



Berkshire Health Systems, Inc.

725 North Street
Pittsfield, MA 01201
(413) 447-2000

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Dear Colleagues:

Seventeen months ago, when our negotiations began with the Massachusetts Nurses Association, the union that represents the registered nurses at Berkshire Medical Center, we committed to keep you informed of the status of negotiations and important events—good or bad—related to those negotiations. We want to be candid with all members of the Berkshire family today about a recent negative development, brought about in part by uncertainty with our labor situation, and that development's significance upon the work of our organization.

As you know, Berkshire Medical Center—like most hospitals across the state and nation—is regularly reviewed by independent outside evaluators to assess its performance and publicly report on that performance. The public has come to depend on these nationally recognized assessments to help decide about seeking services from us or otherwise becoming dependent upon our organization. For example, patients considering care from Berkshire Medical Center can look up reports from independent, professional organizations like HealthGrades and CareChex, among others. If they want to see how committed we are to the safety of our patients, they have available reports from HealthGrades or the Leapfrog Group, a non-profit watchdog group formed by employers and other purchasers of healthcare services. In each case, objective, independent and verifiable information is there to help them make important decisions about our organization.

Another category of interested parties who regularly seek independent evaluations of our performance are those who invest in this organization through the purchase of bonds—basically loans we often (but not always) take to finance our major facility and equipment projects. These bondholders have no ownership interest in or control over the organization, but want to remain certain that we will be able to pay back what we owe. To protect bondholders of ours and every other company with bond debt or other investor obligations, the law mandates strict and comprehensive reporting of financial health. There are several independent, professional evaluators of that financial information to assist bondholders and other investors in deciding whether to purchase bonds, hold them or sell them. You may be familiar with the rating agencies, Standard & Poor's, Moody's and Fitch that perform such work nationally and review our financial condition here. Although rating agencies like these assess current financial strength, much of their focus is on future outlook, so that they can be helpful to their customers in making decisions that will only be affected by future performance.

On Tuesday Moody's, the first of the agencies to review our organization this year, issued its findings. Although it reaffirmed our A rating of our current creditworthiness (within the highest tier available), it also changed its judgment about our future by downgrading us from having a "stable outlook" to a "negative outlook". Their outlook adjustment suggests a concern about the future trends we are facing.

Although Moody's assessment is intended principally for the benefit of those who depend upon Berkshire Health Systems' bonds, it should also be a warning to us all. As reasons for its concerns, Moody's specifically cited the challenges that we have ourselves identified and reported to our internal audiences, including trustees and employees. As we noted, our future challenges include:

- the changes in our community (with our population becoming older, sicker, poorer and smaller),
- the expenses we incur to provide our services to our community rising faster than the current payments we can receive for those services,
- the uncertainty around future reimbursement for services provided to Medicare and Medicaid patients, and
- the impact of future changes to the formulas used in calculating the payments to Massachusetts hospitals.

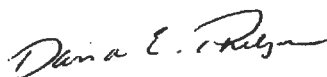
Moody's also expressed concern about the uncertainty ahead that is created by the current inability to conclude, on favorable terms, the negotiations with the union that represents our registered nurses. Moody's warning is apparently related not only to the unplanned and unbudgeted expenditures required to meet the costs of a second strike, but also to whatever costs that may be associated with a settlement in acquiescence to the union demands.

We believe that it is important that each of us understand that the challenges Moody's has highlighted for our road ahead. Unfortunately, Moody's has it right. The issues it has raised are consistent with discussions we have had with our Board, business leaders, elected officials and with you. The MNA would have you and our community believe that we can absorb any costs associated with its aggressive tactics, and with meeting its rigid demands for the future. They would have you believe we can absorb the challenges that Moody's and we have outlined without impacting our organization, its employees and all in our community who depend upon a healthy Berkshire Medical Center for their own health and well-being. Unfortunately, the union is wrong. Each of you should pay very close attention to the costs of the union's strategies and demands because ultimately they will negatively affect all of us. You will easily see that the union is merely adding financial risks and uncertainty to an already challenging situation.

At this point it seems we are heading for a second strike. We are certain that, just as we did in October, we will with your help meet the needs of our patients and their families throughout the walkout period. Like Moody's, we are, however, less confident that the cumulative costs associated with this labor uncertainty will not eventually be felt by all who depend upon us for their support, employment and, most especially, their health and well-being.

We thank you for your contribution to our success so far and commitment to our future.

Sincerely,



David E. Phelps
President & CEO



Darlene M. Rodowicz
Chief Financial Officer