



975 S. Fairmont Avenue  
Lodi, California 95240  
209.334.3411

[www.lodihealth.org](http://www.lodihealth.org)

## Memorandum

July 9, 2014

Dear Lodi Memorial Hospital Association Members:

Health care is changing dramatically, and the success of health systems is increasingly dependent on the ability to provide coordinated, cost-effective care. To address the challenges that we face as a stand-alone hospital system and proactively assess the opportunities available to us, Lodi Health's Board of Directors requested that management develop options for our future, including exploring affiliations with other hospitals and health systems.

To assist in this effort, Lodi Health engaged Cain Brothers, a leading health-care investment bank and strategic advisory firm, to provide an evaluation of our ability to remain independent and an overview of partnership models that could help us continue to provide high quality care. The first step was to analyze our internal strength based upon our financial condition, market position and future capital needs. This analysis was presented to the board in October 2012. The most significant finding from this report was the need to improve profitability to fund the clinical and capital investments that will enable us to meet the future health care needs of the greater Lodi community.

The reality is that we continue to face significant difficulties in sustaining profitability as a stand-alone hospital. While Lodi Health has substantial financial reserves to address these financial pressures in the near term, the board believes that partnering with a well-capitalized health system will provide the best future for the organization.

Over the last year, a special subcommittee of the board has worked with Cain Brothers to identify health-care systems that have the vision and financial strength to position Lodi Health for long-term success. Prior to initiating discussions with any potential system partners, the board developed a list of key affiliation objectives to guide the exploratory process. Among others, these objectives included improving access to capital, maximizing the local availability of health care services and retaining local influence over strategic decisions. The subcommittee met with several representatives of various health systems and made a recommendation to the board that we should solicit formal proposals from interested parties. The board reviewed a large number of potential candidates – both not-for-profit and for-profit systems – and selected a targeted group to determine their potential interest in Lodi. We received strong indications of interest from many of the systems that we contacted; and the subcommittee and board have been assessing these potential partners to determine which would best support the realization of our affiliation objectives.



At this critical juncture, the board will now begin a rigorous due diligence process to determine the right long-term fit for our patients, employees, and medical staff. Over the next several weeks, the board will coordinate a series of forums and educational sessions to gather the information needed to select the ideal system partner. Because of the significance of this decision, the board will make every effort to solicit input from all stakeholders.

Ultimately, the board has concluded that it is better to seek an affiliation now from a position of relative strength so that we can continue to provide high quality care to our community into the future.

In negotiating any potential agreement with a partner, the board is committed to identifying a health system partner that can preserve local input into important future decisions; that will commit to making significant capital investments; and that recognizes the important relationships that contribute to our corporate culture and the quality of health care in this community. We realize that this is a hard thing to do. The board asks for your support and your opinions in the coming months as we evaluate our options in order to find the right partner for Lodi.

Sincerely,

Steven Crabtree  
Lodi Health Board of Directors Chair

Joseph P. Harrington  
Lodi Health President/CEO