



## LIBERTY DIALYSIS - ALASKA LLC

Corporate Office  
7650 SE 27<sup>th</sup> St., Suite 200  
Mercer Island, WA 98040

Tel (206) 236-5001  
Fax (206) 236-5002  
www.libertydialysis.com

January 24, 2008

Karleen K. Jackson, Ph.D.  
Commissioner of Health and Social Services  
Office of Commissioner  
Department of Health and Social Services  
P.O. Box 110601  
Juneau, Alaska 99811-0601

RECEIVED  
JAN 2 - 2008  
Office of the Commissioner  
DHSS - Juneau

### RE: Financial Data for a 12-Station End-Stage Renal Disease Facility

Dear Ms. Jackson,

Thank you for your letter dated January 10, 2008 requesting additional information regarding our application to build an end-stage renal disease facility in Anchorage. Included with this letter are updated schedules to our original application reflecting a 12-station facility as opposed to the 20-station facility contained in the original application. The updated items include the following:

- Exhibit A: Description of Project
- Exhibit B: Section VIIIA – Financial Data – Acquisitions
- Exhibit C: Section VIIIB – Financial Data – Construction Only
- Exhibit D: Schedule I to Section VIIIB – Available Resource
- Exhibit E: Schedule I – Facility Income Statement
- Exhibit F: Schedule II – Facility Balance Sheet
- Exhibit G: Schedule III – Average Treatment Cost and Revenue Amounts
- Exhibit H: Schedule IV – Operating Budget
- Exhibit I: Schedule V-B – New Project Debt Service Summary
- Exhibit J: Schedule VI – Reimbursement Sources
- Exhibit K: Schedule VII – Depreciation Schedule
- Exhibit L: Appendix VIIIB(2)(b) – Contractor Certification of Construction Costs
- Exhibit M: Appendix VIIIB(2)(f)(3) – Architect Certification of Architecture Costs
- Exhibit N: Floor plan
- Exhibit O: Letter from Liberty Dialysis, LLC confirming availability of funds
- Exhibit P: Letter of Intent for Leased Space

If you have any questions regarding the information included with this letter, please feel free to call me at (206) 816-6506.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ryan B. Pardo", with a long horizontal flourish extending to the right.

Ryan B. Pardo  
Vice President, Secretary

## Exhibit A

### Description of Project

Based on the project scope requested in your letter, Liberty would build an approximately 7,400 square foot end-stage renal disease facility in Anchorage with 12 in-center hemodialysis stations and two home training stations. Liberty is currently finalizing a lease for the space at 901 East Dimond Blvd. Anchorage, AK 99515. The new clinic will be built to the highest industry standards and consistent with other state of the art clinics built by Liberty. It will include the latest equipment and technologies to provide the highest quality services for in-center hemodialysis, home hemodialysis, home peritoneal dialysis and a CKD clinic. These services will be available to all residents of Alaska and visiting hemodialysis patients. In addition Liberty Dialysis-Anchorage will provide social services, dietician counseling and financial counseling on-site.

The equipment will be purchased and will include an ultra-pure water system, 14 dialysis chairs, 14 dialysis machines (two of which will serve as home dialysis training and backup stations), home dialysis equipment and other related equipment and supplies. We expect that the cost of the project will be approximately \$9,551,400 (including the cost of the lease projected over its 40 year useful life in accordance with the CON regulations). Liberty anticipates funding the project construction and operations out of available cash until such time as operations become cash flow positive. Liberty may elect to finance a portion of the costs if attractive terms are available. However, such financing is not necessary for completion of the project.

Since the facility will be located in an existing building, we will be able to open the facility and start treating patients more rapidly than a build-to-suit facility. We estimate that the completion date will be September of 2008 (or approximately 8 months from the award of the CON).

Liberty initially expects to employ one head nurse, one chief technician, three nurses, four patient care technicians, one social worker and one dietician at the clinic. This level of personnel will allow Liberty to maintain at least a 1:3 clinician to patient ratio. Liberty believes that these staffing levels allow patients to receive a high level of direct patient care while allowing staff to receive the required amount of experience to further enhance patient care.

Fresenius has taken several opportunities to highlight the cost differences between Liberty and Fresenius. This difference is a very salient point in evaluating the differences between Fresenius and Liberty's proposals for the Anchorage clinic. While Medicare, Medicaid and commercial insurance companies provide substantially the same reimbursement level to all dialysis providers, Fresenius' has chosen to enjoy a greater profit on the services by focusing on fewer facility amenities, leaner staffing and more restricted access to treatment options than Liberty's has chosen to provide. This divergence in practice serves to underline the important philosophical differences that distinguish Liberty from many other providers in the dialysis marketplace.



Liberty has made the conscious decision to forego potential profit in favor of providing patients with beautiful facilities, the latest equipment, entertainment and productivity tools (such as flat panel TVs, wireless internet, laptops and cable) to enhance their quality of life in addition to providing physicians easy access to more expensive treatment options (which costs are absorbed by Liberty), such as Extraneal and NxStage home dialysis products, that can lead to superior outcomes among particular patient groups and funding non-profit programs that benefit chronic kidney disease patients, such as the National Kidney Foundations KEEP screening program. In addition, Liberty places an emphasis on providing employees with fair wages and benefits. In contrast to Liberty's approach, other providers in the industry have placed emphasis on expanding profit margin through focus on lower cost treatment options (restricting physician access to alternative treatments), limiting expenditures on facility build-outs and not offering similar comfort and convenience options to patients.

At the end of the day, this philosophical difference does not impact the cost of services to patients, insurers or the state. The only financial impacts are felt by the providers' bottom lines. However, the more important impacts of this philosophical difference are felt by the patients receiving care at the facilities and the physicians treating patients and cannot be neatly quantified by recourse to hard dollar figures.

## Exhibit B

### Section VIIIA – Financial Data – Acquisitions

#### 1. Acquisition type: (Please check applicable boxes)

☒ Lease    ☐ Rent    ☐ Donation    ☐ Purchase    ☐ Stock Transaction

#### 2. Cost data

(Omit cents)

a. Total acquisition cost*	\$ 7,672,320*
b. Amount to be financed	\$
c. Difference between items (a) and (b) (list available resources to be used, e.g. available cash, investments, grants, etc.)	\$ 7,672,320
d. Anticipated interest rate _____%, term _____ years.	
e. Total anticipated interest amount	\$
f. Total of (a) and (e)	\$ 7,672,320
g. Estimated annual debt service requirements	\$

\*Lease of \$191,808 per year over 40 years.

#### 3. Describe how you expect to finance the project.

Liberty has sufficient cash on hand to fund the project. However, if attractive financing terms are available, Liberty may elect to finance a portion of the project. Such financing is not necessary for completion of the project. The attached financial schedules assume that Liberty will not finance the project.

Note: Acquisition costs must include (as appropriate):

- Total purchase price of land and improvements (if donated, the fair market value\*\*)
- "Goodwill" or "purchase of business" costs
- The net present value of the lease calculated on the total lease payments over the useful life of the asset as set out in the 2004 version of *Estimated Useful Lives of Depreciable Hospital Assets*, published by the American Hospital Association.
- Consultant or brokers fees paid by person acquiring the facility
- Other pre-development costs to date.

\*Site acquisition should be stated as "book" value, i.e. actual purchase price plus costs of development. If desired, the applicant may elect to state the acquisition as "fair market value"\*\*\* (in which case, give reason and basis).

\*\* A form for use in calculating fair market value is included on page 31 of this packet. Include your calculations as part of this section of your application.

## Exhibit C

### Section VIII B – Financial Data – Construction Only

#### 1. Construction Method (Please check)

- a. ☒ Conventional bid    ☐ Contract management    ☐ Design and build  
b. ☐ Phased    ☐ Single project    ☐ Fast Track

#### 2. Construction Cost (New Activity)

	(Omit cents)
a. Site acquisition (Section VIII A.2.f)	\$ 7,672,320 <sup>(1)</sup>
b. Estimated general construction**	\$ 1,325,000
c. Fixed equipment, not included in a**	\$ 92,000
d. Total construction costs (sum of items a, b, and c)**	\$ 9,089,320
e. Major movable equipment**	\$ 346,800
f. Other cost:**	
(1) Administration expense	\$ 25,000
(2) Site survey, soils investigation, and materials testing	\$
(3) Architects and engineering fees	\$ 66,250
(4) Other consultation fees (preparation of application included)	\$
(5) Legal fees	\$ 5,000
(6) Land development and landscaping	\$
(7) Building permits and utility assessments (including water, sewer, electrical, phones, etc.)	\$ 14,330
(8) Additional inspection fees (clerk of the works)	\$ 2,000
(9) Insurance (required during construction period)	\$ 2,700
g. Total project cost (sum of items d, e, f)	\$ 9,551,400
h. Amount to be financed	\$ -
i. Difference between 2.g and 2.h (list, as Schedule 1, available resources to be used, e.g., available cash, investments, grants funds, community contributions, etc.)	\$ 9,551,400
j. Anticipated long-term interest rate	N/A
k. Anticipated interim (construction) interest rate	N/A
l. Anticipated long-term interest amount	\$ N/A
m. Anticipated interim interest amount	N/A
n. Total items g, l, and m	\$ 9,551,400
o. Estimated annual debt service requirement	\$ N/A
p. Construction cost per sq. ft.	\$ 179
q. Construction cost per bed	N/A
r. Project cost per sq. ft.	\$ 254 <sup>(2)</sup>
s. Project cost per bed (if applicable)	N/A

- (1) Calculated in accordance with CON regulations regarding useful life of concrete building (40 years).  
(2) Includes Construction Costs, Equipment Costs and Other Costs

Attached as Appendix VIII B(2)(b) is a letter from a contractor with experience building dialysis facilities, including a number of facilities for Liberty and attached as Appendix VIII B(2)(f)(3) is a letter from an architect providing estimated architecture fees.

\*Site acquisition should be stated as "book" value, i.e., actual purchase price (or estimate of value if donated) plus costs of development. If desired, the applicant may elect to state as "fair market value" (in which case, so indicate). A form for use in calculating fair market value is included on page 31 of this packet. Include your calculations as part of this section of your application.

**\*\* Items must be certified estimates from an architect or other professional. Major medical equipment may be documented by bid quotes from suppliers.**

Exhibit D

Schedule I to Section VIII B – Available Resource

Initial Liberty Capital	\$2,228,474
Clinic Cash Flow – Years 1-10 only	\$24,047,226
<b>Available Funds</b>	<b><u>\$26,275,700</u></b>



Exhibit E

Schedule I – Facility Income Statement

Schedule I. Facility Income Statement			
Projections For Three Years Beyond Project Completion			
Gross Patient Revenue:	FY	FY	FY
Inpatient Routine			
Inpatient Ancillary			
Outpatient			
Long-Term Care			
Swing Beds			
Other			
Total Patient Revenue	\$7,296,000	\$17,929,152	\$23,789,836
Less Deductions			
Contractual Allowances	(\$5,078,684)	(\$12,573,010)	(\$16,773,587)
Charity Care and Bad Debts	(\$55,433)	(\$133,904)	(\$175,406)
Total Deductions	(\$5,134,117)	(\$12,706,913)	(\$16,948,993)
Net Operating Revenues	<b>2,161,883</b>	<b>\$5,222,239</b>	<b>\$6,840,844</b>
All Other Revenues			
EXPENSES:			
Salaries & Benefits	\$450,808	\$827,168	\$895,126
Pharaceutical Supplies	\$245,202	\$568,140	\$721,388
Medical Supplies	\$153,360	\$368,409	\$479,699
Rent & Utilities	\$207,819	\$233,489	\$247,868
Property Tax	\$4,008	\$9,511	\$12,314
Other Expenses	\$310,163	\$421,970	\$537,368
Depreciation	\$251,773	\$252,856	\$254,856
Total Expenses	<b>1,623,133</b>	<b>2,681,542</b>	<b>3,148,620</b>
Excess (Shortage) of Revenue	\$538,750	\$2,540,696	\$3,692,224
Over Expenditures	-	-	-

Exhibit F

Schedule II – Facility Balance Sheet

Schedule II. Facility Balance Sheet			
Projections For Three Years Beyond Project Completion			
CURRENT ASSETS	FY	FY	FY
Cash & Cash Equivalent	500,000	500,000	500,000
Net Patient Accounts Receivable	707,187	1,092,244	1,356,408
Other Accounts Receivable			
Inventories			
Prepaid Expenses			
Other			
Total Current Assets	1,207,187	1,592,244	1,856,408
Property and Equipment			
Land & Improvements			
Building/Fixed Equipment	1,390,830	1,390,830	1,390,830
Major Movable Equipment	346,800	346,800	346,800
Other Equipment	90,844	120,844	150,844
Accumulated Depreciation	(251,773)	(504,629)	(759,485)
Net Property & Equipment	1,576,701	1,353,845	1,128,989
Other Assets	-	-	-
TOTAL ASSETS	2,783,889	2,946,089	2,985,397
LIABILITIES/FUND BALANCE			
Current Liabilities			
Accounts Payable	266,538	353,173	419,209
Accrued Expenses			
Accrued Compensation			
Other Accruals			
Total Current Liabilities	266,538	353,173	419,209
Long Term Liabilities			
Long Term Debt			
Other			
Total Long Term Liabilities	-	-	-
Fund Balance	2,517,350	2,592,916	2,566,188
Total Liabilities & Fund Balance	\$2,783,889	\$2,946,089	\$2,985,397

Exhibit G

Schedule III – Average Treatment Cost and Revenue Amounts

<b>Schedule III. Average Treatment Cost and Revenue Amounts</b>			
Projections For Three Years Beyond Project Completion			
	FY	FY	FY
Revenues	2,161,883	5,222,239	6,840,844
Expenses	1,623,133	2,681,542	3,148,620
Treatments (in Hemo-Equivalents)	4,008	9,234	11,607
Revenue per Treatment	\$539	\$566	\$589
Cost per Treatment	\$405	\$290	\$271
<b>Operating &amp; Capital Budget Summary:</b>			
Gross Revenues	7,296,000	17,929,152	23,789,836
Deductions from Revenue	(5,134,117)	(12,706,913)	(16,948,993)
Net Revenue	2,161,883	5,222,239	6,840,844
Direct Expense	(1,623,133)	(2,681,542)	(3,148,620)
Net Income Projected	538,750	2,540,696	3,692,224

Exhibit H

Schedule IV – Operating Budget

Schedule IV. Operating Budget			
Projections For Three Years Beyond Project Completion			
Description:	FY	FY	FY
Number of Stations	12	12	12
Days in a year	365	365	365
Available station days	3,756	3,756	3,756
Percent growth	100%	0%	0%
Number of Patients	45	73	86
Hemodialysis Composite Rate			
Payer Mix:			
Medicaid	9%	10%	9%
Medicare	78%	78%	78%
Other	13%	12%	13%
Total Revenue	2,161,883	5,222,239	6,840,844
Cost per Treatment	\$405	\$290	\$271



Exhibit 1

## Schedule V-B – New Project Debt Service Summary

[illegible]

Exhibit J

Schedule VI – Reimbursement Sources

Show reimbursement sources projections for three years after the new project opens.

Fiscal Year				
Reimbursement Source	Number of Patients	Gross Patient Charges	Deductions	Net Patient Revenues
Medicaid	4	1,600	(100)	1,500
Medicare	35	1,600	(1,330)	270
Private Insurance	5	1,600	(100)	1,500
Self Pay	1	1,600	(1,429)	171
Charity	0	1,600	(1,600)	-
Other	0			
Total	45			

Fiscal Year				
Reimbursement Source	Number of Patients	Gross Patient Charges	Deductions	Net Patient Revenues
Medicaid	7	1,632	(102)	1,530
Medicare	57	1,632	(1,357)	275
Private Insurance	7	1,632	(102)	1,530
Self Pay	1	1,632	(1,458)	174
Charity	1	1,632	(1,632)	-
Other	0			
Total	73			

Fiscal Year				
Reimbursement Source	Number of Patients	Gross Patient Charges	Deductions	Net Patient Revenues
Medicaid	8	1,665	(104)	1,561
Medicare	67	1,665	(1,384)	281
Private Insurance	9	1,665	(104)	1,561
Self Pay	1	1,665	(1,487)	178
Charity	1	1,665	(1,665)	-
Other	0			
Total	86			

# Exhibit K

## Schedule VII – Depreciation Schedule

Schedule VII. Depreciation Schedule			
Use the straight-line method.			
Provide a separate schedule for any pieces of major moveable equipment.			
Equipment Description	Cost	AHA Life	Depreciation Per Year
<b>Computers and Communications</b>			
Telephone System	\$20,000	5	\$4,000
Security System	\$20,000	5	\$4,000
Televisions	\$9,800	5	\$1,960
Computers/Printers	\$4,000	5	\$800
<b>Total Communications</b>	<b>\$53,800</b>	<b>5</b>	<b>\$10,760</b>
<b>Water Treatment System:</b>			
Marcor Water System	\$92,000	7	\$13,142.86
<b>Medical Equipment</b>			
Dialysis Machines	\$224,000	7	\$32,000.00
Dialysis Chairs -Regular	\$21,000	7	\$3,000.00
Dialysis Chairs - Oversize	\$2,020	7	\$288.57
Scale	\$6,500	7	\$928.57
Wheelchairs	\$1,800	7	\$257.14
Ice Machine	\$3,400	7	\$485.71
Small Refrigerators	\$720	7	\$102.86
Phoenix Meter	\$1,500	7	\$214.29
Neo-2 Meter	\$1,000	7	\$142.86
Machine Test Kit	\$540	7	\$77.14
Chlorimeter	\$600	7	\$85.71
Infusion Pumps	\$3,500	7	\$500.00
Oxygen Racks	\$384	7	\$54.86
Biomed Storage Locker	\$1,000	7	\$142.86
Biomed Tools	\$1,000	7	\$142.86
Acro Bin Rack	\$480	7	\$68.57
MIQS computers	\$5,200	7	\$742.86
<b>Medical Equipment</b>	<b>\$274,644</b>		<b>\$39,234.86</b>
<b>Other</b>	<b>\$17,200</b>	<b>7</b>	<b>\$2,457.14</b>

Exhibit L

Appendix VIIIB(2)(b) – Contractor Certification of Construction Costs



# The Dubs Company

Specializing in the Construction of Commercial Interiors

January 21, 2008

David Pierce, MPH  
Certificate of Need Coordinator  
Health Planning & Systems Development Unit  
Office of the Commissioner  
Department of Health and Social Services  
P.O. Box 110601, Juneau, AK, 99811-0601

RE: Alaska Dialysis Clinic

Dear David,

I have built approximately twenty Liberty Dialysis clinics, as well as a dozen clinics for Fresenius and Renal Care Group. After my discussions with Mr. Schoenberg regarding the proposed clinic in Anchorage, I reviewed all the clinics currently under construction and believe the 7,400 S. F. clinic in Anchorage will cost about \$1,325,000 to complete.

As a result of building many dialysis clinics across the country, I developed a formula for projecting the cost of future clinics. The key factors that need to be adjusted between the comparable clinic in New Jersey and Anchorage are the number of stations, square footage, construction cost inflation, and the location factor. The overall cost of labor and materials in Anchorage is approximately 15% higher than it is in Runnemede, NJ. Estimating a March 2008 start of construction the projected cost for this facility would be \$179 per square foot.

If you need any additional information, please feel free to contact me.

Sincerely,



Robin M. Dubs

Copy: Tim Schoenberg  
Executive Vice President, Liberty Dialysis

Exhibit M

Appendix VIIIB(2)(f)(3) – Architect Certification of Architecture Costs

# Christopher Kidd & Associates, LLC

Architects and Engineers

January 21, 2008

*via E-Mail Attachment*

Timothy Schoenberg  
Liberty Dialysis  
4540 Campus Dr Ste 104  
Newport Beach, CA 92660-1815  
[tschoenberg@libertydialysis.com](mailto:tschoenberg@libertydialysis.com)

Gary W. Dawkins, A.L.A.  
Christopher Kidd & Associates, LLC  
Architects and Engineers

Re: Proposed Liberty Dialysis – Anchorage, Alaska *Revised*  
CKA Project # 07180-01

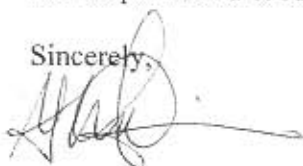
Dear Tim:

This letter is a follow up to our telephone discussion today regarding the revisions for the Certificate of Need on the above referenced project.

Our revised estimated fee is approximately \$66,250.00 for our services. This revision takes into consideration the request of the City of Anchorage to reduce the overall square footage to 7,400 g.s.f. Attached please find our proposed fee schedule for the project. This project proposal is summarized with a description of fee structure, phases and methodology and is for complete architectural and engineering services for the building shell and interiors. The fee does not include civil engineering (this would be handled between you and your consultant). If this proposal is acceptable, please contact me so we can prepare the proper A.L.A. B141 contract document.

In closing, I appreciate the opportunity to discuss this project. Thank you for considering Christopher Kidd & Associates, L.L.C.

Sincerely,



Gary W. Dawkins, A.L.A.  
Sr. Project Manager

GWD:mao

Enclosure

**Liberty Dialysis - Anchorage**  
**Anchorage, Alaska**  
***Proposed Fee Schedule – Complete Architectural and Engineering***

Estimated Construction    7,400 g.s.f.    x    \$179.05 per s.f.    =    \$1,324,970.00  
Estimated A/E Fee:    \$1,325,000.00    x    5.00%    =    \$66,250.00 \*

Schematic Design Phase

Preparation and submittal of Schematic Design Drawings including floor plan, interior elevations and details.

20% of fee =            \$13,250.00

Design Development Phase

Preparation of Design Development Drawings including floor plan, building elevations, wall sections (where applicable), details and schedules. Preparation of H.V.A.C., plumbing and electrical system drawings.

20% of fee =            \$13,250.00

Construction Documentation Phase

Preparation of construction drawings for construction, including floor plan, enlarged floor plan, building elevations, wall sections, details, etc. Preparation of Construction Documents for H.V.A.C., plumbing and electrical systems, and submittal of drawings for plan review.

40% of fee =            \$26,500.00

Bidding & Negotiation Phase

Bidding of the project, answering contractor questions and bid tabulation for Owner review.

5% of fee =            \$3,312.50

Construction Administration Phase

Construction Administration including review of project during construction, review of shop drawings, as well as Project Meetings with Contractor and Owner.

15% of fee =            \$9,937.50

Please note that the final project construction cost could increase or decrease approximately 10%, depending on final bids and the final project square footage. The Architectural fee will be adjusted accordingly.

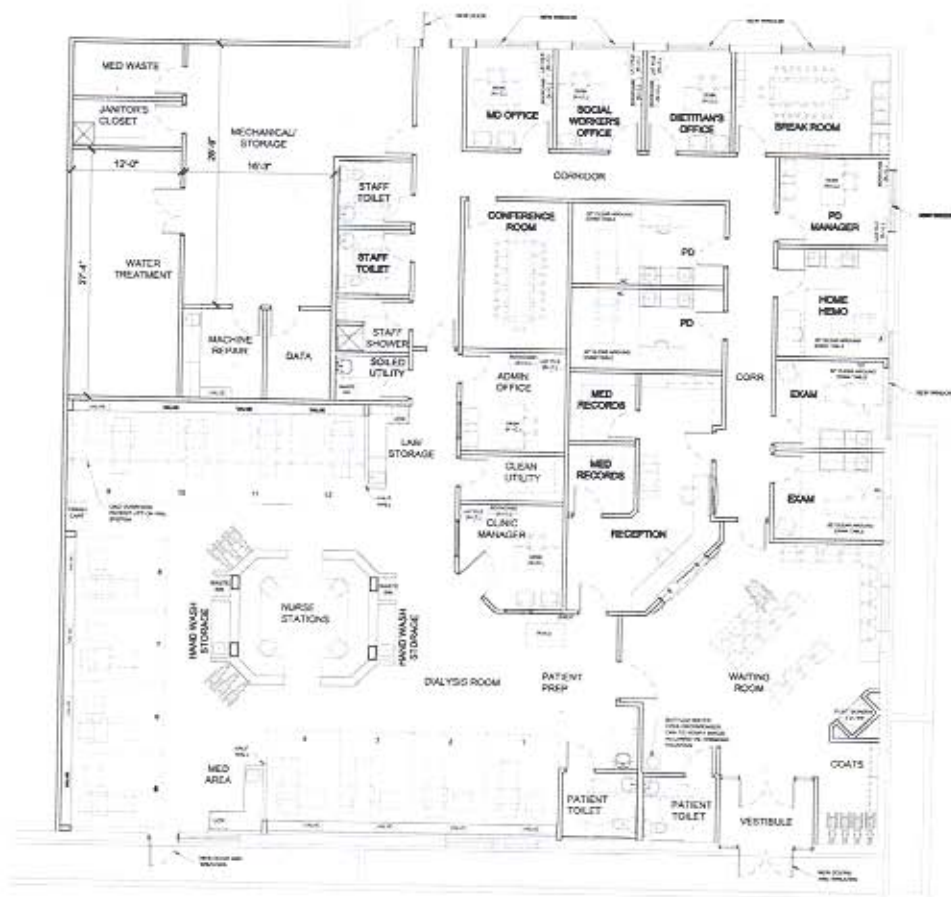
All site visits are handled on an hourly basis and will be billed accordingly. All renderings, printing, shipping, travel expenses, etc. will be billed as reimbursable charges. Renderings typically are \$1,200.00 to \$1,500.00 each. Structural, environmental, geotechnical and civil engineering services are not included in this fee.

\* Approximately \$7.25 per square foot.



Exhibit N

Floor Plan




**Christopher Kidd & Associates, LLC**  
 Architects and Engineers  
 140 W10500 Laker Road  
 Minneapolis Park, Minnesota 55425  
 Phone: 262.867.0909 / Fax: 262.867.0910

January 24, 2008

These drawings are  
 prepared for the  
 project of the  
 project, and are  
 not to be used for  
 any other purpose  
 without the written  
 consent of the  
 architect.

Copyright 2008

Liberty Dialysis - Anchorage  
 Schematic Floor Plan - Scheme "C"  
 7,400 Net Square Feet

Exhibit O

Letter Confirming Availability of Funds



## LIBERTY DIALYSIS, LLC

Corporate Office  
7650 SE 27<sup>th</sup> St., Suite 200  
Mercer Island, WA 98040

Tel (206) 236-5001  
Fax (206) 236-5002  
[www.libertydialysis.com](http://www.libertydialysis.com)

January 22, 2008

Karleen K. Jackson, Ph.D.  
Commissioner of Health and Social Services  
Office of Commissioner  
Department of Health and Social Services  
P.O. Box 110601  
Juneau, Alaska 99811-0601

**RE: Available Funds for Liberty Dialysis – Anchorage Clinic**

Dear Ms. Jackson,

Please accept this letter as confirmation that Liberty Dialysis, LLC has more than sufficient cash reserves to fully fund the construction and operation of the contemplated dialysis clinic in Anchorage.

Thank you for your consideration. If you have any questions, please feel free to call me at (206) 236-5001.

Sincerely,

Eric Shuey  
Chief Financial Officer



Exhibit P

Letter of Intent for Leased Space

## LETTER OF INTENT

The undersigned (herein "Lessee") hereby proposes to lease the Premises described below on the following terms and conditions in this "Letter of Intent".

1. **Premises:** Located in the City of Anchorage, State of Alaska, described as follows: Free standing single story concrete block and steel building totaling 46,700 square feet located at 901 East Dimond Blvd, Anchorage, Alaska. Lessee seeks to lease approximately a 7,400 square foot section (square footage as per BOMA standards to be verified by building architect) (the "Premises") at the east end of the building.
2. **Tenant:** Liberty Anchorage, LLC
3. **Landlord:** Morrison Auto Group, Inc.
4. **Monthly Base Rent:** Shall be free for the first three months of occupancy and then equal to \$2.16 per square foot per month with annual increases of \$.05 per square foot per month.
5. **Term of Lease and Rent Commencement Date:** The term of the lease shall be ten (10) years with three (3) renewal options of five (5) years each by written notice to the Landlord at least six (6) months prior to the scheduled lease expiration date. The rental rate for the renewal option periods will be adjusted at the commencement of each option term with increases similar to that of the base rent. Lessee shall take possession on February 1, 2008 and rent under the lease shall commence on May 1, 2008.
6. **Use of Premises:** Medical related uses, including a clinic and general medical offices, medical laboratory, and other permitted uses.
7. **Security Deposit:** The security deposit shall be equal to the last month's rent and paid at the time that the Lease Agreement is signed by Lessee.
8. **Lessee Responsibilities:** The lease shall be structured on a triple net basis. Landlord will be responsible for structural components including foundations, exterior walls and roof. Lessee will also pay its prorata share of the Lessor's operating costs for the property containing the Premises.
9. **Taxes:** Lessee to pay all property taxes, personal property taxes, sales and use taxes arising out of its activities on the premises.
10. **Insurance:** Lessee shall provide and "all risk" policy for damage and destruction by fire vandalism and other perils to the building. Lessee shall maintain a policy of Commercial General Liability insurance which includes coverage for personal and advertising injury, damage to rented premises, and products-completed operations coverage, with liability limits of not less than Two Million Dollars (\$2 Million) per occurrence/aggregate insuring against all liability of Lessee and its authorized representatives arising out of and in connection with the Lessee's use or occupancy of the Leased Premises. Lessor and Lessor's landlord shall be named as an additional insured.

Lessee Initials: \_\_\_\_\_ Lessor Initials: \_\_\_\_\_

11. **Representation:** Lessor and Lessee agree and acknowledge that Brian Edmondson of Northern Trust Real Estate, Inc. and Greg Johnson of Bond, Stephens & Johnson, Inc. are the licensee and representative of Lessor but may provide assistance to Lessee and that Ed Alegre of Blue Standard is the licensee and representative of Lessee but may provide assistance to Lessor. Each party confirms that that prior oral and/or written disclosure of representation was provided to them as required by Alaska Statute 08.88.600. Each party acknowledges that they have received a copy of the Alaska Real Estate Commission Consumer Pamphlet.
12. **Improvements to Premises:** Upon delivery of the Premises by Lessor, outside of the existing improvements as described in Exhibit A (attached below), Lessee shall be responsible for all other design and construction work required to modify the Premises for Lessee's use. Lessee shall have the right to select and hire its own architect and contractor, subject to Lessor's consent which will not be unreasonably withheld. Schematic drawings and a list of architects and general contractors to be submitted to and approved by Lessor prior to Lease execution. Lessor shall have 5 business days to either approve or respond in writing to Lessee submissions.
13. **Tenant Improvement Allowance:** Lessor to provide a cash allowance ("Tenant Improvement Allowance") of \$30 per rentable square foot to be used for construction of the improvements in accordance with Lessee's plans and specifications. Such Allowance may be used for any bona fide expense or improvement directly related to the Premises including, but not limited to, cabling, telecommunications equipment and plumbing installations. Lessee will pay for interior improvement and finish work costs above and beyond the allowance amount. There shall be no charge, or offset, or deduction, to Lessee from the Tenant Improvement Allowance for any construction management or supervision.
14. **Parking:** All parking will be provided on site. A minimum of 4.0 parking spaces per 1,000 rentable square feet of leased space, or as required by local code for its intended use, whichever is greater, will be provided to the Lessee at no additional cost on a first come, first served basis.
15. **Condition Precedent:** Lessor represents that it will furnish to Lessee prior to the start of lease negotiations the following:
  1. Copies of any available environmental site and building assessment reports prepared within the last five (5) years that it has in its possession.
  2. Provide a CAD via e-mail to Chris Kidd ([c.kidd@ckidderarchitects.com](mailto:c.kidd@ckidderarchitects.com)) or a hard copy of the entire floor plan, including an outline of the Premises, to the extent Lessor has either in its possession.
16. **Exclusive Right:** Lessee shall have the exclusive right to dialysis, medical clinic and related home training activities in the Building and in any property that Lessor owns within a three (3) mile radius of the Premises.
17. **Assignment and Sublease:** Lessee will have the right to assign or sublet any portion of the Premises. Lessor's consent will be required, but will not be unreasonably withheld or delayed. Lessee will be entitled to all profits, if any, from such sublet or assignment. If the transferee has net worth at least equal to that of Lessee, Lessor's consent shall not be required for a transfer (a) to a parent, subsidiary or affiliate of Lessee; (b) in connection with a merger or consolidation; (c) in connection with a sale of substantially all of Lessee's assets. If Lessee is a

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corporation, partnership, or limited liability company, a sale of an interest in such entity shall not be deemed a transfer.

18. **ADA:** Lessee to build out Premises in compliance with the requirements of the Americans with Disabilities Act ("ADA"). Lessor assumes all responsibility for continuing Building (including common areas) compliance with all requirements of the ADA of 1990 and as revised from time to time, except for changes made by Lessee.
19. **Environmental:** Lessor warrants that, to the best of his knowledge, there is no evidence of any hazardous substances in or around the Building and/or Premises. Notwithstanding the foregoing, Lessee shall review environmental reports to be provided by Lessor and satisfy itself that the Building and Premises have no hazardous materials present prior to the start of lease negotiations. The Lease shall contain customary representations, warranties and an indemnity from Lessor absolving Lessee from any liability arising from the existence of hazardous materials (including, but not limited to, the presence and location of asbestos, asbestos containing materials, PCB transformers, other toxic, hazardous or contaminated substances, and underground storage tanks) and non-compliance with all governmental laws, ordinances, rules and regulations regarding environmental conditions and/or hazardous materials. The Lease shall also contain customary representations, warranties and an indemnity from Lessee absolving Lessor from any liability arising from, with respect to Lessee's operations, the existence of hazardous materials (including, but not limited to, the presence and location of asbestos, asbestos containing materials, PCB transformers, other toxic, hazardous or contaminated substances, and underground storage tanks) and non-compliance with all governmental laws, ordinances, rules and regulations regarding environmental conditions and/or hazardous materials.
20. **Offset:** If, upon execution of a Lease, Lessor fails to perform any of its obligations within thirty (30) days after receipt of notice of such failure from Lessee (except in the event of an emergency, in which case only reasonable notice shall be required), then Lessee may, at Lessee's option: (1) cure such violation in Lessor's behalf and offset the cost thereof against the Rent and other sums due hereunder; or (2) seek and enforce any other lawful remedies to which it may be entitled.
21. **Non-Disturbance:** Lessee will require execution of an agreement for Subordination, Non-Disturbance and Attornment from any current mortgagees or ground lessor. Lessor and its landlord will use good faith efforts to obtain the same and Lessee agrees to act in commercially reasonable manner in response to any requests for specific wording for the same from Lessor's or Lessor's landlord's current mortgagees or ground lessor. Subordination to any future mortgages will be strictly contingent upon timely execution of same by said future mortgagee or ground lessor, provided, however, that Lessee also agrees to act in commercially reasonable manner in response to any requests for specific wording for the same from Lessor's or Lessor's landlord's future mortgagees or ground lessor. Lessor shall waive any landlord's lien or right of distraint that it may have in Lessee's equipment, trade fixtures and other personalty. Lessor shall agree to execute such commercially reasonable landlord waiver forms as Lessee's lenders may from time to time request. Lessee also agrees to execute such commercially reasonable tenant estoppel and waiver forms as Lessor or Lessor's landlord or either of their lenders may request from time to time.
22. **Confidentiality:** Lessor and its representatives agree not to disclose to any third parties the name of the tenant or the intended use of Leased Area during the course of the lease negotiations, unless required to facilitate the execution of the Lease or any required permits.

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23. **Referral Warranties:** The Lease will contain warranties from Lessor and Lessee that neither party is in a position to make or accept patient referrals from each other. Additionally, all agreed upon terms were the result of an arms length negotiation and not based on patient referrals. Lessee's agreements must contain warranties of this nature to comply with "Anti-Kickback" state and federal legislation.
24. **Excluded Provider:** Lessor warrants that they have not been excluded from participation in any federally funded health care program, including but not limited to Medicare and Medicaid.
25. **Patient Information:** Lessor will agree to keep patient information confidential and not disclose patient information for any purpose unless required by a court of competent jurisdiction or by any governmental authority.
26. **Loading:** Lessee may load and unload vehicles, including vans, at a designated loading area or within a mutually agreed upon area.
27. **Building Hours:** Lessee to have 24-hour access to Premises 365 days a year.
28. **Signage:** There are two pylon signs on the premises with two illuminated sign canisters on each. One sign fronts the Old Seward Highway and the other on Dimond Blvd. The building tenants will have the right to use exclusively designated areas of the building's exterior walls for their signage and/or logo. The tenant's space on the pylon signs shall be based on a proportionate share of the space occupied in the building. Lessee may use the maximum interior and exterior signage permitted for the Premises by local code.
29. **Brokerage Fees:** The brokerage fee shall a total of 5% of the total rental paid by Lessor for the term of the Lease; payable one-half upon Lease execution (but not prior to February 8, 2008) and one-half upon Lease rent commencement date. Notwithstanding the foregoing, no lease commission shall be due if the Lessee exercises its right to terminate the Lease under section 30 below and therefore no lease commission shall be due before February 8, 2008. The 5% commission shall be evenly split between (i) BlueStandard, Inc. on the one hand, and (ii) Northern Trust Real Estate, Inc. and Bond Stephens & Johnson, Inc. on the other hand.
30. **Other Terms and Conditions:** Lessee to have a Right to Terminate the Lease if the State of Alaska denies their Certificate of Need petition on or before February 8, 2008 and the Lessor receives written notice from Lessee on or before February 8, 2008 of Lessee's termination of the Lease for such denial of the Certificate of Need. The State granting a Certificate of Need for 12 or more beds shall not be deemed a denial of the Certificate of Need petition. Outside of cancellation during this period of time, there will be no Right to Terminate. \$17,500.00 of Lessee's security deposit shall be forfeited to Lessor in the event that Lessee exercises its Right to Terminate. Lessor and Lessee will cooperate and use commercially reasonable efforts to obtain any required government permits allowing above indicated Use at the Premises.

If this offer is not accepted by the Lessor on or before 5:00 PM \_\_\_\_\_, 2008, this offer shall terminate, and all sums deposited herewith (if any) shall be promptly returned to Lessee upon receipt of a written request thereof. Within seven (7) business days of this "Letter of Intent" being accepted, the Lessee shall provide to Northern Trust Real Estate, Inc. current financial statements, credit reports, resume, and verification of funds. Upon acceptance of this Letter of Intent, Lessor is to proceed with the preparation of a Lease, it being expressly understood that this proposal is not binding on either of the parties and that the lease, when executed by the parties, shall contain their full agreement.

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In the event the Lessor accepts this Letter of Intent and the parties are for any reason unable to consummate a Lease, all sums deposited (if any) herewith shall be promptly returned to Lessee upon receipt of a written request thereof. In consideration of Northern Trust Real Estate, Inc. presenting this proposal to Lessor, Lessee agrees to conduct all negotiations through Northern Trust Real Estate, Inc. regarding this property in the event Lessor commences negotiations to lease or purchase the Premises during the one-year period following the date hereof.

Lessee: \_\_\_\_\_ Date: \_\_\_\_\_

Lessor hereby accepts the foregoing Letter of Intent. Lessor acknowledges receipt of a copy hereof.

Lessor: Morrison Auto Group, Inc.

By: \_\_\_\_\_ Date: \_\_\_\_\_

#### EXHIBIT A

#### EXISTING BUILDING CHARACTERISTICS

1. Does the Landlord have as-built documents for the Premises and Building?

Yes   X   No \_\_\_\_\_

2. What is the minimum floor to exposed structure height within the Premises?

Clearance:   16   feet.

3. Does the Premises' floor have a minimum of eighty (80) pound per square foot load factor; 30 pounds per square foot dead load, and 50 pounds per square foot live load?

Yes   X   Specs 125 lbs. per sq. ft., slab on grade

4. Do the Premises have a four-inch (4") sewer/waste line?

Yes   X   No \_\_\_\_\_

5. Are Premises serviced by a minimum of a 2-inch dedicated domestic waterline with a minimum of 55 psi static water pressure?

Yes   X   No \_\_\_\_\_ Specs \_\_\_\_\_

6. What are the water tap fees?

7. Is there cable TV service to the Building?

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Yes   X   No           

8. Is there adequate space for disposal of Tenant's refuse as dictated by local codes?

Yes   X   No           

9. Does the Building (including parking area) meet all current ADA requirements?

Yes   X   No           

10. Describe current site/security lighting.

The interior has been updated with new T-5 lighting. The parking lot recently had new light poles and lights. The property is very bright inside and out.

10. Is the Building fire sprinklered?

Yes   X   No           

11. Describe the existing electrical service available for tenant's use.

1,600 amp, 120/208 volt, 3 phase, 3 wire. Electrical service can be separately metered.

12. What is the current heating/cooling capacity in terms of tons per square feet?

Capacity:   1   Tons per 800 SF.

13. Does the existing system serve only the Premises?

Yes   X   No           

14. Is there a loading door with adequate space for delivery by semi-tractor trailer trucks, and the required maneuvering and parking space in close proximity to the lease space?

Yes   X   No           

15. In the future, Tenant may want to install a concrete pad for an emergency generator, and an empty 1-inch underground conduit from the pad to a space adjacent to the main electrical service panel.

Does any pad or underground conduit currently exist?

Yes            No   X  

16. Is there an area for a concrete pad?

Yes   X   No           

17. Are the Building and Premises code compliant for electrical, plumbing and structural?

Yes   X   No           

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18. When was the last time the Premises were modified and what work was completed?

A remodel took place in 2006. The improvements include resurfacing of the parking lot, new light poles, the ceiling was opened up and repainted white, all new T-5 lighting, all new interior walls and paint, sidewalk improvements and the floor was resurfaced.

19. How long does current construction permitting generally takes in your city/community?

3 to 4 weeks