

ILLINOIS HEALTH FACILITIES PLANNING BOARD
APPLICATION FOR EXEMPTION FOR THE
CHANGE OF OWNERSHIP FOR AN EXISTING HEALTH CARE FACILITY

RECEIVED
JAN 15 2013

1. INFORMATION FOR EXISTING FACILITY

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Current Facility Name Sherman Hospital
 Address 1425 N. Randall Road
 City Elgin Zip Code 60123-2300 County Kane
 Name of current licensed entity for the facility Sherman Hospital
 Does the current licensee: own this facility Own OR lease this _____ if
 leased, check if sublease
 Type of ownership of the current licensed entity (check one of the following):
 _____ Sole Proprietorship Not-for-Profit Corporation _____ For Profit Corporation
 _____ Partnership _____ Governmental _____ Limited Liability Company _____ Other, specify

Illinois State Senator for the district where the facility is located: Sen. Karen McConnaughay
 State Senate District Number 33 Mailing address of the State Senator _____
81 South McLean Blvd, South Elgin, IL 60177 (This is a new address)
 Illinois State Representative for the district where the facility is located: Rep. Michael Tryon
 State Representative District Number 66 Mailing address of the State Representative:
1500 Carlemont, Suite D, Crystal Lake, IL 60014 (This is a new address)

2. OUTSTANDING PERMITS. Does the facility have any projects for which the State Board issued a permit that will not be completed (refer to 1130.140 "Completion or Project Completion" for a definition of project completion) by the time of the proposed ownership change? Yes No . If yes, refer to Section 1130.520(f), and indicate the projects by Project #
Project #05-054 will be closed by the date of the proposed merger Transaction. See Attachment 8

3. FACILITY'S BED OR DIALYSIS STATION CAPACITY BY CATEGORY OF SERVICE
 (Complete "APPENDIX A" attached to this application)

4. FACILITY'S OTHER CATEGORIES OF SERVICE AS DEFINED IN 77 IAC 1100
 (Complete "APPENDIX A" attached to this application)

5. NAME OF APPLICANT (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Advocate Health and Hospitals Corporation
 Address 2025 Windsor Drive
 City, State & Zip Code Oak Brook, IL 60523
 Type of ownership of the current licensed entity (check one of the following):
 _____ Sole Proprietorship Not-for-Profit Corporation _____ For Profit Corporation
 _____ Partnership _____ Governmental _____ Limited Liability Company _____ Other, specify

5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Advocate Health Care Network
 Address 2025 Windsor Drive
 City, State & Zip Code Oak Brook, IL 60523
 Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship Not-for-Profit Corporation For Profit Corporation
 Partnership Governmental Limited Liability Company Other, specify

5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Sherman Hospital
 Address 1425 N. Randall Road
 City, State & Zip Code Elgin, IL 60123-2300
 Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship Not-for-Profit Corporation For Profit Corporation
 Partnership Governmental Limited Liability Company Other, specify

5. **NAME OF APPLICANT** (complete this information for each co-applicant and insert after this page).

Exact Legal Name of Applicant Sherman Health Systems
 Address 1425 N. Randall Road
 City, State & Zip Code Elgin, IL 60123-2300
 Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship Not-for-Profit Corporation For Profit Corporation
 Partnership Governmental Limited Liability Company Other, specify

6. **NAME OF LEGAL ENTITY THAT WILL BE THE LICENSEE/OPERATING ENTITY OF THE FACILITY NAMED IN THE APPLICATION AS A RESULT OF THIS TRANSACTION.**

Exact Legal Name of Entity to be Licensed Sherman Hospital
 Address 1425 North Randall Rd.
 City, State & Zip Code Elgin, IL 60123-2300
 Type of ownership of the current licensed entity (check one of the following:)
 Sole Proprietorship Not-for-Profit Corporation For Profit Corporation
 Partnership Governmental Limited Liability Company Other, specify

7. **BUILDING/SITE OWNERSHIP. NAME OF LEGAL ENTITY THAT WILL OWN THE "BRICKS AND MORTAR" (BUILDING) OF THE FACILITY NAMED IN THIS APPLICATION IF DIFFERENT FROM THE OPERATING/LICENSED ENTITY**

Exact Legal Name of Entity That Will Own the Site Sherman Hospital
 Address 1425 North Randall Rd.
 City, State & Zip Code Elgin, IL 60123-2300
 Type of ownership of the current licensed entity (check one of the following)
 Sole Proprietorship Not-for-Profit Corporation For Profit Corporation
 Partnership Governmental Limited Liability Company Other, specify

8. TRANSACTION TYPE. CHECK THE FOLLOWING THAT APPLY TO THE TRANSACTION:

- Purchase resulting in the issuance of a license to an entity different from current licensee;
- Lease resulting in the issuance of a license to an entity different from current licensee;
- Stock transfer resulting in the issuance of a license to a different entity from current licensee;
- Stock transfer resulting in no change from current licensee;
- Assignment or transfer of assets resulting in the issuance of a license to an entity different from the current licensee;
- Assignment or transfer of assets not resulting in the issuance of a license to an entity different from the current licensee;
- Change in membership or sponsorship of a not-for-profit corporation that is the licensed entity;
- Change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets;
- Change in the sponsorship or control of the person who is licensed, certified or owns the physical plant and assets of a governmental health care facility;
- Sale or transfer of the physical plant and related assets of a health care facility not resulting in a change of current licensee;
- Any other transaction that results in a person obtaining control of a health care facility's operation or physical plant and assets, and explain in "Attachment 3 Narrative Description"

9. **APPLICATION FEE.** Submit the application fee in the form of a check or money order for \$2,500 payable to the Illinois Department of Public Health and append as **ATTACHMENT #1.**
10. **FUNDING.** Indicate the type and source of funds which will be used to acquire the facility (e.g., mortgage through Health Facilities Authority; cash gift from parent company, etc.) and append as **ATTACHMENT #2.**
11. **ANTICIPATED ACQUISITION PRICE:** N/A. As the definitive agreement will provide, on the affiliation date Advocate Health Care Network or Advocate Health and Hospitals Corporation will become the sole corporate member of Sherman Health Systems thus resulting in the affiliation with Advocate. There is no acquisition price.
12. **FAIR MARKET VALUE OF THE FACILITY:** \$412,000,000, net book value of plant, property and equipment, please see Attachment 2. (to determine fair market value, refer to 77 IAC 1130.140)
13. **DATE OF PROPOSED TRANSACTION:** On or about May 1, 2013
14. **NARRATIVE DESCRIPTION.** Provide a narrative description explaining the transaction, and append it to the application as **ATTACHMENT #3.**
15. **BACKGROUND OF APPLICANT** (co-applicants must also provide this information). Corporations and Limited Liability Companies must provide a current Certificate of Good Standing from the Illinois Secretary of State. Partnerships must provide the name and address of each partner and specify whether each is a general or limited partner. Append this information to the application as **ATTACHMENT #4.**
16. **TRANSACTION DOCUMENTS.** Provide a copy of the document(s) which detail the terms and conditions of the proposed transaction (purchase, lease, stock transfer, etc). Applicants should note

that the document(s) submitted should reflect the applicant's (and co-applicant's, if applicable) involvement in the transaction. The document must be signed by both parties and contain language stating that the transaction is contingent upon approval of the Illinois Health Facilities Planning Board. Append this document(s) to the application as **ATTACHMENT #5**.

17. **FINANCIAL INFORMATION** (co-applicants must also provide this information). Per 77 IAC 1130.520(b)(3), an applicant must demonstrate it has sufficient funds to finance the acquisition **and** to operate the facility for 36 months by providing evidence of a bond rating of "A" or better (that must be less than two years old) from Fitch, Moody or Standard and Poor's rating agencies or evidence of compliance with the financial viability review criteria (as applicable) to the type of facility being acquired (as specified at 77 IAC 1120). Append as **ATTACHMENT #6**.

18. **PRIMARY CONTACT PERSON.** Individual representing the applicant to whom all correspondence and inquiries pertaining to this application are to be directed. (Note: other persons representing the applicant not named below will need written authorization from the applicant stating that such persons are also authorized to represent the applicant in relationship to this application).

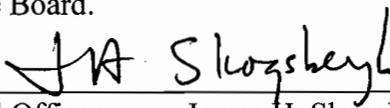
Name: Jeffrey So
 Address: 9401 S. Pulaski, Suite 201
 City, State & Zip Code: Evergreen Park, IL 60805
 Telephone: (708) 684-5763

19. **ADDITIONAL CONTACT PERSON.** Consultant, attorney, other individual who is also authorized to discuss this application and act on behalf of the applicant.

Name: Joe Ourth, Arnstein & Lehr LLP
 Address: 120 S. Riverside Plaza, Suite 1200
 City, State & Zip Code: Chicago, Illinois 60606
 Telephone () Ext. (312) 876-7815

20. **CERTIFICATION – Advocate Health and Hospitals Corporation**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer 
 Typed or Printed Name of Authorized Officer James H. Skogsbergh
 Title of Authorized Officer: President & Chief Executive Officer
 Address: 2025 Windsor Drive
 City, State & Zip Code: Oak Brook, Illinois 60523
 Telephone (630) 990-5018 Date: January 14, 2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

20. **CERTIFICATION – Advocate Health Care Network**

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer JA Skogsbergh
 Typed or Printed Name of Authorized Officer James H. Skogsbergh
 Title of Authorized Officer: President & Chief Executive Officer
 Address: 2025 Windsor Drive
 City, State & Zip Code: Oak Brook, Illinois 60523
 Telephone (630) 990-5018 Date: January 14, 2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

20. CERTIFICATION – Sherman Hospital

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Richard B. Floyd
 Typed or Printed Name of Authorized Officer Richard B. Floyd
 Title of Authorized Officer: President & Chief Executive Officer
 Address: 1425 N. Randall Road
 City, State & Zip Code: Elgin, IL 60123-2300
 Telephone (847) 783-8701 Date: 11 January 2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

20. CERTIFICATION – Sherman Health Systems

I certify that the above information and all attached information are true and correct to the best of my knowledge and belief. I certify that the categories of service, number of beds and/or dialysis stations within the facility will not change as part of this transaction. I certify that no adverse action has been taken against the applicant(s) by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois. I certify that I am fully aware that a change in ownership will void any permits for projects that have not been completed unless such projects will be completed or altered pursuant to the requirements in 77 IAC 1130.520(f) prior to the effective date of the proposed ownership change. I also certify that the applicant has not already acquired the facility named in this application or entered into an agreement to acquire the facility named in the application unless the contract contains a clause that the transaction is contingent upon approval by the State Board.

Signature of Authorized Officer Richard B. Floyd
 Typed or Printed Name of Authorized Officer Richard B. Floyd
 Title of Authorized Officer: President & Chief Executive Officer
 Address: 1425 N. Randall Road
 City, State & Zip Code: Elgin, IL 60123-2300
 Telephone (847) 783-8701 Date: 11 January 2013

NOTE: complete a separate signature page for each co-applicant and insert following this page.

APPENDIX A

FACILITY BED AND DIALYSIS STATION CAPACITY AND CATEGORIES OF SERVICE

Complete the following for the facility for which the change of ownership is requested. The facility's bed and dialysis station capacity must be consistent with the State Board's Inventory of Health Care Facilities.

FACILITY NAME Sherman Hospital CITY: Elgin

1. Indicate (by placing an "X") the type of facility for which the change of ownership is requested:

Hospital; Long-term Care Facility; Dialysis Facility; Ambulatory Surgical Treatment Center.

2. Provide the bed capacity by category of service:

SERVICE	# of Beds	SERVICE	# of Beds
Medical/Surgical	<u>189</u>	Nursing Care	<u>0</u>
Obstetrics	<u>28</u>	Shelter Care	<u>0</u>
Pediatrics	<u>8</u>	DD Adults*	<u>0</u>
Intensive Care	<u>30</u>	DD Children**	<u>0</u>
Acute Mental Illness	<u>0</u>	Chronic Mental Illness	<u>0</u>
Rehabilitation	<u>0</u>	Children's Medical Care	<u>0</u>
Neonatal Intensive Care	<u>0</u>	Children's Respite Care	<u>0</u>

*Includes ICF/DD 16 and fewer bed facilities; **Includes skilled pediatric 22 years and under

3. Chronic Renal Dialysis: Enter the number of ESRD stations: 0

Indicate (by placing an "X") those categories of service for which the facility is approved.

Cardiac Catheterization Open Heart Surgery
 Subacute Care Hospital Model Kidney Transplantation
 Selected Organ Transplantation Postsurgical Recovery Care Center Model

4. Non-Hospital Based Ambulatory Surgery and Ambulatory Surgical Treatment Centers

Indicate (by placing an "X") if the facility is a limited or multi-specialty facility and indicate the surgical specialties provided.

<input type="checkbox"/> Cardiovascular	<input type="checkbox"/> Ophthalmology
<input type="checkbox"/> Dermatology	<input type="checkbox"/> Oral/Maxillofacial
<input type="checkbox"/> Gastroenterology	<input type="checkbox"/> Orthopedic
<input type="checkbox"/> General/Other (includes any procedure that is not included in the other specialties)	<input type="checkbox"/> Otolaryngology
<input type="checkbox"/> Neurological	<input type="checkbox"/> Plastic Surgery
<input type="checkbox"/> Obstetrics/Gynecology	<input type="checkbox"/> Podiatry
	<input type="checkbox"/> Thoracic
	<input type="checkbox"/> Urology

APPLICATION FEE

ATTACHMENT #1



FUNDING

Not Applicable. As the definitive agreement will provide, Advocate Health Care Network or Advocate Health and Hospitals Corporation will become the sole corporate member of Sherman Health Systems which is the sole member of Sherman Hospital thus resulting in the affiliation with Advocate. There is no acquisition price and consequently no funding will be required.

In response to question 12 of the COE application, the amount listed as Fair Market Value is the Book Value from the most recent audited financials. A valuation will be performed for tax purposes but, because it has not yet been completed, the Book Value has been listed. The Book Value is \$412,000,000.

NARRATIVE DESCRIPTION

ATTACHMENT #3

This Application requests the Health Facilities and Services Review Board's (the "Board") approval for a change of ownership exemption in connection with Sherman Hospital.

Advocate Health Care Network ("AHCN") and Advocate Health and Hospitals Corporation ("AHC") (collectively, "Advocate") is a faith-based not-for-profit health care system that operates eight hospitals and related children's hospitals in the Chicago metropolitan area. Advocate also operates two hospitals in central Illinois.

Sherman Health Systems ("SHS") is also an Illinois not-for-profit corporation that is the sole corporate member of Sherman Hospital (which is also an Illinois not for profit corporation). Sherman Hospital is a 255-bed hospital located in Elgin, Illinois, that began serving patients in 1888. SHS is the sole corporate member of Sherman West Court, a not-for-profit skilled nursing facility that will also be part of the Transaction (but apparently not subject to change of ownership approval). An affiliated entity of SHS also owns a minority interest in an ASTC.

As the definitive agreement will provide, AHCN or AHC will become the sole corporate member of SHS. SHS will remain the sole corporate member of Sherman Hospital. As a member substitution transaction, there will be no cost consideration paid.

Because the Transaction will result in a change in the membership of a not-for-profit organization, the transaction constitutes a change of ownership under Section 1130.140 of the Board's rules. The definitive Transaction documents will provide that the transaction is contingent upon the approval of the Board.

The Transaction is expected to close on or around May 1, 2013.

BACKGROUND OF APPLICANTS

ATTACHMENT #4

File Number 1004-695-5



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 4TH day of MAY A.D. 2012 .



Authentication #: 1212501084
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

File Number 1707-692-2



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

ADVOCATE HEALTH CARE NETWORK, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 14, 1923, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of MAY A.D. 2012 .



Authentication #: 1213501996
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

File Number 0421-243-6



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

SHERMAN HOSPITAL, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JUNE 29, 1887, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of DECEMBER A.D. 2012 .



Authentication #: 1234901570
Authenticate at: <http://www.cyberdriveillinois.com>

Jesse White

SECRETARY OF STATE

File Number 5560-321-9



To all to whom these Presents Shall Come, Greeting:

I, Jesse White, Secretary of State of the State of Illinois, do hereby certify that

SHERMAN HEALTH SYSTEMS, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON JULY 20, 1989, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.



Authentication #: 1234901768

Authenticate at: <http://www.cyberdriveillinois.com>

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this 14TH day of DECEMBER A.D. 2012

Jesse White

SECRETARY OF STATE

TRANSACTION DOCUMENTS**ATTACHMENT #5**

A copy of a signed Letter of Intent, together with amendments and extensions, is attached. Advocate and Sherman will subsequently execute final documents containing the definitive and binding terms of the agreement; however, these final agreements have not yet been finalized and are consequently not included. Advocate and Sherman are very cognizant of the need for Board approval and the final agreement will include as a condition precedent to the closing of the Transaction that the Health Facilities and Services Review Board shall have first granted a Certificate of Exemption for the Transaction.

THIS LETTER OF INTENT (“LOI”) is entered into effective as of October 22, 2012 (notwithstanding its actual date of execution) (the “Effective Date”) by and between **SHERMAN HEALTH SYSTEMS**, an Illinois not-for-profit corporation (“SHS,” or “Sherman”) and **ADVOCATE HEALTH CARE**, an Illinois not-for-profit corporation (“Advocate”) (individually, a “Party,” and collectively, the Parties”).

RECITALS

WHEREAS, Sherman sponsors a not-for-profit health system whose mission is “to make a positive difference through outstanding healthcare and service--every life, every moment, every day” and to serve the residents of the northwest suburbs of Chicago; and

WHEREAS, Sherman’s flagship hospital, Sherman Hospital, first opened its doors in 1888 and has grown over the decades to become a state-of-the art, 255-bed, regional medical center with numerous Centers of Excellence in furtherance of its vision to become one of the best community hospitals in the nation; and

WHEREAS, Advocate is a nationally-recognized, not-for-profit, faith-based health system which sponsors the largest integrated health system in Illinois, and which, like Sherman, supports and operates a pluralistic physician engagement platform; and

WHEREAS, the Parties and their respective affiliates and subsidiaries share a common and unifying non-profit health care mission to improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the residents of the

areas which they serve in a culture of compassion, respect, integrity and excellence, and to advance medical education, training and research; and

WHEREAS, the Parties have been engaging in discussions to explore the possibility of entering into a union for the purpose of having Sherman affiliate with Advocate in support of their common and unifying health care missions and to enable Advocate to make a substantial, long-term, financial and mission and quality enhancing commitment to Sherman and to its internal and external stakeholders (the "Affiliation"); and

WHEREAS, the Parties have been working together through their respective leadership teams in order to: (1) develop the goals and objectives of the proposed Affiliation, (2) determine the legal, organizational and operating structure of the newly-consolidated health system, and (3) establish the mechanics for implementing the Affiliation; and

WHEREAS, the Parties desire to memorialize their preliminary understanding of the terms and conditions of the Affiliation in order to facilitate the completion of the definitive agreements and corporate documents necessary to implement the Affiliation, including, without limitation, an Affiliation Agreement ("Affiliation Agreement") (collectively, the "Definitive Agreements").

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the Parties agree as follows:

ARTICLE I

DECLARATION OF UNDERSTANDING

Section 1.1 **Agreement in Principle.** This LOI constitutes the culmination of exploratory discussions between the Parties and is intended to confirm the principal terms and conditions under which SHS proposes to affiliate with and into Advocate, which newly-consolidated health system will embody, recognize and reflect their unifying non-profit health care mission, while continuing to recognize and honor the history and traditions of Sherman.

Section 1.2 **Exclusive Negotiations.** For a period commencing with the Effective Date and continuing until March 31, 2013 (the "Exclusive Negotiation Period"), SHS will not, and will cause its directors, officers, employees, agents, consultants, advisors, or other representatives, including, without limitation, legal counsel, accountants and financial advisors (collectively, "Representatives") not to, without the written approval of Advocate, directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any person (other than Advocate) relating to any transaction other than the Affiliation (other than for non-material transactions entered into the ordinary course of business), and will promptly inform Advocate of the nature and terms of any inquiry, solicitation or proposal it may receive. In addition, during the Exclusive Negotiation Period, Advocate will not, and will cause its Representatives, not to, without the approval of Sherman, directly or indirectly, solicit, initiate or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals relating to any material transaction in the Sherman Primary Service Area (as hereinafter defined),

including but not limited to any “change of control,” from any person (other than Sherman) which owns (in whole or in part), operates, manages or sponsors any material health care activities in Sherman’s Primary Service Area, and will promptly inform Sherman of the nature and terms of any inquiry, solicitation or proposal it may receive from any such entity. The Exclusive Negotiation Period may be extended by mutual written consent of the Parties. For purposes hereof, the Sherman Primary Service Area encompasses the following zip codes: 60120 (Elgin), 60123 (Elgin), 60124 (Elgin), 60110 (Carpentersville), 60142 (Huntley), 60102 (Algonquin), 60118 (Dundee), 60140 (Hampshire), 60177 (South Elgin), 60156 (Lake in the Hills), and 60014 (Crystal Lake).

Section 1.3 **Non-Binding Effect of Agreement in Principle**. The Parties agree that the terms and conditions contained in this LOI confirm their understanding in principle and are to be contained in substantially similar form in the Definitive Agreements. Each Party agrees to negotiate in good faith and in a manner consistent with the terms of this LOI with a view towards executing the Definitive Agreements with reasonable promptness after the execution of this LOI. However, while the Parties agree to use their best efforts to negotiate and execute the Definitive Agreements, they recognize that this LOI does not constitute a binding agreement for the consummation of such transactions contemplated herein and that consummation of such transactions is expressly subject to final approval by their respective members and governing bodies, performance of due diligence, negotiation and execution of the Definitive Agreements, and the satisfaction of the conditions precedent to be contained in the Definitive Agreements. Neither Party shall have any legal obligation to the other Party as a result of this LOI other than those obligations specified in and imposed by Section 1.2, which requires the Parties to negotiate

exclusively with one another during the Exclusive Negotiating Period; Section 5.6, which requires the Parties to bear costs in respect to the negotiation and consummation of the transactions contemplated in this LOI; Section 5.4, which requires each Party to hold in confidence the confidential information of the other Party; Section 5.3, which requires the Parties to agree in advance to the timing and content of public statements concerning the transactions contemplated in this Agreement; and Section 5.7, which provides that this LOI will be governed by Illinois law.

ARTICLE II

STRUCTURE OF TRANSACTION

Section 2.1 **Affiliation**. Subject to regulatory and other approvals as may be necessary, effective as of 12:01 a.m. on May 1, 2013, or such other date as the Parties shall agree upon (the "Affiliation Date"), SHS shall affiliate with and into Advocate. The Affiliation, and the consummation of the transactions contemplated in this LOI (the "Closing"), shall be accomplished by the Parties undertaking the corporate actions relating to the Parties' respective governance structures, to be set forth in the Definitive Agreements and described below.

Section 2.2 **Assumption of Membership of SHS**. Effective as of the Affiliation Date, SHS shall amend its Articles of Incorporation and corporate Bylaws (collectively, the "Organizational Documents") to name Advocate as SHS's sole member ("Member"). The resulting consolidated Sherman-Advocate system will be consistent with the Integration Plan to be developed by the parties pursuant to Section 3.9 of this LOI, but will include, SHS, Sherman Hospital, and Sherman Health Foundation. Subject to any changes set forth in the Integration

Plan, the to-be amended Organizational Documents will provide that the SHS Board of Directors will have all of the governing power and authority to oversee the property, funds and business affairs of SHS and its affiliates and subsidiaries, provided that the following actions shall require the joint approval of SHS and Advocate, which joint approval will result from Sherman Board-approved and recommended, and Advocate-approved (in its capacity as Sherman's sole Member):

- Appoint SHS Board members from nominees presented to it by SHS's to-be-reconstituted Board Nominating Committee, half of whose members shall be appointed by Advocate and half by the SHS Board;
- Adopt or modify SHS's Articles of Incorporation or Bylaws;
- Change the structure or operation of SHS in a way that could affect its tax-exempt status;
- Adopt a strategic plan;
- Approve SHS's annual capital plan and operating budget; provided, however, that if the SHS Board does not recommend a capital plan and/or operating budget to Advocate which Advocate finds acceptable, Advocate may, in its sole authority as Member, unilaterally adopt such capital plan or operating budget following good faith discussions with the SHS Board.
- Transfer or encumber assets by purchase, sale, capital lease, mortgage, disposition or hypothecation in excess of limits established by Advocate's Financial Approval Policy;

- File a certificate of need or exemption application;
- Dissolve, wind-up, or abandon an entire business enterprise, or file any action in bankruptcy or receivership;
- Sell or transfer member interest, stock, or other ownership interest in any SHS affiliate, or sell or transfer all or substantially all of the assets of any SHS affiliate, merge or consolidate SHS or any affiliate, or form any partnership, co-sponsorship arrangement or joint venture between or among any SHS affiliate and any third party;
- Appoint any officer to SHS; or
- Adopt or amend any policy, protocol or procedure that is inconsistent with any Advocate system-wide policy, protocol or procedure or SHS's Organizational Documents (it being recognized that the Board of SHS shall have the sole power to adopt protocols and/or procedures that are related to the internal operations of SHS or Sherman Hospital).

In addition, on the Affiliation Date, and continuing thereafter, the Advocate Board shall have sole and final authority (in consultation with the SHS board of directors and/or management) to take the following actions, and to require Sherman's affiliates to comply with the directives of the Advocate Board concerning:

- Removing SHS Board members "for cause" (to be defined in the Definitive Agreements);

- Adopt the incurrence or modification of short or long-term debt and lease obligations;
- Appoint or remove SHS's President or Chief Financial Officer; provided, however, that the Definitive Agreements will set forth in detail the collaborative process which Advocate and SHS will undertake prior to implementation of these important decisions.

Section 2.3 **Board and Officers.** Effective as of the Affiliation Date, SHS and its affiliates shall amend their Articles of Incorporation and Bylaws to reconfigure their Board composition to add up to four (4) Advocate nominees to be included thereon. In addition, Sherman Hospital's officers (i) will continue to be appointed by the Sherman Hospital Board, and (ii) those individuals who are serving as Sherman Hospital officers as of the Affiliation Date shall continue in such positions from and after the Affiliation Date for the duration of their respective terms.

Section 2.4 **No Amendments.** SHS's Organizational Documents will provide that no amendments may be made to the revised governance structure set forth in this Article II (or in Section 3.2 below) without the prior express vote of the SHS Board of Directors authorizing such proposed amendment.

ARTICLE III

POST-CLOSING COVENANTS

Section 3.1 **Provisions.** The Affiliation Agreement shall contain, and where agreed, expand upon, the provisions set forth in Article III hereinbelow wherein Advocate will covenant that, from and after the Affiliation Date, it will undertake the following actions:

Section 3.2 **Advocate Board Representation.** Effective from and after the Affiliation Date, Advocate shall appoint to its Board of Directors (“Advocate Board”) two (2) individuals, nominated by SHS, one of whom shall serve one (1) three-year term and one of whom shall serve two (2) three-year terms as voting directors thereof (“Sherman Representatives”). Each of the Sherman Representatives shall be eligible to serve on the Advocate Board for three (3), three-year terms.

Section 3.3 **Commitment to Enhancement of Regional Medical Center Status.** In furtherance of sustaining and enlarging Sherman Hospital’s status as a regional medical center and acute care hub, Advocate acknowledges the need and desirability of making a substantial financial commitment to ensure that appropriate ongoing investments are made to support the capital, programmatic, clinical, and market development needs of Sherman Hospital and its affiliated health and healthcare-related services in the short and long term. To that end, Advocate commits (which commitment will be embodied in the Definitive Agreements) to expend within 5 years from and after the Affiliation Date not less than: (i) \$60,000,000 in routine capital replacement, and (ii) \$140,000,000 in additional capital expenditures and operating expenses (not including the health care information technology (“IT”) conversion costs

associated with bringing Sherman into the Advocate system, all such conversion costs to be borne by Advocate) to support: (a) Sherman's physician integration platform (including, but not limited to, physician-driven practice support and acquisitions, physician recruitment, PHO development, population health management, clinical integration, and accountable care product development, and an integrated ambulatory IT platform integration), (b) existing and new service and product line growth, (c) ambulatory care growth and development, and (d) strategic services growth to meet continual, and anticipated enhanced, competitive marketplace developments ("200 Million Commitment"). In the event that the Sherman Board does not recommend to Advocate the expenditure of the entire 200 Million Commitment during this five-year period, Advocate commits to expend such unexpended funds thereafter, upon the recommendation of the Sherman Board. The Parties acknowledge that all future expenditures of funds in support of the 200 Million Commitment shall follow and be consistent with the governance approval process set forth in Section 2.2 above.

Section 3.4 **Employees.** For a period of six (6) months from and after the Affiliation Date, all individuals employed by Sherman as of the Affiliation Date shall continue to be employed by either Sherman or Advocate (as agreed upon between the parties pursuant to the Integration Plan to be developed pursuant to Section 3.9 of this LOD), in comparable positions with comparable pay and benefits as similarly situated employees. Advocate shall recognize the employee's periods of service with Sherman for purposes of eligibility, vesting, and benefit accrual under Advocate's employee benefit plans and for purposes of determining vacation benefits or service recognition awards. Advocate would assume any accrued vacation or paid time off accounts of the employees as determined immediately prior to the Affiliation Date.

Section 3.5 **Management.** Advocate acknowledges and agrees to honor the contractual obligations Sherman has in place with select members of its senior management team. The Sherman management team would remain in place, and Sherman Hospital would have its own President who would be directly responsible for the operations of Sherman Hospital and would appoint a management team as direct reports, although certain direct reports would have a matrix reporting responsibility to Advocate executives. The President of Sherman Hospital would report to Advocate's Executive Vice President and COO, who would conduct any performance review with input from the Sherman Board of Directors.

Section 3.6 **Medical Staff.** Advocate shall continue to honor the hospital-specific credentials and privileges of all members of the Sherman Hospital Medical Staff as of the Affiliation Date. The president of the Sherman Hospital medical staff will serve on Advocate's Physician Leadership Council. From and after the Affiliation Date, Advocate shall continue to honor the hospital-specific, locally-based credentialing, privileging and corrective action procedures which are set forth in Sherman Hospital's then existing Medical Staff Bylaws, Rules and Regulations.

Section 3.7 **Identification of Sherman.** Advocate agrees that all signage and logos used on the Sherman campus will continue to use the name "Sherman." Following the Affiliation Date, Sherman Hospital would be renamed "Advocate Sherman Hospital" and would adopt Advocate's logos and other graphic standards. Advocate further agrees that religious symbols or artifacts may be placed on Sherman Hospital's campus only as permitted by the SHS Board of Directors.

Section 3.8 **Unwind Triggers**. In the event that, within ten (10) years from and after the Affiliation Date, Advocate decides to: (a) sell or lease substantially all of the assets comprising Sherman Hospital, or (b) undertake a “change of control” of the entire Advocate health system, to/with: (i) a third-party for-profit investor-owned company or (ii) a Catholic health care organization, then SHS shall have the right to unwind this Affiliation transaction. The Parties acknowledge that the likelihood of the occurrence of any of these foregoing events is extremely low, but that if it were to occur, the mechanics and details of such an “unwind” would be complex. The Parties agree to defer documenting the details of such unwind process to the Definitive Agreements.

Section 3.9 **Integration Plan**. The Parties jointly desire to begin meaningful planning for post-Affiliation Date integration as soon as possible, consistent with scrupulous compliance with antitrust requirements. To that end, immediately after the execution of this LOI, the Parties will form an Integration Task Force, whose membership is set forth on Exhibit A. The purpose of this task force is to develop a detailed post-Affiliation Date Integration Plan, which plan will be an exhibit to and incorporated into the Definitive Agreements. The task force will establish the sub-committees set forth on Exhibit A to develop post-Affiliation Date work plans for each of the subject matter areas set forth therein, including detailed target implementation timetables. Subject to Section 2.2 above, among the responsibilities of the task force will be to determine the post-transaction corporate organizational structure of SHS within Advocate, with the understanding that the parties will seek to balance minimizing disruption to SHS and its employees with efficiencies that may be created by combining functions and services of the two organizations.

Section 3.10 **Research, Training and Graduate Medical Education**. As part of the post-Affiliation Date integration planning process described in Section 3.9 above, the Integration Task Force shall explore where there may be meaningful opportunities for joint research and medical education and training at, and/or sponsored by, Sherman.

Section 3.11 **Physician Integration**. A key component of the post-Affiliation Date Integration Plan will be development of an agreed upon course of action for how Sherman physicians may be able to take advantage of and benefit from Advocate's existing physician integration platform, which platform explicitly recognizes that Medical Staff members may choose from among a broad continuum of health system alignment options, ranging from maintenance of complete medical practice independence, to employment by Advocate Medical Group, and also include intermediate alignment options, such as voluntary participation as members of Advocate Physician Partners ("APP"). A detailed physician integration planning process will therefore be undertaken by the Parties through the Integration Task Force (including Medical Staff leadership) prior to the Affiliation Date. As part of such process, the Parties will explore potential governance and leadership roles which physicians of Select Medical Group and other physicians having medical staff privileges at Sherman Hospital may be able to take in APP.

Section 3.12 **Local Vendors**. Advocate acknowledges the importance of local economic development and maintaining existing business relationships between local vendors/suppliers and Sherman. In furtherance thereof, Advocate agrees to seek to maintain such pre-existing relationships, subject to their goods and/or services being provided at quality and cost levels that are comparable to or better than those Advocate has negotiated.

Section 3.13 **Long-Term Debt**. A key element of the Integration Plan will be development of a plan to enable Sherman to benefit from Advocate's lower cost of capital. To that end, the Integration Plan shall set forth a timetable for a refinancing or restructuring of Sherman's long-term debt that the parties determine is necessary to lower the cost thereof.

Section 3.14 **Foundation Local Support**. Advocate acknowledges the continuing importance of the philanthropic support the Sherman Health Foundation, and its many donors, provide to ensure the ongoing mission of Sherman Hospital. Advocate agrees that all funds contributed to and owned by Sherman Health Foundation, as well as funds designated for use by Sherman Hospital from and after the Affiliation date, will continue to be used and invested solely in support of Sherman Hospital and its diverse programs and services.

Section 3.15 **Enforcement**. The Parties agree that the Definitive Agreements will set forth a mutually agreed upon mechanism for post-Affiliation Date enforcement of these Article III covenants.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.1 **Closing Representations**. The Definitive Agreements will provide that, as of the Affiliation Date, Advocate will assume sponsorship of Sherman's assets. Notwithstanding the above, the parties will provide usual and customary representations and warranties in the Definitive Agreements and as of the Affiliation Date.

ARTICLE V**MISCELLANEOUS**

Section 5.1 **Due Diligence.** Sherman will permit review, investigation and inspection of the operations and assets of Sherman and of the respective books, records, cost reports, audits, personnel, consultants and advisors and other relevant information and materials by counsel, accountants, consultants, and other authorized representatives of Advocate at reasonable times and locations to be agreed upon by the Parties.

Section 5.2 **Definitive Agreements.** Advocate will direct its legal counsel to promptly prepare the Definitive Agreements embodying the terms described herein and containing such other terms and conditions as the Parties may agree upon. The Parties then shall promptly commence good faith discussions to develop and finalize the Definitive Agreements. The Parties shall use their best efforts to cause the Definitive Agreements to be prepared in final form, to be submitted for all necessary action and approvals, and to be executed not later than one hundred and twenty (120) days after execution of this LOI.

Section 5.3 **Publicity.** Without the prior approval of the other Party, neither Party will make any public or private announcement of the transactions contemplated hereby until the Definitive Agreements are executed by the Parties; provided, however, that this prohibition shall not prevent either Party from disclosing the terms of the transaction to their respective Boards and advisors, who also shall be advised of this obligation of confidentiality. The Parties agree to cooperate in preparing and releasing joint announcements to all appropriate communities, groups and ratings agencies.

Section 5.4 **Confidentiality**. The terms of the Confidentiality Agreement dated May 31, 2012 by and between the Parties are hereby incorporated herein.

Section 5.5 **No Third Party Beneficiaries**. None of the provisions of this LOI are intended by the Parties, nor shall they be deemed, to confer any benefit on any person or entity not a Party to this Agreement.

Section 5.6 **Expenses and Affiliation**. Each Party shall pay its own costs and expenses in connection with the Affiliation, including without limitation, the disbursements and fees of their respective attorneys, accountants, advisors, agents and other representatives, incidental to the negotiation and performance of this LOI and the Definitive Agreements, whether or not the Affiliation is consummated. This Section shall survive the expiration or earlier termination of this LOI.

Section 5.7 **Governing Law**. The provisions of this LOI, the Definitive Agreements and any ancillary agreements shall be governed by Illinois law. The Parties agree to submit to the jurisdiction of Illinois courts to resolve any disputes which may arise from this LOI.

Section 5.8 **Counterparts**. This LOI may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same LOI, binding on the Parties hereto.

Section 5.9 **Amendments**. No amendment, alteration or modification of this LOI shall be valid unless in each instance such amendment, alteration or modification is expressed in a written instrument duly executed by the Parties and expressly stating that it is an amendment to this LOI.

IN WITNESS WHEREOF, the Parties have executed or have caused this Letter of Intent to be executed on the day and year first above written.

SHERMAN HEALTH SYSTEMS

By: K. Richard Jalk
Its: Chairman

ADVOCATE HEALTH CARE

By: Scott Powell
Its: Senior Vice President

EXHIBIT A

Integration Task Force and Plan

I. Composition of Task ForceAdvocate Representatives/Titles

Bill Santulli, Chief Operating Officer

Dominic Nakis, Chief Financial Officer

Kevin Brady, Chief Human Resource
OfficerDon Calcagno, Senior Vice President,
Operations Integration/OptimizationSherman Representatives/Titles

Rick Floyd – President and CEO

Linda Deering – Chief Operating Officer

Eric Krueger – Chief Financial Officer

Joan Kanute – Director of Service
ExcellenceKathy Cisco – Director of Inpatient
NursingII. Sub-Committees

- Supply Chain
- Risk Management
- Information Technology
- Compensation and Benefits
- Marketing and Public Affairs
- Capital Planning
- Financial Operations
- Physician Integration
- Key Clinical Service/Line Development
- Market Growth Opportunities

FINANCIAL INFORMATION**ATTACHMENT #6**

Advocate Health Care Network (and the related Advocate Entities) maintain a rating of AA/Stable from Fitch Ratings, Aa2 from Moody's, and AA/Stable from Standard & Poors. Attached are copies of these bond ratings.

Fitch Ratings

FITCH RATES ADVOCATE HEALTH CARE'S (IL) SERIES 2012 BONDS 'AA'; OUTLOOK STABLE

Fitch Ratings-Chicago-05 November 2012: Fitch Ratings has assigned an 'AA' rating to the following Illinois Finance Authority revenue bonds issued on behalf of Advocate Health Care (Advocate):

--\$150 million revenue bonds, series 2012.

In addition, Fitch affirms the 'AA' rating on approximately \$1.06 billion of revenue bonds issued by the Illinois Health Facilities Authority and the Illinois Finance Authority on behalf of Advocate. Fitch also affirms the 'F1+' short-term ratings on the following Illinois Finance Authority bonds based upon self-liquidity provided by Advocate:

--\$51.9 million put bonds, series 2003A&C;

--\$137.2 million put bonds, series 2008A-1,2&3;

--\$21.9 million put bonds, series 2008C-3B;

--\$70 million variable rate demand bonds, series 2011B.

The series 2012 bonds are expected to be fixed rate and will price the week of Nov. 12, 2012 via negotiated sale. Bond proceeds will be used for various capital projects, reimbursement for prior capital expenditures, and to pay costs of issuance.

The Rating Outlook is Stable.

SECURITY

The bonds are unsecured obligations of the obligated group. They are not secured by a pledge of, mortgage on, or security interest in any obligated group assets.

KEY RATING DRIVERS

LIGHT DEBT BURDEN: The additional debt will not impact Advocate's relatively low burden. The system's strong profitability combined with light debt burden generates robust coverage of pro forma maximum annual debt service (MADS) by EBITDA of 9.9x through the nine month interim period ended Sept. 30, 2012, which well exceeds Fitch's 'AA' category median of 4.8x. Pro forma debt to capitalization remains a manageable 25.5% while pro-forma MADS equates to a low 1.6% of fiscal 2011 (Dec. 31 year end) revenues.

CONSISTENT PROFITABILITY SUPPORTS LIQUIDITY: Advocate's strong operating cash flow generation has resulted in substantial balance sheet strength, with liquidity indicators that exceed Fitch's 'AA' category median ratios. Further, Advocate consistently maintains ample liquidity to meet Fitch's criteria for the 'F1+' short term rating against its mandatory put exposure.

LEADING MARKET SHARE POSITION: Advocate maintains a leading market share in the Chicago metropolitan area that is more than double its nearest competitor and remains the largest provider in the state. Still, Fitch notes the service area remains highly competitive, and the

regulatory environment remains challenging.

STRONG CLINICAL INTEGRATION: Advocate's high level of integration with its clinicians has enabled better care coordination, operating efficiencies, effective contracting, physician engagement, and should position it well to navigate continued pressures on reimbursement and focus on clinical quality metrics.

CREDIT PROFILE

The 'AA' rating is supported by Advocate's light pro forma debt level, consistent cash flow and strong coverage levels, strong market position, and well integrated care delivery model.

Following the series 2012 issuance, Advocate's debt will total nearly \$1.3 billion of which \$608.3 million is fixed, \$321.3 million are variable rate demand bonds supported by SBPAs, \$281 million are put bonds supported by self-liquidity (of which \$119.9 million is subject to tender within 13 months), and \$100 million are non-rated variable rate direct bank placements. Pro forma MADS is estimated at \$72.6 million per the underwriter. While Advocate faces sizable put, renewal, and interest rate exposure, its SBPAs were recently renewed through 2015-2017, and its balance sheet strength further mitigates these risks.

Robust operating profitability has resulted in operating EBITDA of over \$500 million (12.1% and 11.1% operating EBITDA margins in 2010 and 2011, respectively) and net EBITDA over \$600 million (EBITDA margins of 15% and 13.2% in 2010 and 2011, respectively). Strong performance continued through September 2012, with a 10.3% operating EBITDA and 14.2% EBITDA margins. The series 2012 bonds will be used to finance some of Advocate's capital plans, which are notably sizeable through 2015 and will require continued strength in cash flow and perhaps additional debt issuance. Further, Advocate's defined benefit pension is well funded.

At Sept. 30, 2012, Advocate's unrestricted cash and investments totaled nearly \$3.4 billion compared \$3.1 billion at fiscal 2011. Liquidity metrics at Sept. 30, 2012 were robust with 295.4 DCOH, pro forma cushion ratio of 46.2x and cash and investments equating to 246.7% of pro forma long-term debt; all of which exceed Fitch's respective 'AA' category medians of 241.1, 24.1x and 169.4%.

Advocate's well integrated clinical platform coupled with its position as market leader and largest system in the state provide some buffer against competitive and regulatory challenges. Through June 30, 2012 Advocate's share was 15.8% against its closest competitor the newly-aligned Presence Health system with 10.4% market share. However, the presence of several well regarded academic medical centers and community hospitals and the recent merger activity by large multi-state systems present some credit risk. Fitch expects that Advocate's high level of physician integration and continued growth of the system should sustain its strong market position. The most recent expected addition to the system is Sherman Health, which announced it is pursuing a partnership with Advocate with a letter of intent signed in October 2012. The closing is expected in mid-2013.

The 'F1+' rating reflects Advocate's availability of highly liquid resources to cover the mandatory tender on its put bonds. At Sept. 30, 2012, Advocate's eligible cash and investment position available for same-day settlement would cover the cost of the maximum mandatory put on any given date well in excess of Fitch's criteria of 1.25x. Advocate provided Fitch with an internal procedures letter outlining the procedures to meet any un-remarketed puts. In addition, Advocate

provides monthly liquidity reports to Fitch to monitor the sufficiency of Advocate's cash and investment position relative to its mandatory put exposure.

The Stable Outlook is supported by Fitch's expectation that Advocate will remain the market leader, allowing for consistent cash flow in support of its capital and debt service needs, while maintaining solid liquidity against the risks associated with its capital structure. Fitch believes Advocate's experienced management team and effective management practices should also ensure strong relative performance over the longer term.

Advocate is counter-party to three floating to fixed rate swaps with a total notional value of \$326.3 million against its series 2008C VRDBs. The mark to market on the swaps at Sept. 30, 2012 was approximately negative \$96.2 million requiring \$5.7 million in collateral be posted.

Advocate is an integrated health care system composed of 10 acute care hospitals and an integrated children's hospital (totaling approximately 3,200 licensed beds), primary and specialty physician services, home health, hospice, outpatient centers, via over 250 sites serving the Chicago metropolitan area and central Illinois. Total revenues in audited fiscal 2011 were \$4.65 billion (reflects Fitch's reclassification of bad debt to an expense).

Advocate's disclosure includes annual audited financial statements as well as quarterly unaudited balance sheet, income statement, cash flow statement, an extensive MD&A, and utilization statistics. The information is posted to the Municipal Securities Rulemaking Board's EMMA system. In addition, management holds routine calls with rating agencies and with investors. Fitch considers Advocate's disclosure standards to be best practice.

Contact:

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elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the

ratings.

In addition to the sources of information identified in Fitch's Revenue Supported Rating Criteria, this action was informed by information from Citigroup as Underwriter.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria', dated Jun. 12, 2012;

--'Nonprofit Hospitals and Health Systems Rating Criteria', dated July 23, 2012;

--'Criteria for Assigning Short-Term Ratings Based on Internal Liquidity', dated June 15, 2012.

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=683418

Criteria for Assigning Short-Term Ratings Based on Internal Liquidity

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681822

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MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to Advocate Health Care Network's \$150 million of Series 2012 bonds; Outlook is stable

Global Credit Research - 29 Oct 2012

Aa2, Aa2/VMIG 1, and Aa2/P-1 ratings on \$1.1 billion of outstanding debt affirmed

ILLINOIS FINANCE AUTHORITY
Hospitals & Health Service Providers
IL

Moody's Rating

ISSUE	RATING
Revenue Bonds, Series 2012 (Fixed Rate)	Aa2
Sale Amount	\$150,000,000
Expected Sale Date	11/15/12
Rating Description: Revenue: 501c3 Unsecured General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, October 29, 2012 —Moody's Investors Service has assigned an Aa2 rating to Advocate Health Care Network's (Advocate) \$150 million of Series 2012 fixed rate bonds. The rating outlook is stable. At this time, we are affirming the the Aa2, Aa2/VMIG 1 and Aa2/P-1 ratings on Advocate's outstanding bonds as listed at the conclusion of this report. The rating outlook is stable.

SUMMARY RATINGS RATIONALE:

The Aa2 long-term rating is based on Advocate's status as the largest healthcare system in the greater Chicago area with good geographic diversity and well positioned individual hospitals, sustained improvement in operating margins, moderate debt levels driving exceptional debt measures, a strong and growing investment portfolio, and well funded pension plan. The system's challenges include an increasingly competitive and consolidating healthcare market, moderate margins compared with similarly-rated peers, and expected increases in capital spending.

STRENGTHS

*Leading market position in greater Chicagoland with good geographic coverage and individual hospitals that maintain leading or prominent market shares in their local markets; geographic reach and diversification expanding with strategy to extend further statewide

*Consistent margins over the last several years with operating cashflow margins in the 9-10% range; in 2011, most hospitals improved or were relatively stable compared with the prior year; through nine months of fiscal year 2012, operating performance is consistent with previous levels with 5.8% operating and 10.8% operating cashflow margins

*Conservative and balanced approach to financing capital needs; proforma debt measures based on nine months of fiscal year 2012 annualized are strong with a low 30% debt-to-operating revenue, exceptional Moody's adjusted peak debt service coverage of over 10 times, and favorably low Moody's adjusted debt-to-cashflow of 1.9 times

*Strong and growing balance sheet position with 301 days of cash on hand as of September 30, 2012, providing a strong 251% coverage of proforma debt

MOODY'S

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*Strong and growing balance sheet position with 301 days of cash on hand as of September 30, 2012, providing a strong 251% coverage of proforma debt

*Debt structure risks are manageable relative to cash and investments with over 400% cash-to-demand debt and over 300% monthly liquidity-to-demand debt based on fiscal year end 2011

*Strong management capabilities evidenced by the organization's historical ability to absorb operating challenges and continue to generate consistently solid absolute operating cashflow levels, meet or exceed operating budgets, execute strategies effectively including integrating newly acquired hospitals, and a commitment to very good disclosure practices

CHALLENGES

*Operating income and operating cashflow margins are below similarly-rated peers, in part due to the system's close integration with a large number of physicians

*An increasingly competitive market for a number of Advocate's hospitals, with competitors expanding facilities, growing consolidation with several large mergers or new entrants into the market, and increasing competition for physicians

*Capital spending is anticipated to increase, although capital needs can be funded with cashflow and bond proceeds; the system has a history of closely managing capital spending relative to cashflow and adjusting to operating shortfalls if necessary

*Changes in investment strategy with an increased allocation to alternative investments, resulting in a less liquid portfolio relative to historically conservative practices (based on fiscal year 2011, 74% of unrestricted investments can be liquidated within a month, compared with 79% median for the Aa2 rating category)

*Comprehensive debt (including pension and operating lease obligations) is almost 50% higher than direct debt, primarily as a result of sizable operating leases; however, cash-to-comprehensive debt at fiscal yearend2011 is still good at 172%, compared with a median of 162% for the Aa2 category

DETAILED CREDIT DISCUSSION

USE OF PROCEEDS: Proceeds from the Series 2012 bonds will be used to fund capital projects.

LEGAL SECURITY: Obligated group includes the Advocate Health Care Network (system parent), Advocate Health and Hospitals Corporation (operates most of the system's hospitals), Advocate North Side Health Network, and Advocate Condell Medical Center. Security is a general, unsecured obligation of the obligated group. No additional indebtedness tests.

INTEREST RATE DERIVATIVES: Advocate has interest rate swaps associated with the Series 2008C bonds. There is a total of \$326 million of swaps associated with the Series 2008C bonds for which Advocate pays a fixed rate of 3.6% and receives 61.7% of LIBOR plus 26 basis points. The swaps mature in 2038 and the counterparties are Wells Fargo and PNC. As of September 30, 2012 the mark-to-market on the swaps was a negative \$90.6 million and collateral of \$5.7 million was posted.

RECENT DEVELOPMENTS/RESULTS

Please refer to Moody's report dated July 19, 2012 for more details. Since the July rating review, Advocate's operating performance is solid and consistent with recent trends. Admissions through the nine months of fiscal year 2012 (ended September 30) are down 1%, which is generally better than trends in the broader market. Including observation cases, total cases are flat to the prior year. Both inpatient and outpatient surgeries increased by a strong 4-5% as a result of physician recruitment and alignment strategies. Through the nine months, Advocate's operating cashflow was \$373 million (10.8%), compared with \$365 million (11.1%) in the prior year. Unrestricted cash and investments increased to \$3.4 billion (301 days cash on hand) as of September 30, 2012, compared with \$3.1 billion as of December 31, 2011. As indicated in the ratios below, the incremental \$150 million in new debt does not affect materially Advocate's strong measures.

On October 23, 2012, Advocate announced plans to sign a non-binding letter of intent to pursue a partnership with Sherman Health Systems (rated Baa2). The organizations will begin a due diligence phase with a formal closing date expected between May and July of 2013. Moody's will evaluate the effect of a partnership with Sherman upon receipt of further details related to the structure, security for the debt, governance and management, and strategic plans. Based on Advocate's current financial profile and Sherman's fiscal year 2012 performance, our preliminary assessment is that a combination with Sherman would not significantly affect Advocate's overall credit profile. Advocate's relatively low leverage affords the health system the ability to absorb the high leverage that Sherman

would bring with a moderately negative effect to key debt measures.

OUTLOOK

The stable outlook is based on the expectation that the system will continue to maintain solid operating performance and a strong market position and balance future capital spending and debt with cash flow and liquidity strength.

WHAT COULD MAKE THE RATING GO UP

Sustained improvement in operating margins, further strengthening of balance sheet, and growth in the system's size to provide significantly greater geographic diversity

WHAT COULD MAKE THE RATING GO DOWN

Significantly greater than expected increase in debt or unexpected and prolonged decline in operating performance; material weakening of balance sheet strength

KEY INDICATORS

Assumptions & Adjustments:

- Based on financial statements for Advocate Health Care Network and Subsidiaries
- First number reflects audit year ended December 31, 2011
- Second number reflects nine-month unaudited results ended September 30, 2012, annualized and proforma including \$150 million in additional debt
- Investment returns normalized at 6% unless otherwise noted
- Comprehensive debt includes direct debt, operating leases, and pension obligation, if applicable
- Monthly liquidity to demand debt ratio is not included if demand debt is de minimis
- *Inpatient admissions: 166,756; 166,669
- *Observation stays: 39,648; 41,853
- *Medicare % of gross revenues: 40%; N/A
- *Medicaid % of gross revenues: 16%; N/A
- *Total operating revenues (\$): \$4.6 billion; \$4.6 billion (bad debt as reduction to revenue)
- *Revenue growth rate (%) (3 yr CAGR): 7.6%; N/A
- *Operating margin (%): 5.3%; 5.8%
- *Operating cash flow margin (%): 10.0%; 10.8%
- *Debt to cash flow (x): 1.9 times; 1.9 times
- *Days cash on hand: 269 days; 301 days
- *Maximum annual debt service (MADS) (\$): \$66 million; \$73 million
- *MADS coverage with reported investment income (x): 8.9 times; N/A
- *Moody's-adjusted MADS Coverage with normalized investment income (x): 10.5 times; 10.4 times
- *Direct debt (\$): \$1.2 billion; \$1.4 billion
- *Cash to direct debt (%): 252%; 251%
- *Comprehensive debt: \$1.8 billion; N/A

*Cash to comprehensive debt (%): 170%; N/A

*Monthly liquidity to demand debt (%): 318%; N/A

RATED DEBT (as of December 31, 2011, updated for bank facility changes in 2012)

- Series 1993C (\$22 million), Series 2008D (\$167 million), Series 2010A (\$37 million), Series 2010B (\$52 million), Series 2010C (\$26 million), Series 2010D (\$112 million), Series 2011A-1 (\$9 million), Series 2011A-2 (\$33 million) fixed rate bonds: Aa2

- Series 2003A (\$26 million), Series 2003C (\$26 million), Series 2008A (\$137 million), Series 2008C-3B (\$22 million) variable rate annual and multi-annual put bonds, supported by self-liquidity: Aa2/VMIG 1

- Series 2008C-1 (\$128 million), Series 2008C-2B (\$58 million) variable rate bonds supported with SBPAs from JPMorgan Chase (expire August 1, 2016 and August 1, 2017 respectively): Aa2/VMIG 1

- Series 2008C-3A (\$87 million) variable rate bonds supported by SBPAs from Northern Trust Company (expires August 1, 2017): Aa2/VMIG 1

- Series 2008C-2A (\$49 million) variable rate bonds supported by SBPA from Wells Fargo Bank (expires August 1, 2015): Aa2/VMIG 1

- Series 2011B Windows variable rate bonds (\$70 million): Aa2/P-1

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RATING METHODOLOGY

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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RatingsDirect®

Summary:

Illinois Finance Authority Advocate Health Care Network; System

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Rationale

Outlook

Related Criteria And Research

Summary:

Illinois Finance Authority Advocate Health Care Network; System

US\$135.935 mil hosp rev bnds (Advocate Hlth Care Network) ser 2012 due 06/01/2047

Long Term Rating AA/Stable New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to the Illinois Finance Authority's \$135.9 million series 2012 fixed-rate bonds issued for Advocate Health Care Network (AHCN). Standard & Poor's also affirmed its 'AA' long-term rating and, where applicable, its 'AA/A-1+' and 'AA/A-1' ratings on various other series of bonds issued by the authority on behalf of AHCN. The outlook on all ratings is stable. The series 2012 issuance could go up to \$150 million, depending on the premium structure and pricing.

The 'A-1+' short-term component of the rating on the series 2003A, 2003C, 2008A-1, 2008A-2, 2008A-3, 2008C-3B, and 2011B Windows bonds reflects the credit strength inherent in the 'AA' long-term rating on AHCN's debt and the sufficiency of AHCN's unrestricted assets to provide liquidity support for the aforementioned bonds. Standard & Poor's Fund Ratings and Evaluations Group assesses the liquidity of AHCN's unrestricted investment portfolio to determine the adequacy and availability of these funds to guarantee the timely purchase of the bonds tendered in the event of a failed remarketing. Standard & Poor's monitors the liquidity and sufficiency of AHCN's investment portfolio on a monthly basis.

The 'A-1+' short-term component of the rating on the issuer's series 2008C-2A and 2008C-3A bonds and the 'A-1' short-term component of the rating on the series 2008C-1 and 2008C-2B bonds reflect the standby bond purchase agreements (SBPAs) in effect from various financial institutions. The short-term component of the ratings assigned represents the likelihood of payment of tenders and reflects liquidity facilities that cover all of the bond series. The providers of the liquidity facilities are as follows:

- Series 2008C-1: JPMorgan Chase Bank N.A. (A-1), expiration Aug. 1, 2016
- Series 2008C-2A: Wells Fargo Bank N.A. (A-1+), expiration Aug. 1, 2015
- Series 2008C-2B: JPMorgan Chase Bank, expiration Aug. 1, 2017
- Series 2008C-3A: Northern Trust Corp. (A-1+), expiration Aug. 1, 2017

The 'AA' long-term rating reflects our view of AHCN's strength as the Chicago area's largest health system (with total operating revenue of \$4.6 billion in 2011 and a balance sheet with \$7.1 billion of total assets) as well as its good operating performance, strong and consistent coverage, and stable and healthy unrestricted liquidity with fairly light debt. In addition, AHCN's strong physician relationships and practice in managing care under capitated risk and through shared savings programs, including the Medicare ACO demonstration project, are credit strengths in light of some of the anticipated changes related to health care reform. Although we do anticipate some declines in operational liquidity given the heightened capital spending during the next few years, we do anticipate such declines to be temporary and that operational liquidity (days' cash on hand) will return to the mid-200s during the medium term. During the short term, however, we do anticipate continued strong cash flow and healthy coverage to support the rating as AHCN focuses on expense management and backfilling volumes that may be lost as a result of lower utilization (linked to both better care management and fewer readmissions).

Standard & Poor's affirmed its ratings on AHCN in July 2012. Since then, we've received two additional quarters of unaudited financials that are in line with expectations. Although the series 2012 transaction was unanticipated, management had reported in July 2012 that some additional debt was likely during the next three to four years because it had forecast higher capital spending at our previous review. Given the interest rate environment and some other key timing factors, management and the board decided to accelerate the debt issuance. And with operations and the balance sheet remaining sound, and with Advocate's market presence remaining strong, we believe the debt is absorbable at the current rating. Also, we anticipate no additional new money debt during the next one or two years.

The 'AA' long-term rating further reflects our view of AHCN's:

- Good financial profile, with operating margins of more than 4% for the past four years and an unaudited operating margin of 4.25% through the first nine months of fiscal 2012, and consistently strong maximum annual debt service (MADS) of more than than 6x for the past several years;
- Robust balance sheet measures, as demonstrated by still light pro forma leverage of 25% and by solid liquidity and cash to pro forma debt equal to 285 days' cash on hand and 257%, respectively, as of Sept. 30, 2012;
- Continued leading 15.8% market share through the second quarter of 2012; and

- Position as Chicago's largest and most successfully integrated health delivery system, with approximately 3,200 licensed beds and more than 5,600 physicians, 4,150 of whom are affiliated with Advocate Physician Partners, a joint venture between Advocate and clinically and financially aligned physicians with the purpose of providing cost-effective health care to patients in the communities Advocate serves.

Partly offsetting the above strengths, in our view, are:

- AHCN's very strong competition in the greater Chicago market of both other systems and large academic medical centers;
- A market consolidation that could affect AHCN as an acquirer or with new ownership at a competing facility (AHCN recently announced a non-binding letter of intent, or LOI, to acquire Sherman Health System in Elgin); and
- AHCN's heightened capital spending during the next few years as a few major projects are started and completed, which could dampen unrestricted liquidity growth during the short term.

Total long-term debt at Dec. 31, 2011 was \$1.221 billion. This includes debt classified on the audited financial statements as a current liability subject to short-term remarketing agreements, which Standard & Poor's treats as long-term debt for the purpose of our debt-related ratios. The rated bonds are the general, unsecured joint, and several obligations of the obligated group, which consists of the parent, AHCN; Advocate Health and Hospitals Corp., which includes most of Advocate's acute care facilities; Advocate North Side Health Network, which includes Advocate Illinois Masonic Center; and Advocate Condell Medical Center. However, this analysis reflects the system as a whole.

The series 2012 proceeds (along with any premium) will primarily pay a portion of the capital costs associated with the projects at Advocate Christ Medical Center (total project costs for the patient bed tower project are about \$256 million) and at Advocate Illinois Masonic Hospital (total costs for the Center for Advanced Care, focused on cancer and digestive diseases, are about \$96 million). Both of these projects were included in Advocate's capital forecasts for the next three years. Project completion for these key projects is estimated at fall 2016 for Christ Medical Center and at spring 2015 for Illinois Masonic Hospital.

Since our latest review, operating performance (excluding joint venture income, unrestricted contributions, and investment income) has continued to be strong at an unaudited 4.27% margin (\$151.8 million), compared with a 2.6% margin at the end of the first unaudited quarter of fiscal 2012. Good outpatient volume growth, a focus on general expense management, and some improvement in insurance expenses have contributed to good performance in the current year. Management anticipates ending the year with an approximate 5% operating margin, and fiscal 2013 will likely be a bit lighter at about 3% given that AHCN budgeted for the Medicare sequestration cuts as well as the full year of recent Medicaid cuts. The balance sheet on a pro forma basis remains quite strong despite the increase in debt. Unrestricted cash is at a solid 285 days' cash on hand and cash to pro forma debt and leverage are strong at 257% and 25%, respectively. Capital spending through the first nine months of fiscal 2012 was \$209 million, with a little less than \$300 million anticipated to be spent through the calendar year (down from the budgeted \$500 million because of changes in start dates of certain projects). We continue to anticipate capital spending to proceed at a steady clip of in 2013, 2014, and 2015 before returning to more stable levels as discussed in our prior report. The new bed tower at the Christ Medical Center will provide some additional beds, primarily critical care beds, which will help with throughput from the emergency room. Management anticipates that the ambulatory center at the Illinois Masonic Center facility will enhance and consolidate outpatient services related to oncology and digestive diseases.

AHCN's primary service area is quite broad, covering six counties, but is also quite fragmented. AHCN's market share, however, remains strong, at a leading 15.8%, while Presence Health's market share is second at a stabilized 10.4% and Northwestern Memorial Hospital's is at a stable 5.7%. AHCN and Sherman Health (BBB) recently announced a non-binding LOI to merge, and we anticipate that a final definitive agreement will be executed in mid-calendar 2013. We will more fully incorporate the impact of Sherman into AHCN's credit profile once plans are finalized and once we receive details on how Sherman Health would be incorporated into the network. We believe that overall competition in the market could increase because Presence Health is restructuring its organization and because Centegra Health System (A-/Stable) has plans to build a new hospital about 16 miles from Advocate Good Shepherd (and about 10 miles from Sherman) during the next few years.

For more detailed information regarding the credit, please see our most recent report on AHCN published July 24, 2012 on Ratings Direct on the Global Credit Portal.

Outlook

The stable outlook reflects our view of AHCN's continued market leadership, extensive physician network, and solid financial profile. Given the heightened capital spending during the next few years, a higher rating is unlikely. However, we could consider raising the rating in response to continued strong operations and a sustained improvement in unrestricted liquidity to roughly 325 days' cash on hand (as the service area is highly competitive and given the recent Chicago area market trend of consolidation). Given our view of AHCN's strong market position, consistent financial profile, and good financial flexibility, we are also unlikely to lower the rating during the next year or two. However, we could consider lowering the rating if AHCN's debt service coverage declines to and remains at approximately 4x or if

operational liquidity decreases to and stabilizes at about 200 days' cash. Although we believe that AHCN could absorb Sherman Health into its credit profile, we will more fully evaluate that transaction as it is finalized. We do not anticipate any additional new money debt issuances during the next one to two years.

Related Criteria And Research

- USPF Criteria: Not-For-Profit Health Care, June 14, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- USPF Criteria: Commercial Paper, VRDO, And Self-Liquidity, July 3, 2007
- USPF Criteria: Bank Liquidity Facilities, June 22, 2007

Illinois Fin Auth, Illinois

Advocate Hlth Care Network, Illinois

Illinois Finance Authority (Advocate Health Care Network)

Long Term Rating AA/Stable Affirmed

Illinois Finance Authority (Advocate Health Care Network) hosp VRDB ser 2008C-1

Long Term Rating AA/A-1/Stable Affirmed

Illinois Finance Authority (Advocate Health Care Network) hosp VRDB ser 2008C-2A

Long Term Rating AA/A-1+/Stable Affirmed

Illinois Finance Authority (Advocate Health Care Network) hosp VRDB ser 2008C-2B

Long Term Rating AA/A-1/Stable Affirmed

Illinois Finance Authority (Advocate Health Care Network) hosp VRDB ser 2008C-3A

Long Term Rating AA/A-1+/Stable Affirmed

Illinois Finance Authority (Advocate Health Care Network) hosp VRDB ser 2008C-3B

Long Term Rating AA/A-1+/Stable Affirmed

Illinois Fin Auth (Advocate Hlth Care Network) rev bnnds

Long Term Rating AA/A-1+/Stable Affirmed

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VERIFICATIONS

ATTACHMENT #7

In compliance with the rules of the Health Facilities Services and Review Board (the "Board"), Advocate Health and Hospitals Corporation ("Advocate"), provides the following verifications in connection with the change of ownership (the "Project") of Sherman Health System, which is the sole member of Sherman Hospital (the "Facility"):

1. Categories of Service. Pursuant to §1130.520(b)(91) of the Board rules, Advocate hereby verifies that the categories of service and number of beds at the Facility, as reflected in the Inventory of Health Care Facilities, will not substantially change for at least 12 months following the Project's completion date.
2. Three-year Ownership. Pursuant to §1130.520(b)(5) of the Board rules, Advocate hereby verified that it intends to maintain ownership and control of the Facility for a minimum of three (3) years.
3. Charity Care Policy. Charity Care Policy. Pursuant to §1130.520(b)(7) of the Board rules, Advocate has reviewed the existing Sherman charity care policy and commits that it will maintain a charity care policy that is not more restrictive than the existing Sherman policy (which has been in place for more than one year) for a two-year period following the change of ownership transaction.
4. Completion of Project. Pursuant to §1130.520(b)(8) of the Board rules, Advocate hereby verifies that it understands that failure to complete the Project in accordance with the applicable provisions of §1130.570 of the Board rules no later than 12 months from the date of exemption approval (or by a later date established by HFSRB upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of §1130.520(b)(8) will invalidate the exemption.

Signature of Authorized Officer: JA Skogsbergh

Typed or Printed Name of Authorized Officer: James H. Skogsbergh

Title of Authorized Officer: President & CEO

STATUS OF OUTSTANDING PERMITS**ATTACHMENT #8**

Sherman Hospital has one outstanding permit, #05-054, that is in the process of being closed as this application is being filed. Sherman Hospital intends to close out the permit prior to consummation of the Transaction and such closure will be a condition of the Transaction.



E-001-13

2025 Windsor Drive | Oak Brook, Illinois 60523 | T 630.572.9393 | www.advocatehealth.com

January 14, 2013

RECEIVED

JAN 15 2013

Mr. Dale Galassie, Chairman
Illinois Health Facilities and Services Review Board
525 West Jefferson, 2nd Floor
Springfield, IL 62761

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Re: Advocate/Sherman – Change of Ownership Exemption

Dear Chairman Galassie:

We are pleased to submit to you our Change of Ownership Exemption Application for the integration of Sherman Hospital into Advocate.

It is a joy to bring to you this transaction, because we see that Advocate and Sherman together can be greater than the sum of our collective parts. We share a commitment to clinical excellence and hold similar corporate values. We believe this transaction will improve the delivery of health care, and for that reason this plan has been embraced by the communities we serve.

We would like to complete this transaction before the first of May. To help that happen, we ask the Board's assistance in scheduling the Project for consideration at its March meeting. We will be expeditious in getting the State Agency any additional information necessary for its review.

As always, we look forward to working with the Board to move ahead on plans for better health care.

Sincerely,

A handwritten signature in black ink that reads "JA Skogsbergh".

James H. Skogsbergh
President and CEO

cc: Richard B. Floyd