists of multiple mid-rise office and research and development buildings. The subject site offers good visibility to Meadowlands Parkway and has two points of access (one at a signalized intersection). A mid-rise commercial office or medical development would be a profitable use of the site and thus, the most productive use. However, the site is limited to hospital and/or related medical purposes. Given the current economic and medical market conditions in the New Jersey area, it is unlikely that redevelopment will occur in the near-term. This is illustrated by a lack of volume in comparable vacant land sales (within the past three years) and active listings within a ten mile radius of the Meadowlands Hospital. As a result the financially feasible and maximally productive use of the land as if vacant is to hold for future hospital or related medical purposes.

Highest and Best Use of Land as Though Vacant Conclusion

In consideration of the foregoing factors, it is NCI's opinion that the highest and best use of the land as if vacant is to hold for future hospital or medical related use. Therefore, in valuing the land we will rely upon land sales in the area that have similar uses, or can be developed with medical use properties.

³ Property deed dated December 18, 1972 (included in addenda of this report)

Highest and Best Use of Property As Improved***Physically Possible***

The subject is currently improved with a five-story hospital building that is in average condition. The improvements do, however, suffer from physical and external obsolescence as discussed later in this report. The improvements could possibly physically support a number of uses.

Legally Permissible

According to CP zoning requirements, a variety of commercial uses are permitted including medical, office, retail, restaurant, hotels, and marinas. There is a deed restriction, however, limiting the improvements to hospital and/or related medical purposes. Therefore the legally permissible highest and best use as improved is for hospital and/or related medical purposes.

Financially Feasible and Maximally Productive

Meadowlands Hospital, located in Secaucus, New Jersey, is a 234-bed (including 30 rehabilitation beds) acute care hospital that is currently a part of Liberty Health System. The Hospital was founded as a for-profit corporation under the name Riverside Hospital in 1976 by a group of doctors led by Dr. Paul Cavalli. The Hospital became a non-profit entity in 1986 and was renamed Meadowlands Hospital. Liberty acquired MHMS in 1994. MHMC's overall financial performance deteriorated significantly after the 2007 fiscal year. The deterioration was driven predominantly by reduced admission volume and other elective services.

Meadowlands Hospital experienced a significant drop in revenue in the 2008 fiscal year and the declines continued in 2009 and through May 31, 2010. The decrease in utilization and overall revenue has been common for many hospitals in New Jersey since the global economic slowdown in 2008. The recession and an overall changing healthcare environment over the past decade have caused a wave of consolidations and outright closures of many hospital facilities across the state of New Jersey. According to the New Jersey Hospital Association, 25 hospitals have closed in New Jersey between 1992 and 2009⁴. Given the current medical market and economic conditions in the northern New Jersey area, the financially feasible and maximally productive use as improved is to continue to operate as it exists (interim use).

The alternative consideration would be to demolish the improvements and sell as vacant land. As can be seen in the valuation that follows; the improvements do still have contributory value as they are around half of the overall real property value estimate. Therefore, demolition is not imminent.

Highest and Best Use of Property As Improved Conclusion

In consideration of the foregoing factors, it is NCI's opinion that the highest and best use as improved would be to continue in its existing use (interim use) until demand warrants redevelopment in the northern New Jersey market.

⁴ New Jersey Hospital Association, "What Will Happen to My Hospital", 2009 press release

Valuation Approaches Selected

Based upon the highest and best use conclusions along with the limiting conditions, and special limiting conditions and assumptions, we have developed the sales comparison and cost approach to value the hospital buildings. We have relied upon the cost approach to value the site improvements. The highest and best of use of the land is for hospital or medical related uses. We have therefore used the sales comparison approach to value the land and relied upon properties that could support hospital or medically related uses. It is very difficult to separate the limitations of the deed restriction from the external obsolescence at this time. We know inherently that restrictions limiting the development of a site can negatively impact the property value. However, this is diminished significantly or altogether when there is little demand for development in the market place (external obsolescence). We have applied a discount of 20 percent to the land value to reflect the deed restriction.

Land

The sales comparison approach is based on the principle of substitution. An informed purchaser will pay no more for a property than the cost to acquire an existing property with equal utility. This approach estimates market value by considering the sales prices indicated by recent transactions involving properties that are similar to the property being appraised. Dissimilarities are resolved with appropriate adjustments; these differences may pertain to the date of sale, location, size, or external economic factors. The reliability of the sales comparison approach depends on three factors:

1. The availability of timely, comparable sales data.
2. An understanding of the true terms of the sales and the motivation of the buyer and seller.
3. The degree of comparability or the extent of the adjustments needed to reflect differences between the subject property and the comparable property.

The valuation of the fee simple interest in the land, as if vacant, is based upon the sales comparison approach. Several units of comparison may be used in this approach, including the price per square foot, price per lot, and the gross income multiplier. In the valuation of the subject's underlying land, the price per square foot is considered most indicative. Accordingly, it has been applied in this analysis. Information pertaining to the sales was verified by the seller, buyer, broker, or other sources considered to be reliable and having knowledge of the particular transaction noted. The sales selected were considered comparable in terms of one or more of the following characteristics, and we considered them in our analysis.

1. Property rights conveyed
2. Dates of sale relative to the effective date of valuation
3. Access
4. Location
5. Size
6. Additional site prep/demolition

Our market research for land comparables resulted in two current listings and two completed transactions. All four of the comparables were located within ten miles of Meadowlands Hospital. The zoning of the comparables allows for development of commercial and mixed-uses, including medical properties. The site sizes have usable areas from 2.26 to 13.90 acres. The two listings were adjusted downward for conditions of sale as they are not closed transactions and will likely sell for a lower price. The two completed transactions were also adjusted downward for market conditions. This adjustment is required due to the decline in the real estate market over the past three years resulting in historically higher property values. The land valuation is presented on the following pages.

Sales Comparison Approach – Vacant Land Listings and Sales



Land Valuation		Subject		Listing One		Listing Two		Sale One		Sale Two	
Data		Subject		Listing One		Listing Two		Sale One		Sale Two	
Date of Value/Sale		Jul-10		Listing		Listing		Dec-09		Dec-08	
Gross Square Feet		871,200		413,820		845,064		493,535		98,446	
Usable Square Feet		466,092		265,716		605,484		493,535		98,446	
Gross Acreage		20.00		9.50		19.40		11.33		2.26	
Usable Square Feet		10.70		6.10		13.90		11.33		2.26	
River Frontage		River Frontage		River Frontage		None		None		None	
Zoning		CP - Commercial Park		CP - Commercial Park & NC		Mixed-Use District		Commercial/Retail		L North Bergen Township	
Address		55 Meadowlands Parkway		34-35 Meadowlands Parkway		450 Schuyler Avenue		229 E. 22nd Street		5703-5733 Kennedy Boulevard	
City		Secaucus, NJ		Secaucus, NJ		Kearny, NJ		Bayonne, NJ		North Bergen, NJ	
Buyer		MHA LLC		Not Applicable		Not Applicable		Cameron Bayonne Urban Renewal		JFK Condo Developers, LLC	
Seller		Liberty Healthcare System, Hospital		Hess		PMC, Inc.		AGC Chemicals Americas, Inc.		5711 Realty, LLC	
Intended Use		Hospital		Commercial Mixed-Use		Mixed-Use		Retail		Apartment Complex	
Sale Price				\$5,000,000		\$11,000,000		\$12,063,000		\$6,400,000	
Price Per Usable Sq. Ft.				\$18.82		\$18.17		\$24.44		\$65.01	
Price Per Usable Acre				\$819,672		\$791,367		\$1,064,695		\$2,831,847	
Notes											
Subject		The subject is located in Secaucus, New Jersey, approximately seven miles northeast of Newark and four miles west of New York City via the Lincoln Tunnel. The subject site has frontage on the Hackensack River and is located across the street from the North American headquarters of Panasonic Corporation. The site is located within close proximity to multiple commuting thoroughfares including: Interstate 95/New Jersey Turnpike (one mile to the south and east), Route 3 West/Lincoln Tunnel (half mile to the north), Interstate 280 (four miles to the southwest), and Interstate 80 (five miles to the southwest). According to Secaucus Township, the site is zoned Commercial Park (CP). CP zoning allows for various commercial uses including hospitals and healthcare services. The restrictive deed language for the subject site, however, limits the use of the property to only hospital and/or related medical purposes.									
Listing One		Listing One is located approximately 0.4 miles northeast of the subject. The property consists of two non-contiguous parcels that are separated by Meadowlands Parkway; both parcels total 9.5 acres. The larger parcel is 7.4 acres, located on the west side of Meadowlands Parkway, and has river frontage similar to the subject site. However, 3.4 acres of this parcel is restored wetlands and cannot be developed. There is currently a small dilapidated building that will need to be demolished on this parcel. The second parcel is 2.1 acres and is located on the east side of Meadowlands Parkway. Listing One has Commercial Park and Neighborhood Commercial zoning which are similar to the subject site.									
Listing Two		Listing Two is located 4.2 miles southwest of the subject site. The site is zoned Mixed-Use District and can be developed with various residential and commercial uses. The site is 19.4 acres and includes five to six acres of undevelopable wetlands. The property has good frontage on Schuyler Avenue and is currently vacant.									
Sale One		Sale One is located 8.0 miles south of the subject site. The property has road frontage on SR-440, East 22nd Street, and New Hook Access. This site has superior access and visibility to the subject. The site is currently being developed into a retail power center named Bayonne Crossing. Reportedly, Wal-Mart and Lowes have executed leases for the development. According to the developer, some environmental remediation was needed before development could commence.									
Sale Two		Sale Two is located 2.5 miles east of the subject. The site has an industrial zoning but has been approved for a multifamily complex with commercial space on the ground-level. The parcel is situated at the corner of a busy four-lane road and has superior access and visibility to the subject. The property is currently vacant and is in the process of environmental remediation.									

Data		Subject	Listing One	Listing Two	Sale One	Sale Two
Date of Value/Sale		7/31/2010	Listing	Listing	Dec-09	Dec-08
Months from Sale Date			Listing	Listing	8	20
Usable Square Feet		466,092	265,716	605,484	493,535	98,446
River Frontage		River Frontage	River Frontage	None	None	None
Zoning		CP - Commercial Park	CP - Commercial Park & NC	Mixed-Use District	Commercial/Retail	1, North Bergen Township
Intended Use			Commercial Mixed-Use	Mixed-Use	Retail	Apartment Complex
Sale Price			\$5,000,000	\$11,000,000	\$12,063,000	\$6,400,000
Price Per Usable Sq. Ft.			\$18.82	\$18.17	\$24.44	\$65.01
Price Per Usable Acre			\$819,672	\$791,367	\$1,064,695	\$2,831,847
Elements of Comparison						
Property Rights Conveyed		Fee Simple	Similar	Similar	Similar	Similar
Financing Terms			Similar	Similar	Similar	Similar
Conditions of Sale			Superior	Superior	Similar	Similar
Market Conditions			Similar	Similar	Superior	Superior
Location			Similar	Similar	Similar	Similar
Access			Superior	Similar	Superior	Similar
Size			Superior	Inferior	Similar	Superior
Additional Site Prep/Demolition			Inferior	Similar	Inferior	Inferior
Adjustment Direction						
Property Rights Conveyed			None	None	None	None
Financing Terms			None	None	None	None
Conditions of Sale			Downward	Downward	None	None
C.O.S. Adjusted Price per Usable Sq. Ft.			\$15.99	\$15.44	\$24.44	\$65.01
Market Conditions			100.0%	100.0%	94%	85%
M.C. Adjusted Price per Usable Sq. Ft.			\$15.99	\$15.44	\$22.86	\$54.99
Location			None	None	None	None
Access			Downward	None	Downward	None
Size			Downward	Upward	None	Downward
Additional Site Prep/Demolition			Upward	None	Upward	Upward
Overall Adjustment						
Overall Adjustment Percentage			Downward	Upward	Downward	Similar
Adjusted Price Per Usable Sq. Ft.			-7.0%	15.0%	-5.0%	0.0%
Total Adjustment			\$14.87	\$17.76	\$21.72	\$54.99
Unadjusted Range Per Usable Sq. Ft.			-21.0%	-2.3%	-11.2%	-15.4%
Adjusted Range Per Usable Sq. Ft.			\$65.01	Weighted Average	\$23.55	
Most Comparable			\$54.99	Weighted Average	\$21.07	
Concluded Price Per Usable Sq. Ft.			\$14.87			
Unencumbered Concluded Value			\$14.75			
Deed Restriction Discount			\$6,874,857			
Value Range (Rounded)			(\$1,374,971)			
			\$5,500,000			

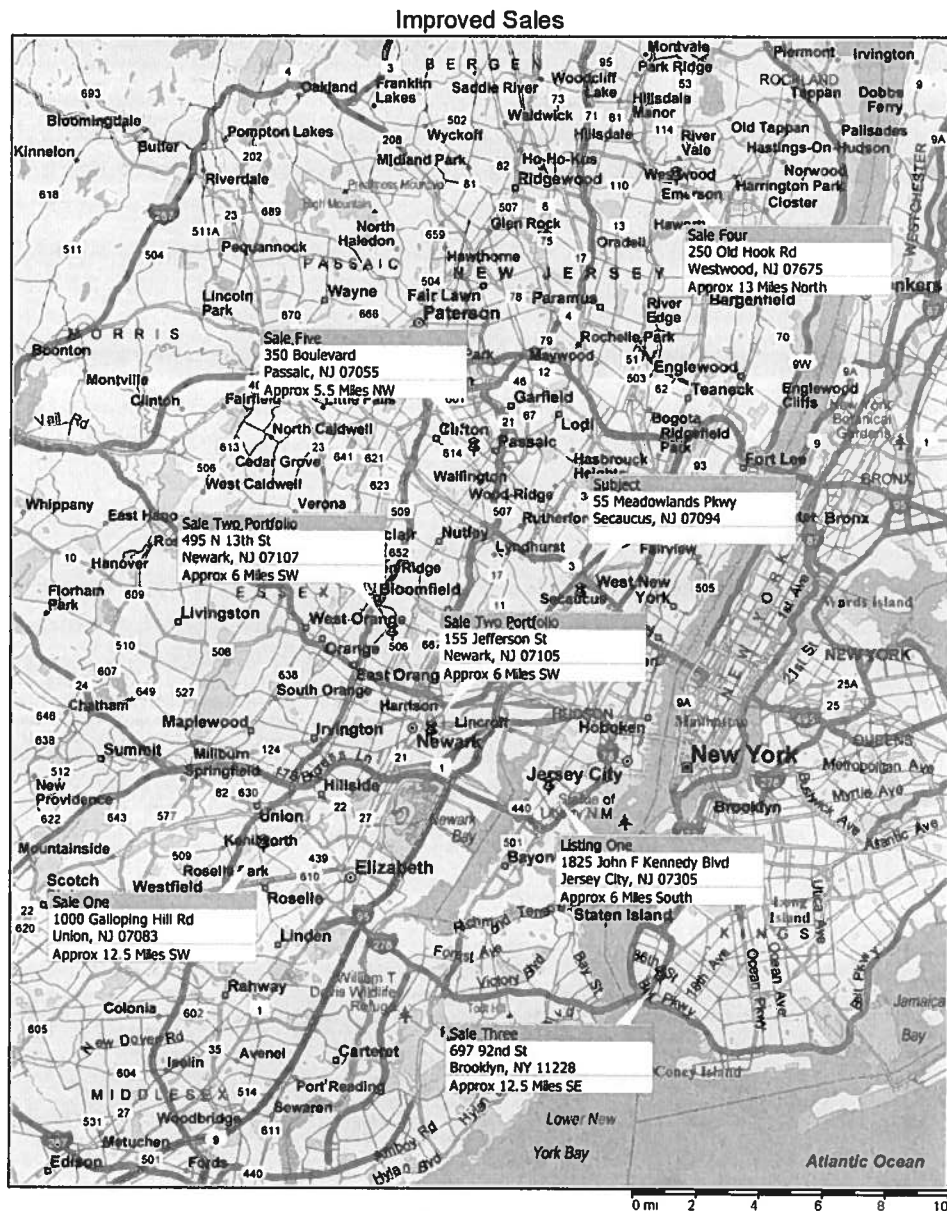
Conclusion

The zoning of the comparables allows for development of commercial and mixed-uses, including medical properties. Because of the subject property's deed restriction, we have estimated that a buyer would apply a 20 percent discount from the concluded unencumbered value. It is difficult to locate empirical data for this deduction as one would have to locate matched pairs of vacant land sales; one without a deed restriction, and one with a deed restriction. Because of the lack of land sales activity in the area this is not available.

Listing One is considered most comparable because it is similar in location, river frontage, zoning, and size. Based on the information provided and our inspection of the comparables, we have given the most weight to Listing One which had an adjusted price of \$14.87 per square foot. Our unencumbered value for the subject site is \$6,874,857 or \$14.75 per usable square foot. As discussed, a 20 percent discount was applied to the unencumbered value to account for the deed restriction. Our concluded fair market value for the subject site is \$5,500,000 or \$11.80 per usable square foot.

Sales Comparison Approach – Improved Listings and Sales

We have been asked to value the underlying assets of the Meadowlands Hospital. This encompasses the real estate which is a hospital building, a small industrial storage building that contains the hospital power plant, the underlying land, and site improvements; but does not include the CON or the personal property. An analysis of the six improved hospital comparables shows that two are closed hospitals with no CONs, two were hospitals but are now being used as medical office buildings, and two are operating hospitals with CONs. The size of the six hospital buildings included in this analysis range from 56,000 to 450,000 square feet. All of the facilities were built from 1910 to 1973 and were originally operated as acute care hospitals.



Improved Sales										
Date	Subject	Listing One	Sale One	Sale Two	Sale Three	Sale Four	Sale Five			
Date of Value/Sale	Jul-10	Listing	Feb-10	Nov-08	Jul-08	May-08	Feb-07			
Hospital Square Feet	194,466	56,000	141,526	363,000	332,127	450,000	150,000			
Site Size (Usable Sq. Ft.)	466,092	30,056	217,800	164,778	87,090	889,534	369,389			
Floor to Area Ratio (FAR)	0.4	1.9	0.6	2.2	3.8	0.5	0.4			
Year Built	1976	1910	1962	1955 & 1973	1918	1959	1911			
Building Type	Hospital	Hospital	Hospital	Two Hospitals	Hospital	Hospital	Hospital			
Current Use	Operating Hospital	Closed Hospital	Closed Hospital	Medical Office Building	Hospital/Nursing Home	Medical Office Building	Operating Hospital			
Certificate of Need	Yes	No	No	No	Yes	No	Yes			
Address	55 Meadowlands Parkway	1825 John F Kennedy Boulevard	1000 Galluping Hill Road	495 N. 13th Street &	697-709 92nd Street	250-270 Old Hook Road	330-389 Boulevard			
City	Secaucus, NJ	Jersey City, NJ	Union, NJ	Newark, NJ	Brooklyn, NY	Westwood, NJ	Passaic, NJ			
Buyer	MHA, LLC.	Not Applicable	Union Medical Park LLC	Med Realty Group	Sunset LG Realty LLC	Touro University College of	St. Mary's Hospital			
Seller	Liberty Healthcare System, Inc.	Liberty Health	Union Hospital	Columbus Acquisition Corp.	Victory Memorial Hospital	Pascack Valley Hospital	Beth Israel Hospital of Passaic			
Sale Price	\$15,000,000	\$4,000,000	\$5,000,000	\$25,100,000	\$44,900,000	\$45,000,000	\$17,060,900			
Unadjusted Price Per Sq. Ft.	\$77.13	\$71.43	\$35.33	\$69.15	\$135.19	\$100.00	\$113.74			
Months from Sale Date		0	5	21	25	27	42			
Conditions of Sale/Market Conditions		80%	100%	85%	82%	80%	71%			
Adjusted for Listing/Sales Date		\$57.14	\$35.33	\$58.49	\$110.59	\$80.45	\$80.71			
Adjusted Improved Sales		Minimum	Maximum	Median	Weighted Average					
Range Per Sq. Ft.		\$35.33	\$110.59	\$69.47	\$69.45					
Current Use Conclusions		Minimum	Maximum	Average						
Closed Hospitals		\$35.33	\$57.14	\$46.24						
Medical Office Buildings		\$58.49	\$80.45	\$69.47						
Operating Hospitals		\$80.71	\$110.59	\$95.65						
Concluded Fair Market Value Indication per Sq. Ft.		\$55.00	to	\$59.00						
Fair Market Value Range via Sales Comparison Approach		\$10,700,000	to	\$11,300,000						
Notes										
Subject	The subject is located in Secaucus, New Jersey approximately seven miles northeast of Newark and four miles west of New York City via the Lincoln Tunnel. The subject site has frontage on the Hackensack River and is located across the street from the North American headquarters of Panasonic Corporation. The site is located within close proximity to multiple commuting thoroughfares including: Interstate 95/New Jersey Turnpike (one mile to the south and east), Route 3 West/Lincoln Tunnel (half mile to the north), Interstate 280 (four miles to the southwest), and Interstate 80 (five miles to the southwest). According to Secaucus Township, the site is zoned Commercial Park (CP). CP zoning allows for various commercial uses including hospitals and healthcare services. The subject site, however, is deed restricted to only hospital and/or related medical purposes. Meadowlands Hospital is a 204 bed acute care hospital with an additional 30 rehabilitation beds; however, not all of these beds are being used. The building was originally built in 1976 and has been updated throughout the years including, a lobby renovation in 2008; an expansion of the second floor, and partial renovation in 2005.									
Listing One	Listing One is located approximately six miles south of the subject. The property is situated on a busy four lane road that has primarily small commercial properties and government buildings. The hospital building has two sections that range from three to five stories and had the capacity for 100 beds. Reportedly, the hospital was closed in April 2008 and the certificate of need was returned to the state. The building is currently vacant and listed for sale. The property shares the same ownership (Liberty Health) as the subject. The building is in average condition and has been constructed with a brick veneer exterior.									
Sale One	Sale One is located 12.5 miles southwest of Meadowlands Hospital. The building served as a former acute care general hospital until it closed in 2007. Negotiations for the purchase of the former Union Hospital began in late 2007 but the transaction did not occur until February 2010. The new owners purchased the property for redevelopment of a medical mall. Reportedly, the total project cost of \$11,750,000 includes the purchase price of \$5,000,000 and \$6,750,000 for repositioning and construction costs (includes tenant improvements and carrying charges). The medical mall will be a multi-tenanted commercial facility with non-acute care medical services.									
Sale Two	Sale Two is a portfolio of two prior hospitals located approximately six miles southwest of the subject. The two properties (St. James and Columbus Hospitals), which are located just over three miles from each other, were originally purchased along with a third hospital (Saint Michaels) by Catholic Healthcare East (CHE). CHE elected to sell St. James and Columbus Hospitals as a sale leaseback transaction to Med Realty Group. Reportedly, CHE leased back 85,000 and 50,000 square feet at St. James and Columbus hospital, respectively. At the time of the transaction, both hospitals were converted to medical office buildings that offer health related services.									
Sale Three	Sale Three is located 12.5 miles southeast of the subject in Brooklyn, New York. The transaction was approved by the U.S. Bankruptcy Court and includes the hospital's main campus site and two operating businesses. The businesses that transferred were noted as a 150 bed skilled nursing operation and a 400 patient home healthcare practice. The new ownership arranged for continued operation of both of these programs, as well as the hospital's clinics and other medical services. The emergency room and acute care services have been discontinued.									
Sale Four	Sale Four is located approximately 13 miles north of the subject. The building served as the former Pascack Valley Hospital until it closed in 2007. A joint venture between Hackensack University Medical Center and Touro University College of Medicine acquired the improvements in an auction sale. The transaction was approved by the U.S. Bankruptcy Court. Hackensack University Medical Center, however, is still awaiting permission from the state to reopen the facility as a 128 bed community hospital. Currently, the facility offers only non-life-threatening emergency treatment. Patients who require more than 12 hours of observation, or in-patient admission to a full-service hospital, are transferred to HDMC's main hospital in Hackensack.									
Sale Five	Sale Five is located approximately 5.5 miles northwest of the subject. The building was purchased from Beth Israel Hospital of Passaic, which was going through bankruptcy at the time. The buyer (St. Mary's Hospital) was originally operating out of another facility on the outskirts of Passaic. St. Mary's Hospital closed out of this building since the transaction.									

Conclusion

Due to the similar nature of the comparable sales (relatively older hospitals in average condition), we did not make subjective individual adjustments to the six properties. Adjustments were made, however, for conditions of sale for Listing One and market conditions for Sales Two through Five, which were acquired between February 2007 and November 2008. Listing One was adjusted downward for conditions of sale since it is not a closed transaction and will likely sell for a lower price. Downward adjustments for market conditions of the four dated sales were required due to the decline in the real estate market over the past three years resulting in historically higher property values. The February 2010 sale is a good indicator of falling prices as it sold for \$35.33 per square foot, the lowest in the range.

The two closed hospitals (Listing One and Sale One) are considered to be most similar to the subject, as they do/did not have a CON and were for sale/purchased for the real estate. We have also placed additional weight on Sale Two, the next most recent transaction. This transaction represented two closed hospitals that were sold for the real estate and are currently being used as medical office buildings. The adjusted listing/sale prices for these three comparables range from \$35.33 to \$58.49 per square foot. The adjusted sales prices for the remaining three sales range from \$80.45 to \$110.59 per square foot. Placing our reliance on the three most recent transactions, we have concluded to a value range of \$55.00 to \$58.00 per square foot or from \$10,700,000 to \$11,300,000 (rounded).

Cost Approach

Hospitals are frequently valued using a cost approach as they are designed for a specific use and often expand and are renovated over time. However, the cost approach has weaknesses as it does not adequately measure functional obsolescence or external influences on property value such as market or neighborhood downturns.

A cost estimate for the hospital facility was performed using Marshall & Swift's cost manual. Replacement cost new was estimated by building type. Refinements such as heating/cooling and sprinklers were then added. Perimeter and story height, as well as current and local multipliers, were then applied to the base costs to arrive at a replacement cost new. Soft costs are then added to the replacement cost new, which were then depreciated based on the physical age (current condition) and the expected life.

The improved sales in the market place indicate external obsolescence since the transaction prices are substantially below the replacement costs of the facilities. External obsolescence is a result of factors and influences outside the property. The external obsolescence has been calculated by taking the difference between the sales comparison and cost approaches. This difference is then applied to the depreciated building value. Because the property is suffering from external obsolescence, the profit is highly unlikely. Therefore, entrepreneurial profit has not been included in the cost approach. The final step in the cost approach is adding the previously estimated land value and depreciated site improvements.

Site Improvements

The site improvements were valued using the cost approach. An allocation of site costs was used based on information provided by Marshall & Swift per unit of measures that included per square foot, per linear foot, or quantity. The estimates include site costs, where applicable, such as asphalt paving, sidewalks, landscaping, parking, and a gate operator. This number is then adjusted based on local multipliers to estimate the replacement cost new. An estimate of effective age based on the actual age or the condition of the improvements is divided by the total estimated life of the site improvements. The resulting depreciation is then applied to the replacement cost new estimate to arrive at the depreciated replacement cost.

Depreciated Site Improvements											
55 Meadowlands Parkway											
*Item	Quantity/ Sq. Ft. or No. of Units	Unit Cost	Undepreciated Base Cost	Current Multiplier	Local Multiplier	Adjusted Base Cost	Effective Age	Economic Life	Depreciation	Depreciated Replacement Cost	Remaining Life
Asphalt Paving	45,913	x \$1.70	\$78,052	1.02	1.27	\$101,109	5	8	63%	\$37,916	3
*Parking Spaces	325	x \$1,229	\$399,425	1.02	1.27	\$517,415	5	8	63%	\$194,031	3
Gate Operator, Coin	1	x \$2,300	\$2,300	1.02	1.27	\$2,979	5	8	63%	\$1,117	3
**Sidewalks	1,000	x \$4.05	\$4,050	1.02	1.27	\$5,246	12	20	60%	\$2,099	8
**Landscaping	21,780	x \$2.55	\$55,539	1.02	1.27	\$71,945	6	10	60%	\$28,778	4
			\$539,366			\$698,695				\$263,940	
									Rounded	\$260,000	

Sources:

* A total square footage for the asphalt paving was provided by the on-site facilities engineer. The parking spaces were calculated as 102,375 square feet (325 spaces x 315 square feet per space), leaving the remaining 45,913 square feet attributed to the standard 2" asphalt paving.

**Concrete sidewalks and landscaping were estimated based on the site inspection and site survey provided.

The concrete ramps were not included as site improvements as they are functionally obsolete and would not be replaced.

Marshall & Swift

Base Costs - Section 66, Pages 2, 3, 8; Section 99, Pages 3, 9; Section 97, Page 13

Cost Approach						
Property Characteristics - General Hospital				Marshall & Swift		
General Hospital - Class A	188,616			Property	General Hospital	
Power Plant & Maint. Shop	5,850			Section	15	
Total Gross Sq. Ft.	194,466			Pages	24, 25, 36, 37	
Building Perimeter (Linear Sq. Ft.)	1,000			Property	Power Plant - Class C Industrial Storage	
Year Built	1976			Section	14	
Condition	Average			Page	26	
Sprinklers	Yes					
Stories	5			Section	97	Expected Life
Elevators	5			Pages	8	
Ceiling Clear Height	13'			Section	99	Current and Local Multipliers
Licensed Bed Capacity	204			Pages	3, 9	
Base Costs	Costs Per Unit	Square Feet	Multipliers	Cost		
General Hospital - Class A Average	\$242.99	188,616		\$45,831,802		
Power Plant & Maint. Shop - Class C Average	\$36.29	5,850		\$212,297		
Refinements - Not included in base costs						
Plus Heating, Cooling, Ventilating (moderate climate)	\$26.40	188,616		\$5,133,902		
Plus Sprinklers	\$1.95	194,466		\$379,209		
Adjusted Base Cost				\$51,557,209		
Multipliers						
Number of Stories Multiplier	Over Three Stories	0.50%	2	1.01		
Perimeter Multiplier				0.91		
Story Height Multiplier				1.02		
Subtotal				0.94	\$48,316,303	
Current Multiplier				1.03	\$49,765,792	
Local Multiplier				1.27	\$63,202,556	
Replacement Cost New - Building				1.31	\$63,202,556	
Soft Costs (% of Total Hard Cost)				10.00%	\$6,320,256	
Estimated Replacement Costs New (Hard & Soft Costs)					\$69,522,812	
Entrepreneurial Profit (%of Hard & Soft Costs)				0.00%	\$0	
Estimated Replacement Costs - New Building					\$69,522,812	
Less Capital Expenditures - Year One					\$0	
Subtotal					\$69,522,812	
Depreciation - Age/Life Method	Expected Life	Effective Age		Depreciation		
Less Physical Deterioration	45	34		75.56%	(\$52,528,347)	
Subtotal					\$16,994,465	
				Range	Low	High
Less External Obsolescence (market derived)					(\$12,054,465)	(\$11,454,465)
Depreciated Building Value (Building As If Vacant)					\$4,940,000	\$5,540,000
Plus Land Value					\$5,500,000	\$5,500,000
Plus Depreciated Site Improvements					\$260,000	\$260,000
Estimated Fair Market Value via Cost Approach					\$10,700,000	\$11,300,000
Indicated Fair Market Value per Sq. Ft.					\$55.02	\$58.11

The depreciated value via the cost approach is \$22,754,465 before a deduction for external obsolescence. This value reflects the real estate and includes the buildings, land, and site improvements. The difference between the cost approach and the sales comparison approach ranges from \$11,454,465 to \$12,054,465. The sales in the market place indicate external obsolescence since the transaction prices are substantially below the replacement costs of the facilities. Therefore we have extracted the difference between two approaches and applied it to the cost approach. The external obsolescence deduction ranges from \$11,454,465 to \$12,054,465.

External Obsolescence Calculation		
	to	
Fair Market Value Range via Sales Comparison Approach	\$10,700,000	\$11,300,000
Fair Market Value via Cost Approach		
Building	\$16,994,465	\$16,994,465
Land	\$5,500,000	\$5,500,000
Site Improvements	\$260,000	\$260,000
	<u>\$22,754,465</u>	<u>\$22,754,465</u>
Difference between Sales Comparison and Cost Approach	\$12,054,465	\$11,454,465
External Obsolescence	\$12,054,465	\$11,454,465

Reconciliation**Meadowlands Hospital - 55 Meadowlands Parkway**

Total Usable Land Area (Square Feet)	466,092	
Total Hospital Building Square Feet	194,466	
Cost Approach		to
Land Value	\$5,500,000	\$5,500,000
Depreciated Site Improvements	\$260,000	\$260,000
Depreciated Building Costs	<u>\$4,940,000</u>	<u>\$5,540,000</u>
Cost Approach	\$10,700,000	\$11,300,000
Conclusion Via Cost Approach (Rounded)	\$10,700,000	\$11,300,000
Price Per Square Foot	\$55.02	\$58.11
Sales Comparison Approach	\$10,700,000	\$11,300,000
Conclusion Via Sale Comparison Approach (Rounded)	\$10,700,000	\$11,300,000
Price Per Square Foot	\$55.02	\$58.11
Final Value Conclusion		
NCI Fair Market Value Range	\$10,700,000	\$11,300,000
Fair Market Value per Sq. Ft. Range	\$55.02	\$58.11

The subject property was built in 1976 and has undergone partial renovations from 2004 to 2010. However, substantial physical deterioration has occurred. The building also suffers from external obsolescence due to overcapacity and overlapping of services in the region. Because of this overcapacity and overlapping, there have been a wave of hospital restructurings, bankruptcies, and facility closures in the Northern New Jersey area. Downsizing of the healthcare industry in New Jersey has occurred over the past few years which provided sufficient market data for hospital buildings. One active listing and five sales transactions since February 2007 were detailed in the report. The listing and sales data further indicates an external obsolescence for hospital buildings in this region. NCI developed the cost approach and deducted the external obsolescence derived from the market. The cost approach best provides an indication of the subject's fair market value.

Based on the scope of work outlined in the report, we have developed an opinion that the fair market value of the fee simple estate of the subject property, "as-is" on July 31, 2010 was from:

Ten Million Seven Hundred Thousand Dollars to Eleven Million Three Hundred Thousand Dollars
\$10,700,000 to \$11,300,000

This Appendix is a part of a larger valuation report and assignment and is not intended to be relied upon separately.

Addenda

Deed with Restrictive Covenant

104-DEED - BARGAIN AND SALE COVENANT AGAINST GRANTOR 1 37 COPYRIGHTS 1966 BY ALL-STATE OFFICE SUPPLY CO. 49 EDITION PLACE, NEWARK, N. J. 07102

Whta Beed, made the 18th day of December, 1972

Between **HARTZ MOUNTAIN INDUSTRIES, INC.**

a corporation existing under and by virtue of the laws of the State of New York having its principal office at P.O. Box 1411, Hartz Way, in the Town of Secaucus in the County of Hudson and State of New Jersey herein designated as the Grantor, and **Malcolm Moyer, Sidney T. Boyardus, George H. Brown, Jr., Thomas P. Coogan and William R. Klaus**, not individually but only as Trustees of **BUILDERS INVESTMENT GROUP**, a Florida Business Trust dated August 30, 1971, as amended and restated

residing or located at **750 EAST SWEDSFORD ROAD** in the County of **VALLEY FORGE** and State of **PENNSYLVANIA** herein designated as the Grantee;

Witnesseth, that the Grantor, for and in consideration of **\$950,000.00** (NINE HUNDRED FIFTY THOUSAND DOLLARS AND 00/100)

lawful money of the United States of America, to it in hand well and truly paid by the Grantee, at or before the sealing and delivery of these presents, the receipt whereof is hereby acknowledged, and the Grantor being thereunto fully satisfied, does by these presents grant, bargain, sell and convey unto the Grantee forever,

all that tract or parcel of land and premises, situate, lying and being in the Town of Secaucus in the County of Hudson and State of New Jersey, more particularly described EXHIBIT on Schedule A attached hereto and made a part hereof.

Together with an easement of ingress and egress to and from said premises over and upon Meadowland Parkway until such time as Meadowland Parkway is dedicated to and accepted by the governmental authority having jurisdiction, at which time said easement shall be deemed automatically null and void without the execution of any instrument of cancellation.

The conveyance herein is made upon the express condition, and the grantee for itself and its successors and assigns, covenants and agrees, that said premises shall be used only for hospital and/or related medical purposes and shall not be used for any other purpose. This covenant shall run with the land, and may only be waived by the Grantor or its successors and assigns.

RESERVING AND SUBJECT TO easements for storm drainage purposes in, under, over and upon the parcels of land situated, lying and being in the Town of Secaucus, County of Hudson, State of New Jersey, more particularly described on Schedule B attached hereto and made a part hereof.

SUBJECT TO:

1. Terms of Grant, other than provision that the grantee must be the owner of the upland, made by the State of New Jersey to New York Air Terminals, Inc., recorded in Deed Book 1806 page 298.
2. Easement of Public Service Electric & Gas Company as recorded in Deed Book 3092 page 93. (Affects actual or proposed street areas as shown on a drawing entitled, "Site Plan for Zone Center, Secaucus, N.J. June 30, 1969, Scale 1" = 400', prepared by Sailer & Sailer, Civil Engineers & Surveyors, 215 Westfield Ave., Elizabeth, N.J.)
3. Easement to Hackensack Water Company dated December 14, 1970 and recorded February 23, 1971 in Deed Book 3094 Page 378. (Affects areas as shown on sketch attached to copies of said easement).
4. Paramount rights of the United States Government to fix a line from time to time for navigation or a pier head line at any point below highwater mark, without compensation.
5. Premises are subject to the terms and conditions of Chapter 404, Laws of 1968 of New Jersey, "Hackensack Meadowlands Reclamation & Development Act."

3133 M-209

COUNTY OF HUDSON
CONSIDERATION
RECEIVED
DATE 12/22/72

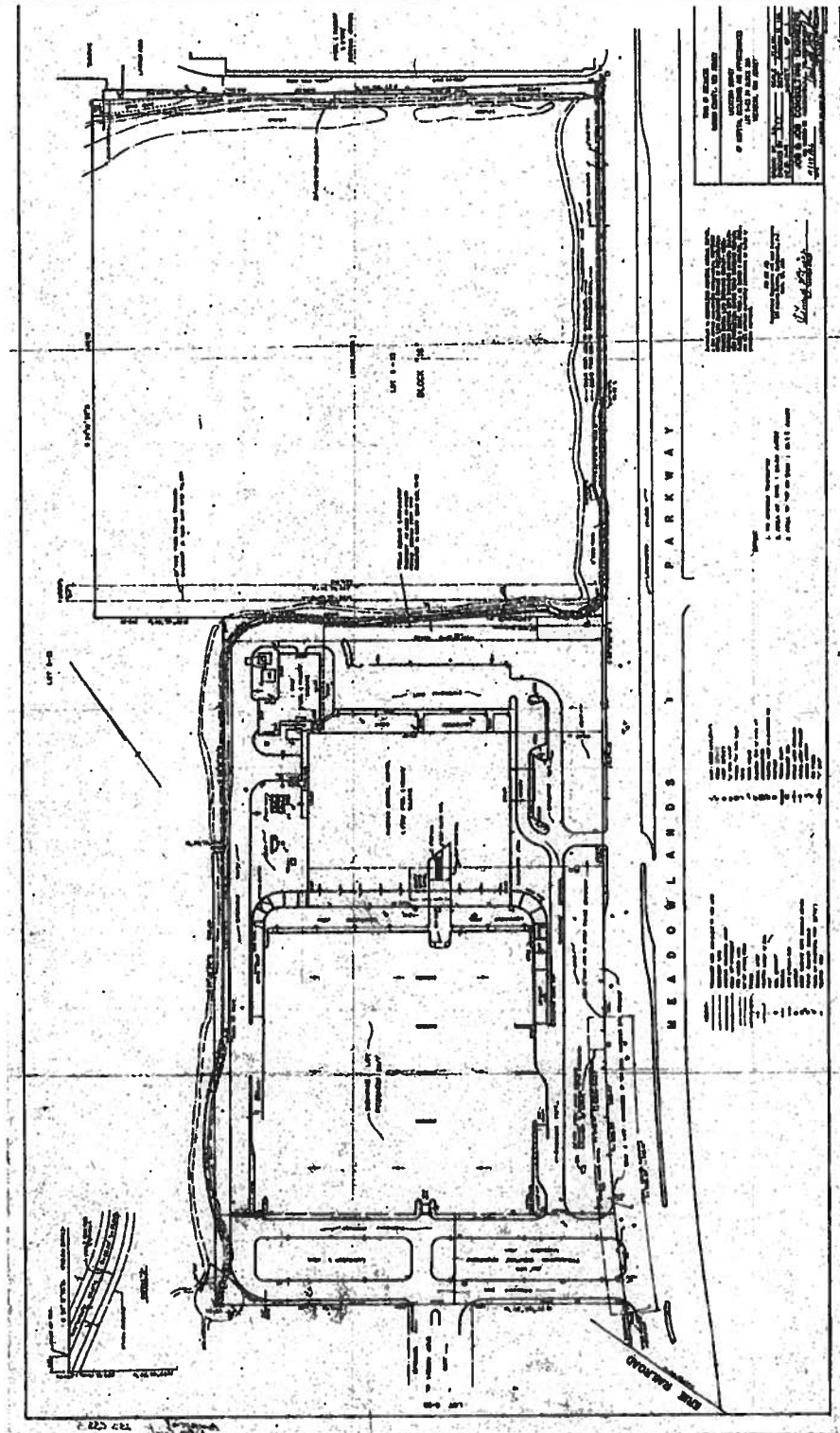
Legal Description

SCHEDULE A

Lot 5-23 in Block 16 as shown on a minor subdivision map entitled "Sketch plat for proposed subdivision of premises situated in the Town of Secaucus, Hudson County, New Jersey. Proposed subdivision being Lots Nos. 1, 5-1 and 5-20 in Block 16 as shown on a map entitled, "Map of Hartz Mountain Free Zone Center, situated in Secaucus, Hudson Co., N.J." sheets 3 and 4, Made by Sailer & Sailer, Engineers and Land Surveyors, dated Oct. 4, 1971, revised Nov. 11, 1971. Filed in the Register's Office of Hudson County December 13, 1971 as Map No. 2287"; said minor subdivision map being dated January 4, 1972 and filed in the Hudson County Register's Office June 27, 1972 as Map No. 2298.

3133 N 300

Site Survey



Subject Photos



Meadowlands Hospital – Emergency Room Entrance



Exterior of Hospital – Visitor Entrance

Subject Photographs (continued)

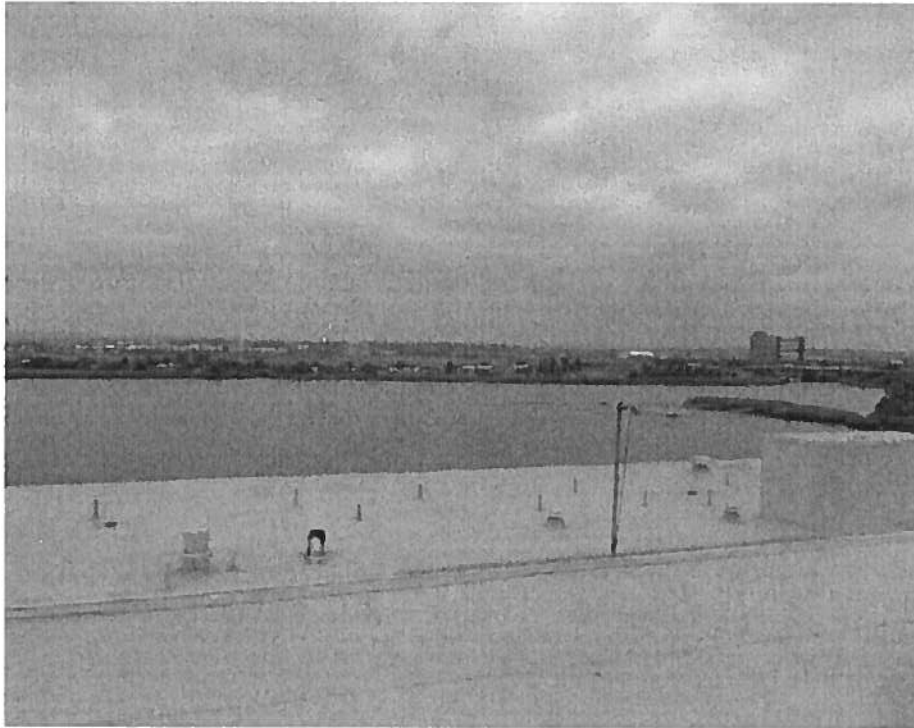


Hospital Exterior – Rear of Building (Facing Hackensack River)



Hospital Parking – Visitor Lot

Subject Photographs (continued)



Exterior – View of Hackensack River

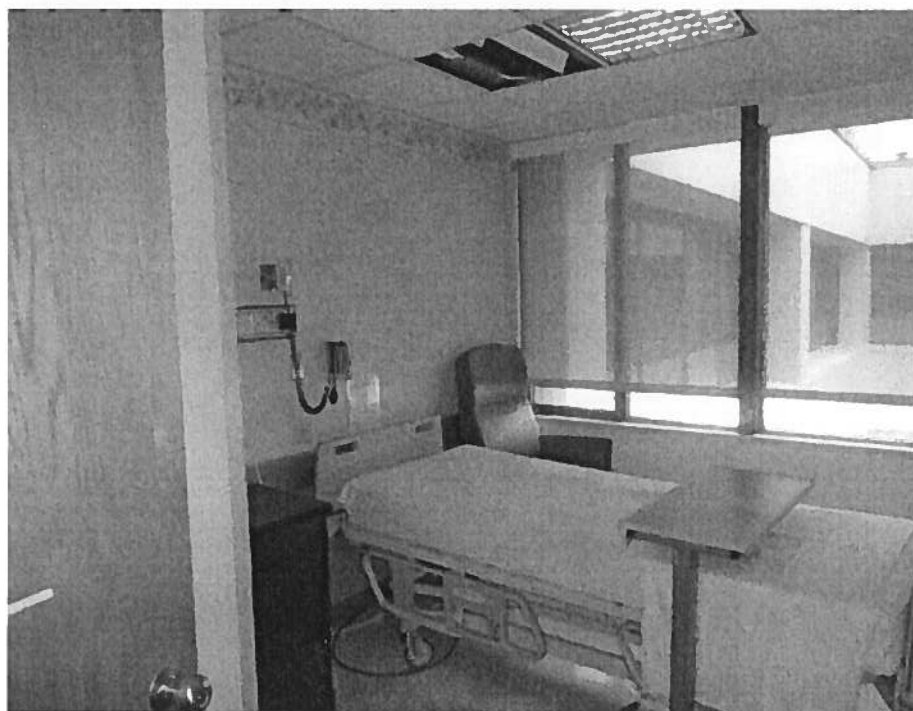


Exterior – 9.3 Acres of Undevelopable Land (Underwater)

Subject Photographs (continued)



Interior – Renovated Lobby



Interior – Typical Patient Room

Subject Photographs (continued)

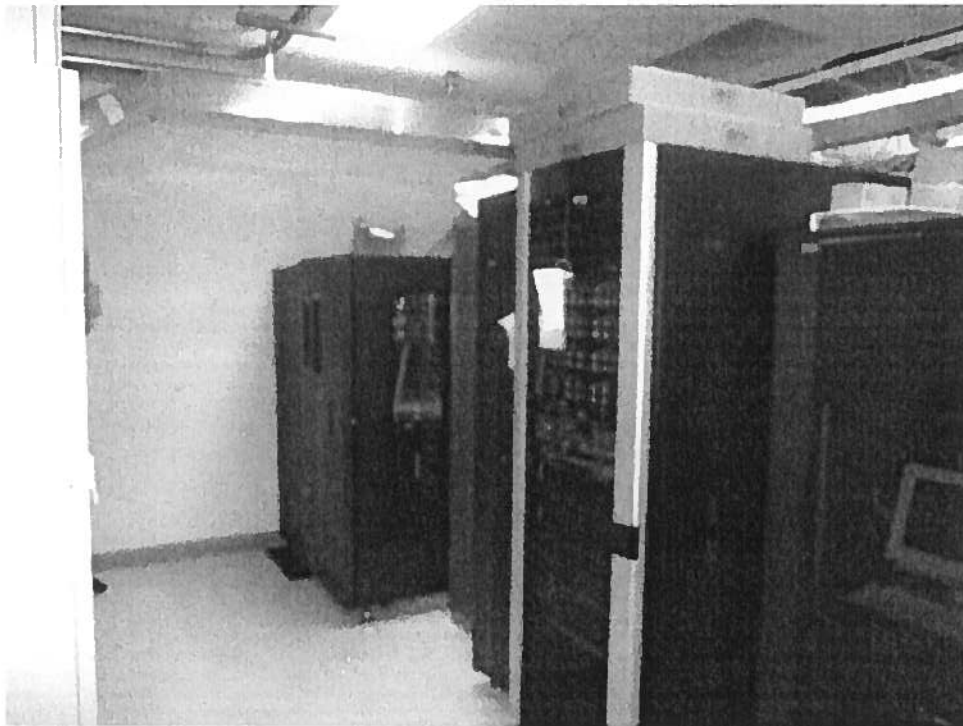


Interior – Nurses Station

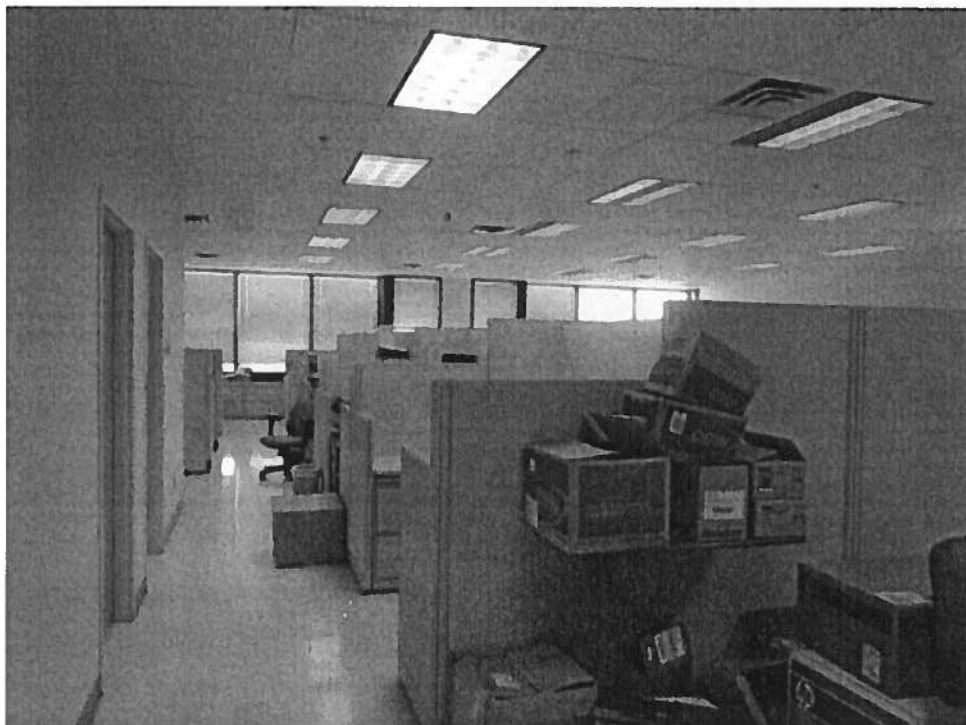


Interior – Rehabilitation Suite

Subject Photographs (continued)

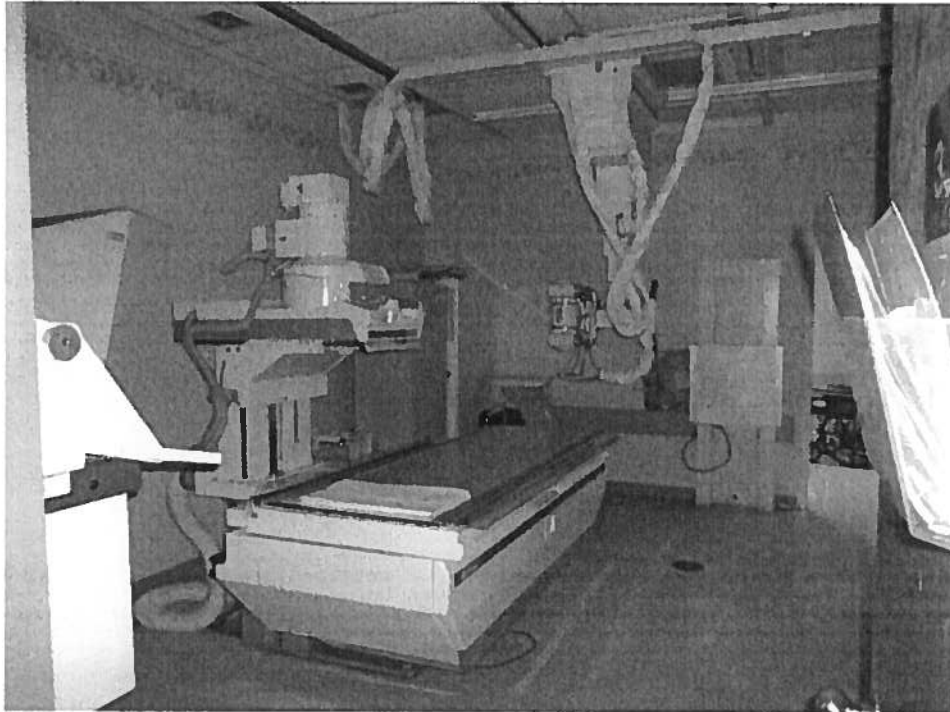


Interior – I.T./Server Room



Interior – Administration Offices with Cubicle Area

Subject Photographs (continued)



Interior – Radiology

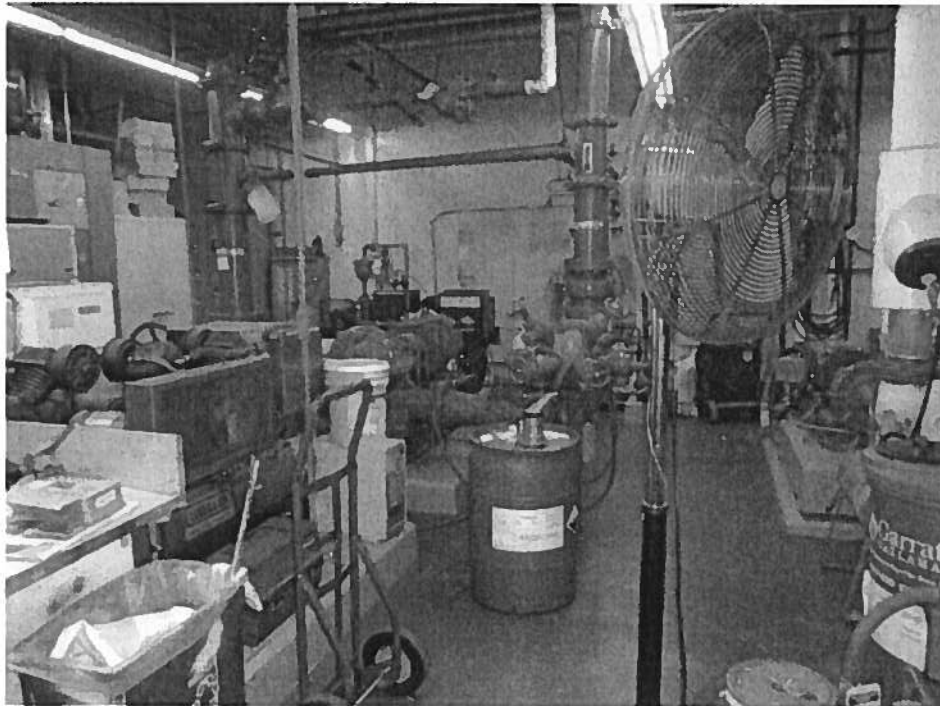


Interior – Pharmacy

Subject Photographs (continued)



Interior – Lab Area

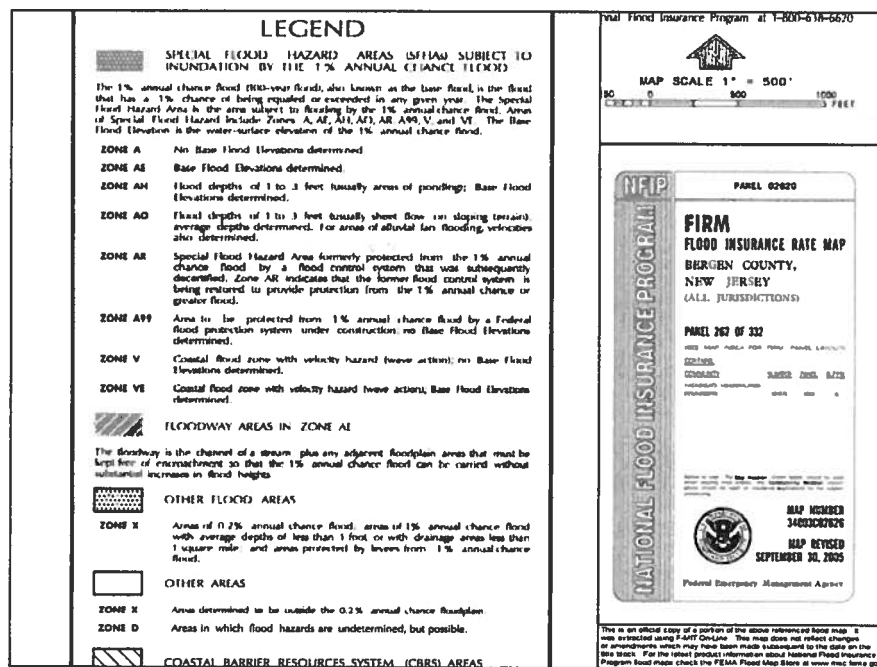
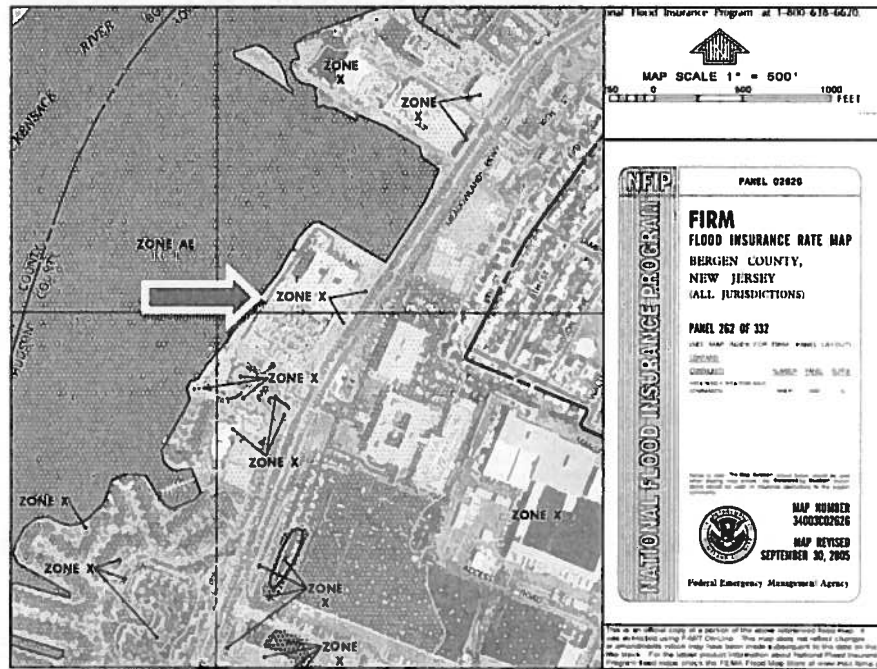


Interior of Mechanical Building

Zoning Map – Commercial Park



FEMA Map



Statement of Qualifications



Jarrett T. Schleyer

Jarrett T. Schleyer
Senior Consultant

Navigant Consulting, Inc.
1180 Peachtree Street NE
Suite 1900
Atlanta, GA 30309

Tel 404.575.3832
Fax 404.602.3500
Jarrett.Schleyer@ncacf.com

Concentration

- Valuation
- Purchase Accounting
- Acquisition Due Diligence
- Feasibility Analysis
- Market Studies
- Leasehold Analysis

Professional History

- Senior Consultant, Navigant Capital Advisors, Inc.
- President, 1st Atlanta Appraisal
- Senior Appraiser, Adams Appraisal Service
- Specialist, US ARMY

Professional Associations

- Associate Member, Appraisal Institute

Education

- B.A. in Business Administration with majors in Real Estate and Management Information Systems, University of Georgia.

Professional Registrations

- Georgia Certified General Real Property Appraiser No. 250483
- Indiana Certified General Real Property Appraiser No. CG40801052
- Arizona Certified General Real Property Appraiser No. CG31759
- Texas Certified General Real Property Appraiser No. TX-1338765-G

Current Position

Jarrett Schleyer, a Senior Consultant with Navigant Capital Advisors, the dedicated corporate finance business unit of Navigant Consulting, Inc. (NYSE: NCI), is a member of the Corporate Finance Group's Real Estate Consulting and Valuation practice.

Professional Experience

Jarrett has eight years of experience in the real estate industry providing real estate consulting, valuation, and related services for commercial properties. Jarrett's experience has included working with institutional investors, developers, lenders, and banks.

Jarrett was President of 1st Atlanta Appraisal (Valuation Services), where he performed appraisals and managed the day-to-day operations of the company's appraisal office, including five associate level staff. Prior to 1st Atlanta Appraisal, Jarrett provided valuation services as a Senior Appraiser for Adams Appraisal Service. Jarrett also served three years in the United States Army, 82nd Airborne Division. He was honorably discharged in 1999.

Jarrett provides real estate industry experience to his clients. He assists them with their valuation requirements and related strategic advisory services. He has performed and/or assisted with various complex real estate valuations and consulting assignments for developers, investment funds, lenders, and banks.

Areas of Expertise

- **Office Valuations –**
- Assisted in an annual fair market valuation of a nationwide portfolio of high-rise buildings totaling \$870 million
- Performed valuations for acquisitions of four medical office buildings located throughout the United States worth approximately \$90 million
- Valued a \$40 million proposed medical office building in Missouri
- **Multi-Family Residential Valuations –**
- Performed an appraisal of a four building, 492 unit apartment complex in Maryland; total value \$155 million
- Assisted in an annual fair market valuation of a portfolio of apartment complexes in California and Washington, D.C.; total value \$325 million
- **Condominium Valuations –**
- Assisted with three valuations of under construction or recently completed condominium projects in Washington, D.C., Virginia, and California; total value \$265 million
- Performed fair market valuations of condominium projects in California, Colorado, and North Carolina



Jarrett Schleyer

- **Retail Valuations –**
- Assisted with a valuation of a retail strip center in California, \$10 million
- Performed various appraisals of retail properties in Georgia for lending purposes
- **Land Valuations –**
- Assisted in an annual fair market valuation of a portfolio including seven tracts of land in California
- Assisted with a valuation of a small land parcel in Philadelphia for litigation purposes
- **Industrial Valuations –**
- Valued industrial projects and condominiums in Georgia for lending purposes
- **Special Use Valuations –**
- Valued a college campus in Georgia for financing purposes
- **PPA Valuations –** Performed FASB 141(R)/142 purchase price accounting valuations on a variety of property types including office, medical office, and ground leases located throughout the United States.
- Assisted in a valuation of a portfolio of four office buildings in California
- Performed valuations of four medical office buildings; total value \$20 million
- Estimated the ground lease fair values for a Medical Office Building located in Indiana and a rehab hospital in California
- **Impairment Testing of Long-Lived Assets (FASB 144) –**
- Assisted in the impairment test and subsequent fair value analysis for two upscale condominium projects in Georgia and Texas

- **Leasehold Analysis**
- Valuation of the above/below leasehold value of over 30 drug stores in the Northeast

Appendix D: Personal Property Appraisal

Valuation of Personal Property

Assets Valued

The personal property assets valued ("Subject Assets") are located at Meadowlands, Hospital in Secaucus, NJ and can be categorized within the following general asset classifications:

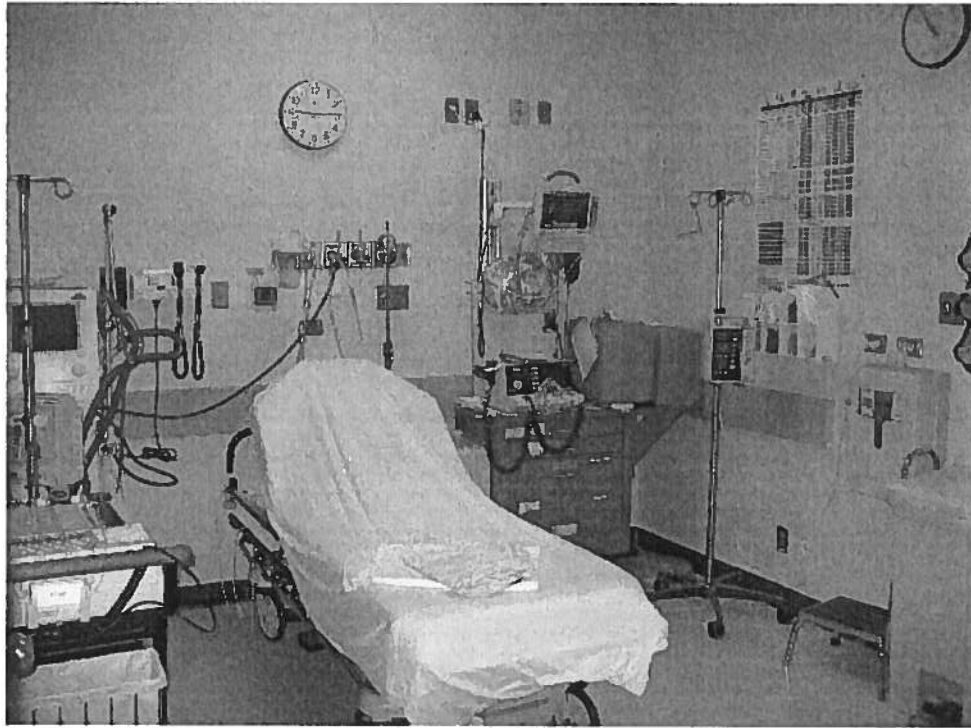
- **Computer Equipment** – includes, but not limited to, servers, desktops, laptops, monitors, printers, network equipment, etc.
- **Furniture & Fixtures** – includes, but not limited to, patient beds, chairs, tables, book shelves, book cases, cabinets, carts, couches, desks, file cabinets, etc.
- **Kitchen Equipment** – includes, but not limited to, ovens, refrigerators, coolers, fryers, broilers, freezers, stoves, toasters, salad bars, skillets, water coolers, etc.
- **Machine Tools** – includes, but not limited to, hand drills, grinders, planers, routers, sanders, hoists, jack hammers, jig saws, knife sharpeners, nail guns, saws, tool boxes, welders, etc.
- **Medical Equipment** - includes all medical equipment and devices such as nuclear imaging equipment, surgical equipment & instrumentation, radiology equipment, nuclear imaging equipment, X-ray machines, ultrasound equipment, fetal monitors, defibrillators, laboratory equipment, anesthesia equipment, EKG equipment, etc.
- **Office Equipment** – includes, but not limited to, copiers, faxes, telephones, etc.
- **Other Equipment**– includes, but not limited to, televisions, security cameras, exercise equipment, floor scrubbers, snow blowers, humidifiers, time clocks, etc.

Scope of Services

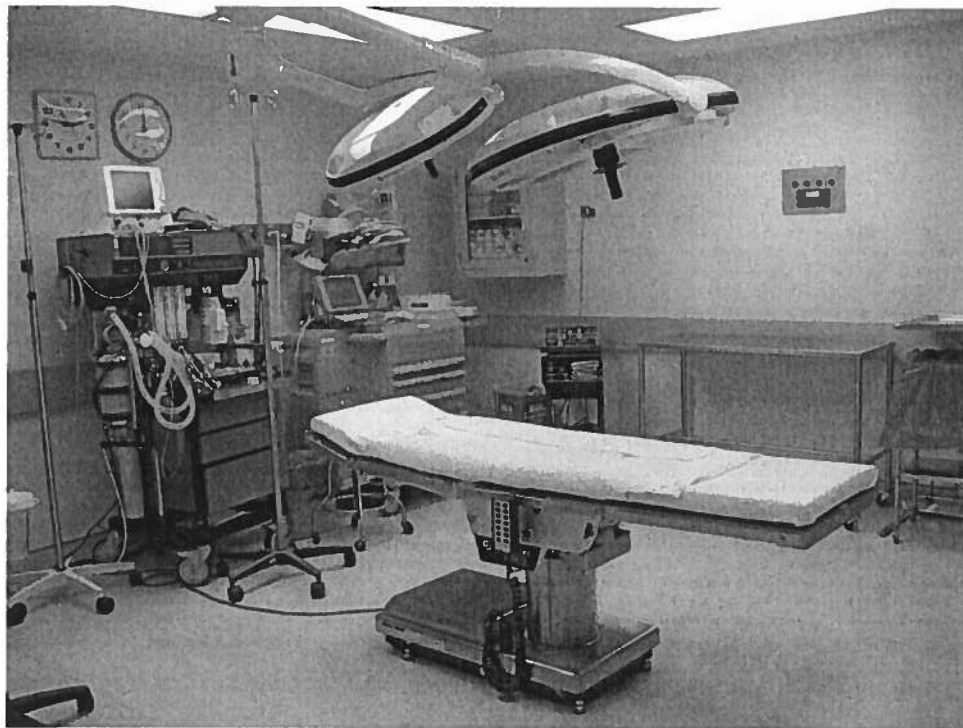
In our valuation analysis, the following steps were performed:

- Conducted hospital site visit to collect equipment information for the Subject Assets such as capacity, type, manufacturer, model, vintage, etc. The verification of major assets was performed through the site visit, gathering equipment listings at the department level, and discussions with department personnel in order to verify the fixed asset inventory listing and to estimate the quality, condition, and utility of the personal property;
- Reviewed the fixed asset inventory listing, and other documentation for the equipment and contents;
- Estimated the current cost of and the cost to install the personal property;
- Conducted industry research of personal property to estimate the replacement cost, obsolescence, and remaining useful life based on asset type, utility, quality and age;
- Held discussions with equipment vendors and distributors of similar pre-owned, refurbished and/or new personal property to determine the market value of assets and compare research results with data from published sources to determine reasonableness;
- Analyzed all the facts and data compiled resulting in a conclusion of value.

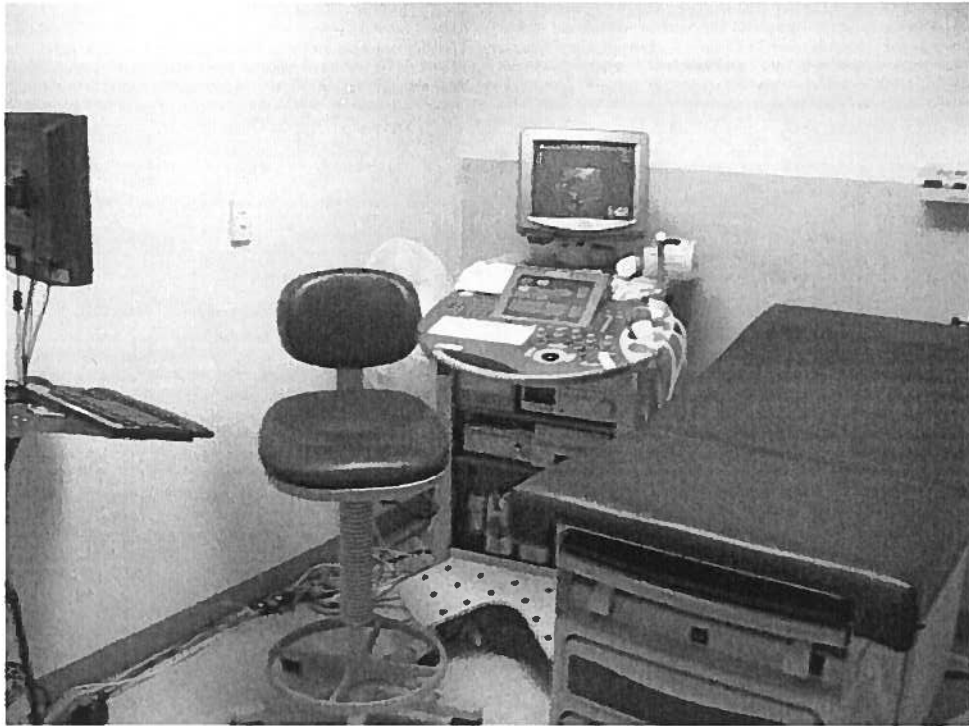
Tim Lubbe visited the Subject Assets at Meadowlands Hospital, Secaucus, NJ on Tuesday, August 3, 2010. The Subject Assets were observed to be in fair condition and of fair quality. The following photographs were gathered as a part of the site inspection.



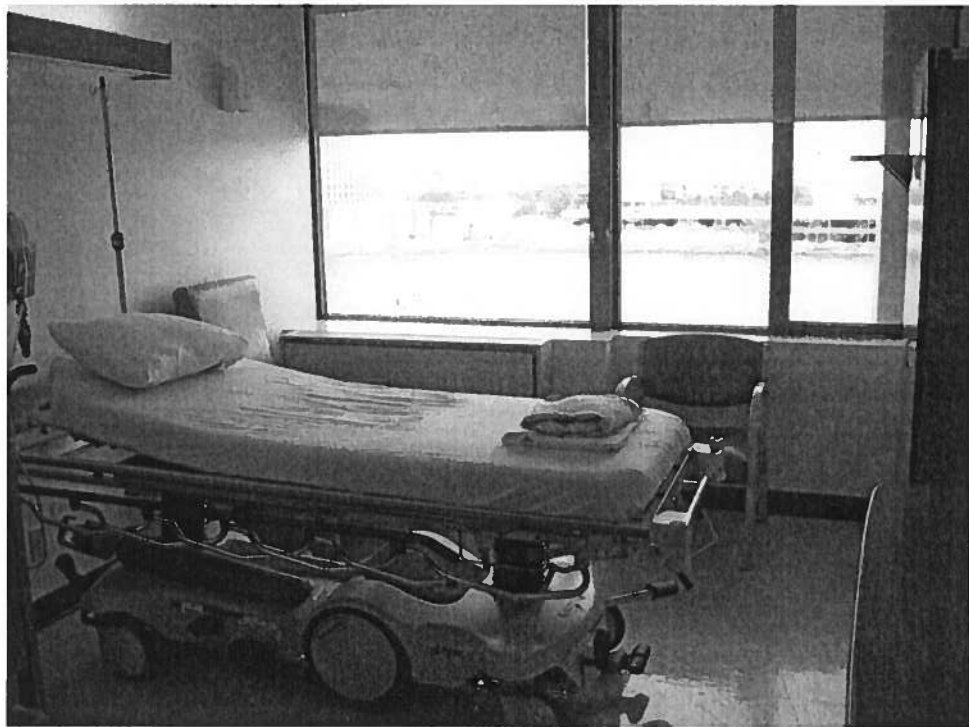
Emergency Room



Labor and Delivery Room



Maternal and Fetal Medicine Exam Room



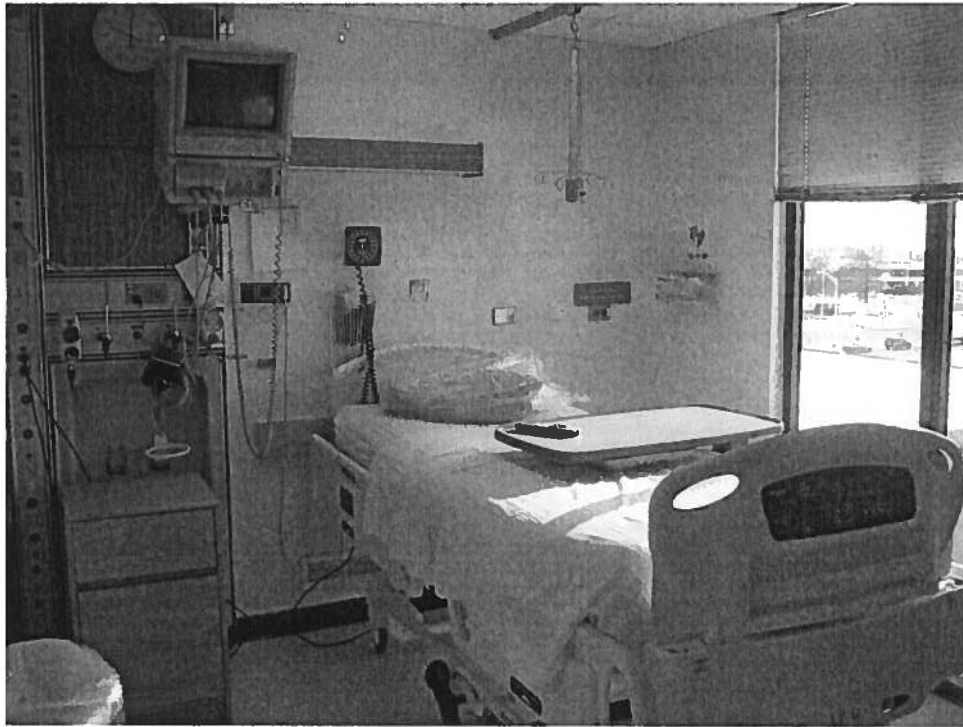
Pediatrics Patient Room



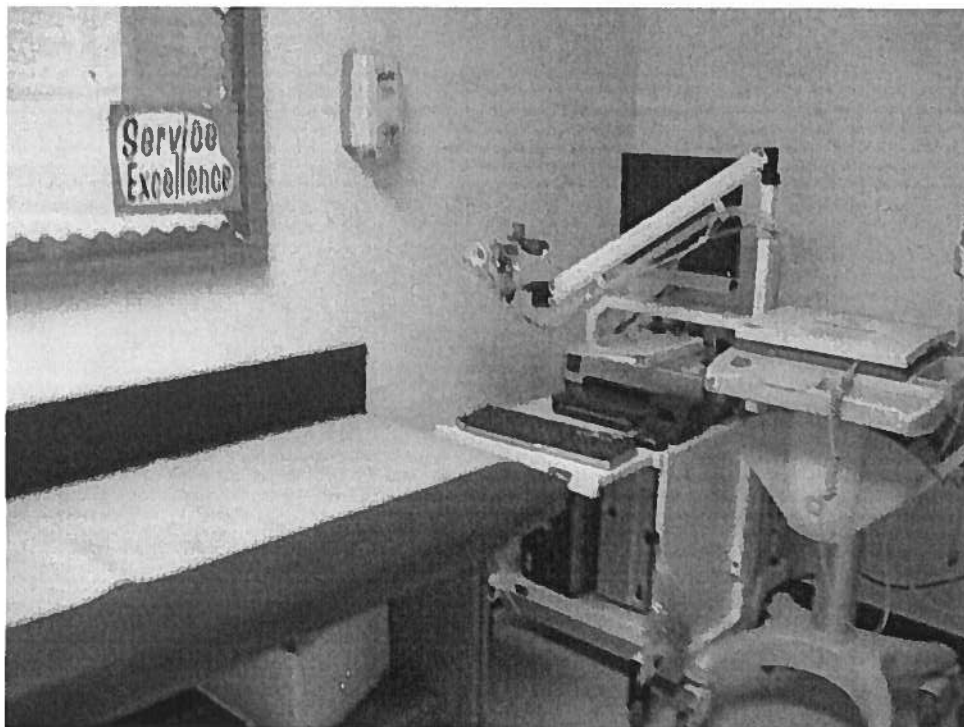
Postpartum Patient Room



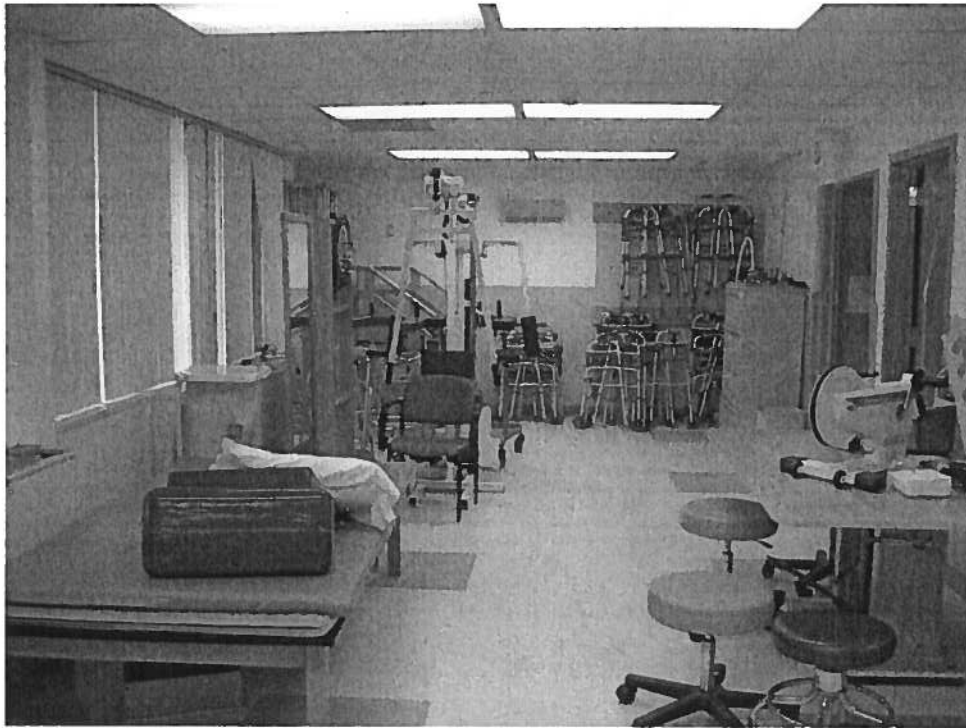
Pulmonary Patient Room



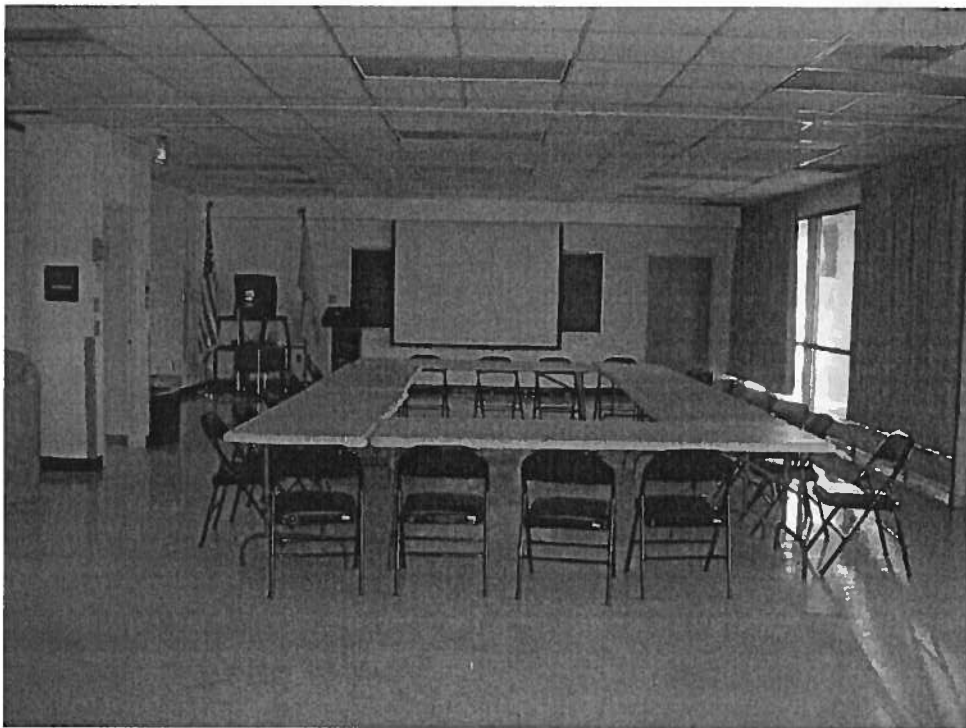
Intensive Care Unit



Respiratory Therapy EKG Room



Physical Therapy



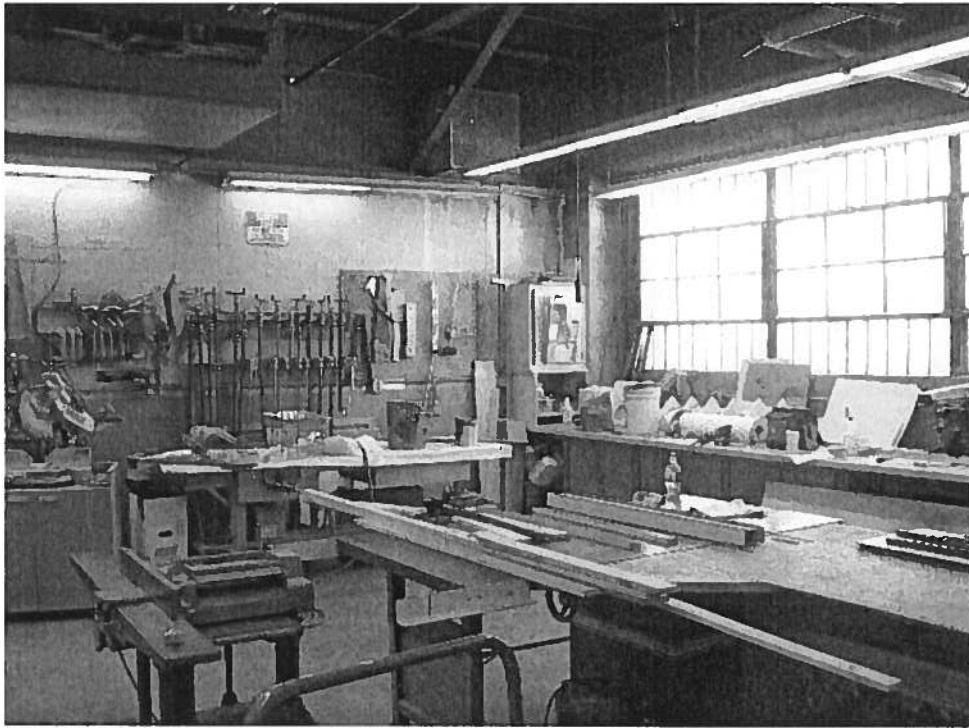
Conference Room



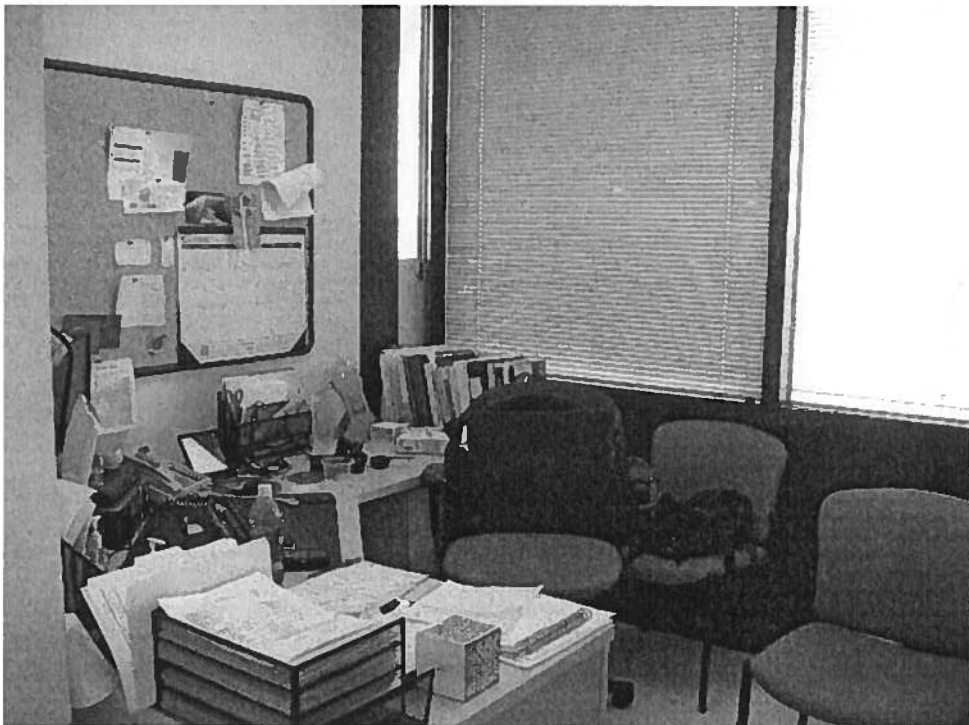
Administration Office



Cafeteria



Tool Room



Purchasing Office

Definition of Value

The standard of value used in the valuation of the personal property is Fair Market Value. Fair Market Value is defined as "the estimated amount that may be reasonably be expected for a property, in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date."

Fair Market Value In-Place

Fair Market Value In-Place assumes the use of the assets in the ongoing business and therefore includes all normal direct and indirect costs (such as installation and other assemblage costs) to make the property fully operational. Under the premise of Fair Market Value In-Place, we included certain capitalized costs in our valuation such as installation, freight, engineering costs, electrical set-up costs, and other assemblage costs that would be required to make the personal property fully operational.

Approaches to Value

Three approaches are considered in the valuation of personal property: the Cost, Income, and Market (or Sales Comparison) Approaches. The application of each of these approaches is dependent upon the nature of the assets, the availability of appropriate information, and the scope of the analysis. Based on the value indications derived from the application of appropriate methodologies, an opinion of value is estimated using expert judgment within the confines of the appraisal process. Summary descriptions of the three approaches typically used in the valuation of tangible assets are provided in the following paragraphs:

Cost Approach: The Cost Approach recognizes that a prudent investor would not ordinarily pay more for an asset than the cost to replace it new. The first step is to estimate the reproduction/replacement cost new of an asset using current materials, prices, and labor. Reproduction cost and replacement cost are defined as follows:

Reproduction Cost is the estimated cost to construct, at current prices, an exact duplicate (or replica) of the asset being appraised, using the same materials, construction standards, design, layout and quality of workmanship, and embodying all the subject's deficiencies, super-adequacies, and obsolescence.

Replacement Cost is considered to be the cost of substituting an asset with another asset having equivalent functional utility as the asset being appraised.

The cost new is then reduced by the amount of depreciation resulting from physical deterioration, functional obsolescence, and economic/external obsolescence which are inherent in the asset. The resulting depreciated replacement cost is an indication of the Fair Market Value of an asset providing all elements of depreciation are addressed. The factors of depreciation are defined in the following paragraphs:

Physical Depreciation as a result of age and wear can be divided into curable and incurable. Curable physical deterioration is a loss in value which can be recovered or offset by repairing or replacing defective items causing the loss, provided that the resulting value increase equals or exceeds the cost of work. Incurable physical deterioration is a loss in value which cannot be offset or which would involve a cost to correct greater than the resulting increase in value.

Functional Obsolescence is any loss in value resulting from inappropriate design, inefficient process flow, poor construction or layout for the intended use, and changes in the technical state-of-the-art. Functional obsolescence may be either curable or incurable.

Economic/External Obsolescence relates to the loss in value that occurs from factors external to the assets.

Market Approach: The Market (Sales Comparison) Approach estimates value based on what other purchasers and sellers in the market have agreed to as prices for comparable assets. This approach is based on the principle of substitution which states that the limits of prices, rents, and rates tend to be set by the prevailing prices, rents, and rates of equally desirable substitutes. In conducting the Market Approach for the valuation of the personal property, we gather data on reasonably substitutable assets and make adjustments for such factors as market conditions, location, conditions of sale, income characteristics, etc. The resulting adjusted prices lead to an estimate of the price one might expect to realize upon sale of the asset.

The sales comparison approach was used to value the Subject Assets, in cases where asset/data information was readily available. We contacted used equipment sellers, researched various websites, and publications to gather information regarding recent transactions and offerings of comparable assets. Similar transactions and offering prices were adjusted, as appropriate, to arrive at an estimation of the fair market value of the Subject Assets. Adjustments were considered based on the following elements of the comparable transaction data:

- Vintage
- Effective Age
- Condition
- Capacity
- Features
- Manufacturer
- Price
- Quality
- Quantity
- Date of sale
- Type of sale
- Assemblage Costs

Income Approach: The Income Approach is a valuation technique by which Fair Market Value is estimated based upon the cash flows that the subject asset can be expected to generate over its remaining useful life.

Approaches Utilized: The Cost and Market Approaches were utilized to value the Subject Assets depending on the quality and the quantity of information available related to the specific asset employed. The Income Approach was considered but not utilized in valuing the Subject Assets due to the difficulty in allocating the revenue or income streams of a business enterprise to a specific asset employed.

Sources of Information

The sources of information used in our valuation of the Personal Property included the following:

- Third party inventory of the Subject Assets with information such as Location, Department, Room, Barcode Asset Number, Floor, Asset Description, Manufacturer, Model No.
- Fixed asset record ("FAR") provided by Management with historical cost and acquisition date information;
- Historical invoices of personal property assets since 2005;
- Hospital floor plans;
- Photographs of personal property
- Physical inspection of a sampling of the assets in order to verify fixed asset records and to determine the quality, condition, and utility of the personal property.
- Discussions with Management to obtain an explanation and clarification of the data provided and to obtain additional data and descriptions of the history and future operations of the Personal Property.

We relied on this data as fairly representing the Subject Assets. We have not audited the inventory in the course of our valuation assignment. We relied on this information in:

- Identifying the assets to be valued, acquisition dates and historical costs of the assets to be valued;
- Estimating reproduction cost new and age/life based depreciation;
- Supporting information regarding the condition and operational status of the equipment;
- Identifying certain capitalized costs that would not have resale value to third-parties; and
- Overall support of the value calculations relating to the Subject Assets.

We did not consider supplies, materials on hand, or working capital as part of our analysis. Inventory was estimated at cost based on the value on the balance sheet. Our analysis is limited only to the assets described above.

Valuation Procedures

Our valuation analysis involved a market value study of the assets. We investigated the market from both a replacement cost and sales comparable standpoint. Our final conclusions take into account that the Personal Property was (with the exception of items identified by the client as idle or disposed) fully functional and operable and was utilized in its highest and best use in an efficient manner to be expected for the type of equipment (unless noted otherwise by the Client).

We reconciled the various approaches to conclude on one estimate of value for each of the assets and made adjustments to arrive at an indication of value under the presumption of installed and in-place.

In valuing the Subject Assets, for items in which there was an active secondary market and recent sales comparables exist, the sales comparison approach was utilized. In instances where market data was available, but deemed too incomplete to apply the sales comparison approach, we used the market relationship data available to support the cost approach analysis.

In instances where a Subject Asset is found to have no used market resale exposure, we utilized the cost approach. In order to utilize the cost approach, we used the fixed asset schedule and available historical invoices as accurately representing the asset to be appraised. No adjustments were made to historical costs or in-service dates.

The cost approach establishes reproduction/replacement cost estimates for the assets and was applied using direct and indirect methods. Direct costing relies on standard pricing media or quotations from equipment suppliers, original manufacturers and other industry sources. We applied the direct cost approach to Subject Assets depending on the quality and quantity of asset data/information. Based on the compiled data, we concluded on a Replacement Cost New for the property on an uninstalled basis. Installation costs and other indirect costs were added, as appropriate.

We also used the indirect approach to value certain assets. Indirect costing is the application of inflation indices to historical costs to estimate Reproduction Cost New. The indirect approach will index the historical cost data to provide an estimate of replacement cost new, using cost indices which reflect changes in equipment costs, and installation costs over time. These indices reflect the increase in cost on an asset-specific basis.

After replacement cost new for the assets has been developed, depreciation estimates were made based on the relationship of age, as indicated from fixed asset records, condition, functional and economic obsolescence. Our analysis is limited only to the Subject Assets described above.

We express no opinion or other form of assurance regarding the inventory data accuracy, completeness, or fairness of representation. Our valuation of the personal property considers a value-in-place concept. Based on the analysis described in this report, we estimated the Fair Market Value In-Place of the Personal Property and Inventory to be between \$3.6 and \$4.2 million as of the Valuation Date. (See below for a summary of the value by category).

Asset Category	Fair Market Value (In Place)
Personal Property	
Computer Equipment	\$ 63,000
Furniture & Fixtures	1,007,000
Kitchen Equipment	112,000
Machine Tools	10,000
Medical Equipment	1,828,000
Office Equipment	23,000
Other Equipment	116,000
Total Personal Property	3,159,000
Range of Fair Market Value for Personal Property	\$ 2,859,000 to 3,459,000
Total Inventory (Valued at Cost)	741,000
Total Range of Fair Market Value of Personal Property and Inventory	\$ 3,600,000 to 4,200,000