
Morgan Keegan

MEMBER FINRA, SIPC

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CONFIDENTIAL

Board of Trustees
Bay Medical Center
615 North Bonita Avenue
Panama City, Florida 32401

Ladies and Gentlemen:

We understand that the Board of Trustees of The Health Care Authority of Bay County and the City of Panama City, Florida, d/b/a Bay Medical Center (“BMC”), a Florida based not-for-profit corporation created as a Florida special district, proposes to enter into a transaction (the “Transaction”) with LHP Hospital Group, Inc. (“LHP”), a privately held hospital management company, (the “Buyer”), pursuant to terms (the “Agreement”), which have yet to be fully negotiated. As of the date hereof, Morgan Keegan & Company, Inc. (“Morgan Keegan”) has not assisted in negotiating the structure or terms and conditions of the Transaction.

You have requested Morgan Keegan to prepare a report estimating the business enterprise value (“BEV”) of BMC (the “Valuation Report”) for use in connection with BMC’s proposed Transaction with LHP. BEV is defined as the market value of all the assets and operations of the business, both tangible and intangible, regardless of capital structure.

In arriving at the valuation range in our Valuation Report, we have, among other things:

- Reviewed certain publicly available business and financial information concerning BMC and its subsidiaries and the industries in which they operate;
- Reviewed audited financial statements of BMC and its subsidiaries for fiscal years ending 2007, 2008 and 2009, and draft audited financial statements for fiscal year ending 2010 and interim financial statements as of January 31, 2011, provided by BMC management (“Management”);
- Reviewed certain internal financial analyses prepared by the management of BMC relating to its business;
- Reviewed a financial forecast for BMC and its subsidiaries prepared by Management for fiscal years 2011 through 2015;

- Compared the financial and operating performance of BMC and its subsidiaries with publicly available information concerning certain other companies we deemed relevant and reviewed the current and historical market prices of certain publicly-traded securities of such companies;
- Reviewed the financial terms of certain selected business combinations we deemed relevant;
- Discussed with Management historical, current and projected operating performance, strategic plans and regional market conditions and expectations; and
- Performed such other financial studies and analyses and considered such other information we deemed appropriate for the purposes of preparing the Valuation Report.

In addition, we have held discussions with certain members of Management with respect to the past and current business operations of BMC and its subsidiaries, the financial condition and future prospects and operations of BMC and its subsidiaries, and certain other matters we believed necessary or appropriate to our inquiry. We also have considered such other information, financial studies and analyses, investigations and financial, economic, market and other data that we deemed relevant, including our knowledge of the hospital industry and company valuations generally and our experience in connection with similar transactions in the hospital industry.

In arriving at our valuation, we have assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to us by BMC and its subsidiaries or otherwise reviewed by us, and we have not assumed any responsibility or liability therefore. We have not conducted any valuation or appraisal of any specific assets or liabilities, nor have any such valuations or appraisals been provided to us. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments of Management as to the expected future results of operations and financial condition of BMC and its subsidiaries to which such analyses or forecasts relate. We express no opinion with respect to such forecasts or the assumptions on which they are based. In addition, we have assumed that BMC and its subsidiaries will operate in a manner consistent with such projections.

Our valuation is necessarily based on market, economic and other conditions in effect on, and the information made available to us as of, the date hereof. It should be understood that subsequent developments may affect this valuation and that we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the valuation presented in our Valuation Report that may come or be brought to our attention after the date hereof. The valuation expressed in our Valuation Report does not constitute a recommendation as to any action BMC should take in connection with the contemplated Transaction. In constructing our Valuation Report, we assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on BMC or the Buyer or on the contemplated benefits of the Transaction. Further, we express no opinion herein as to the structure, terms or effect of any other aspect of the Agreement or the tax consequences thereof.

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Several analytical methodologies have been employed in reaching our valuation, and no one method of analysis should be regarded as critical to the overall conclusion we have reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The overall conclusions we have reached are based on all the analysis and factors presented, taken as a whole, and also on the application of our own experience and judgment. Such conclusions may involve significant elements of subjective judgment and qualitative analysis. We therefore give no opinion as to the value or merit standing alone of any one or more parts of the analysis.

As part of its investment banking business, Morgan Keegan is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes. In connection with our engagement with BMC, we have received certain retainer payments and will receive a fee on delivery of our Valuation Report.

It is understood that this letter is for the information of BMC in connection with their evaluation of the contemplated Transaction, as of the date hereof, and may not be used or relied upon by any other person or for any other purpose without our prior written consent.

Based on our analysis, we estimate the BEV of a 100% controlling interest in BMC to be between \$141 million and \$168 million, with a mid-point of \$154 million. In connection with our estimate of BEV, it is anticipated that all economic profit and risk will be transferred from BMC to LHP.

Very Truly Yours,

Morgan Keegan & Company, Inc.