Planning for CMC's Future

February 1, 2010

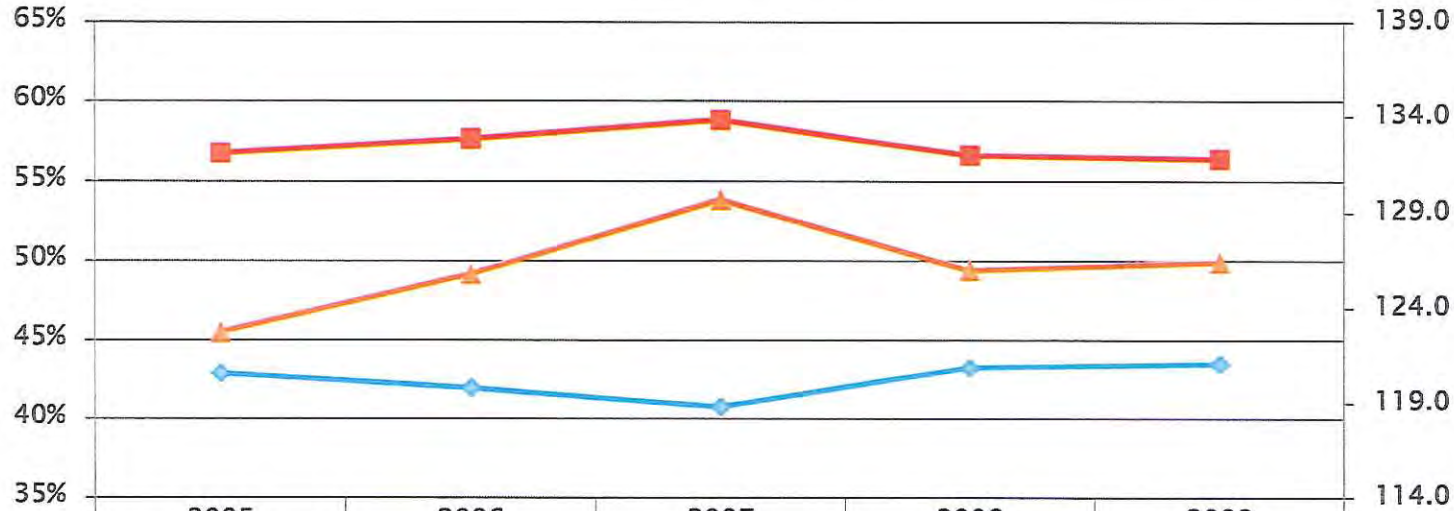
Today's Agenda

12:30 to 1:00	Lunch: "Planning for CMC's Future"	Steve
1:00 to 1:45	Tour of CMC	All
1:45 to 3:00	Discussion: Cost Containment	All
3:00 to 3:15	Break	All
3:15 to 4:30	Discussion: Competency	All
4:30 to 4:45	Break	All
4:45 to 5:15	Discussion: Capital	All
5:15 to 6:00	Summary and Next Steps	All

Where are we today?

- Market share
- AOB
- Financial performance

Market Share and AOB
FYE 2005-2009

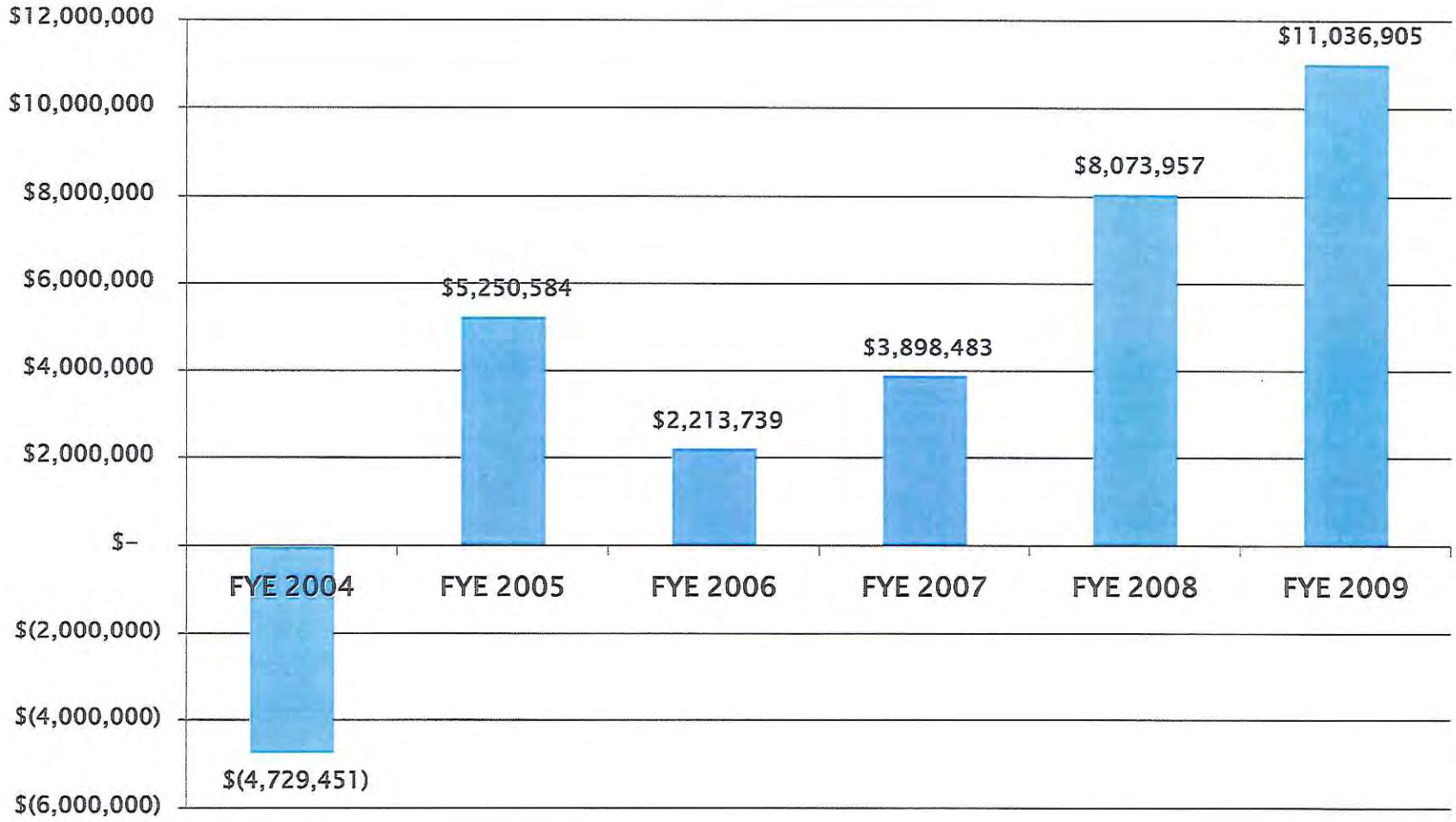


	2005	2006	2007	2008	2009
CMC Market Share	43%	42%	41%	43%	44%
SPH Market Share	57%	58%	59%	57%	56%
CMC AOB	122.8	125.8	129.7	126.0	126.4

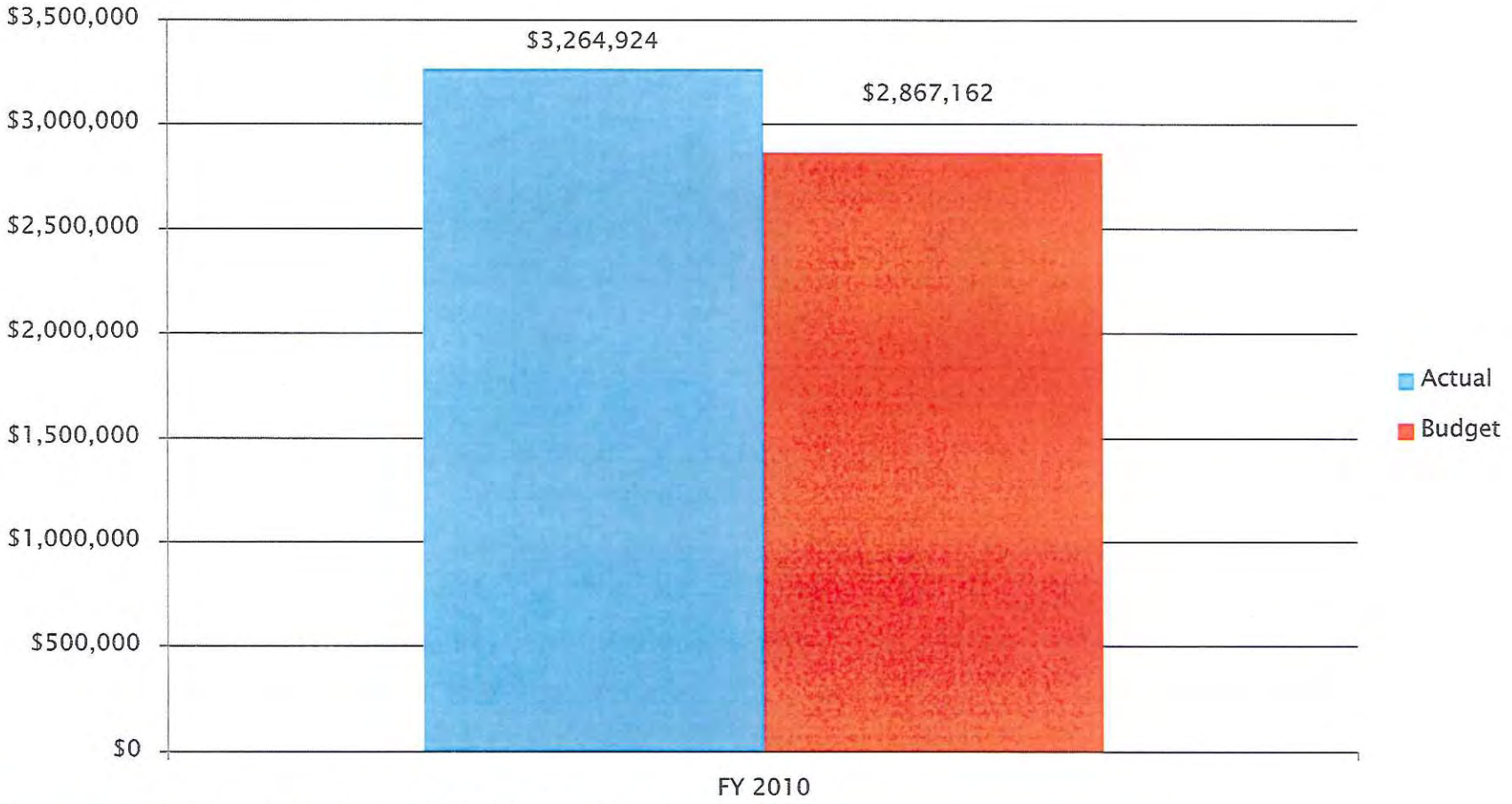
Market Share data represents CMC's primary service area – Missoula County

- Sources: *Audited Financial Statements from LarsonAllen (2005-2009) and MHA CompData*

Total Net Income FYE 2004-2009



Total Net Income FY 2010 YTD



Source: December 2009 CMC Financial Report

What challenges will the future bring to the healthcare industry?

- Access to capital will be difficult
- The need for cost management will increase
- The market will demand increased hospital/physician integration
- Success will not be achieved without growth

What are CMC's strategic challenges?

1. Over-arching need to access capital
2. Historically defensive market strategy
3. Desire to develop an integrated delivery of care model
4. Current lack of significant scale in many basic clinical programs
5. Strong-willed, independent medical staff
6. Need for rural provider relationships to cultivate upstream clinical referral pipeline
7. Incongruent to broader clinical development, CMC's business model is linked to high Medicaid volumes fueled by Obstetrics
8. IT system development - Cerner vs. Meditech

How do CMC's needs align with the Billings Clinic?

	CMC Strategic Challenge	Potential Alignment w/Billing Clinic's Interests
1.	Over-arching need to access capital	
2.	Historically defensive market strategy	2
3.	Desire to develop an integrated delivery of care model	1
4.	Current lack of significant scale in many basic clinical programs	1
5.	Strong-willed, independent medical staff	2
6.	Need for rural provider relationships to cultivate upstream clinical referral pipeline	1
7.	Incongruent to broader clinical development, CMC's business model is linked to high Medicaid volumes fueled by Obstetrics	2
8.	IT system development - Cerner vs. Meditech	1

*1= **Strong Alignment** 2= Moderate Alignment*

What do we see as the preliminary benefits of a CMC - BC affiliation?

- Strategic
- **Drive CMC volume growth through redirecting out-migration and capturing rural in-migration**
- Branding, e.g., "Billings Clinic West" or "Member of Billings Clinic Health System"
- Regionalization opportunities for a state-wide integrated delivery system, building from a base established by the Billings Clinic

- Financial
- **Potential reduction in administrative/overhead costs, e.g., back-office consolidation; $2M Cerner discount for CMC**
- Potential economies of scale/growth
- Potential to increase attractiveness to bond market through combining assets and/or "system" development

- Physician Delivery System
- **Advancement of the CPG multi-specialty group practice culture and systems using Billings Clinic experience rather than "reinventing the wheel"**
- Integrated delivery system development assistance for CMC leveraging Billings Clinic expertise

- Clinical Program Integration
- **Clinical service development; oncology has significant potential**
- Care continuum development
- Value advancement (quality, cost, patient satisfaction)

What are the Billings Clinic strategic interests in CMC?

- Over the course of KSA's interview with Dr. Wolter, five preliminary strategic interests were identified by Billings Clinic:
  1. Select clinical program development with CMC
  2. Expense sharing in overhead/infrastructure/back-office areas
  3. Full merger/acquisition ("all-in")
  4. Synergies around working with New West
  5. Shared learning in anticipation of Accountable Care Organization (ACO) and future reimbursement policies

Affiliation Opportunities

The following opportunities were identified for potential future collaboration between CMC and the Billings Clinic.

Clinical Development

- Billings Clinic provides CMC with clinical protocols as the first step in clinical integration with an eye toward improved outcomes and a long-term goal of a shared EMR
- Billings Clinic provides CMC with clinical management talent
  - CMC has pieces of a Spine program but lacks management expertise to coordinate and develop
  - BC physicians will rotate to CMC as needed to improve quality and provide expertise
- Joint venture clinical services, e.g., oncology, cardiology, intensive care
  - Oncology: BC has a nationally recognized cancer program. BC will provide the rad-onc services with [redacted] at CMC and surgical oncology expertise, along with a Nurse Navigator and the NCI designation recommended in CMC's Oncology Strategy
  - Cardiology and Interventional Cardiology
  - Vascular Surgery
  - Intensive Care

Affiliation Opportunities

The following opportunities were identified for potential future collaboration between CMC and the Billings Clinic. (con't.)

Physician Organization

- Could CPG become the basis for Billings Clinic "West"
  - Virtual to actual physician multi-specialty group
  - CPG and Western Montana Clinic primary care to integrate/merge with the Billings Clinic
- Bind physicians to CMC through New West

Financial Collaboration

- Supply standardization - opportunities beyond current VHA membership
- IT outsourcing - CMC to outsource IT to BC
- Self-insured medical malpractice solution - CMC to participate in BC's program
- Billing system - currently in use at six rural hospitals
- Physician back-office systems
- Full merger
- New West opportunity to improve patient management and readmission rates

The following matrix illustrates a potential framework for future affiliation developments between CMC and Billings Clinic.

Affiliation Opportunity Framework

	Tier 1	Tier 2	Tier 3
Clinical Development	• BC provides CMC with protocol and talent management • Joint venture clinical services – oncology	• Joint venture clinical services – cardiology including interventional cardiology, vascular surgery, intensive care services, etc.	• Fully integrate clinical programs managed by BC medical directors
Physician Organization	• BC strengthens CPG practice development talent • Joint venture clinical services – oncology	• Further integrate CPG and BC with an eye toward merging these two entities • Use New West to bind physicians to CMC	• CPG becomes "Billings Clinic West" • Develop a virtual medical group including private practitioners managed through BC
Financial Collaboration	• Supply standardization • Joint-risk malpractice • IT outsourcing	• CMC outsources its billing system to BC • BC provides physician back-office support • Jointly use New West to proactively manage patients	• Full asset merger

What are the next steps?

Selection of a consultant	1/13/10
Meet with BC leadership	2/01/10
Meet with other potential partners	2/10
Report to CMC Board	2/25/10
CMC Board retreat	3/8/10

Planning for CMC's Future

February 23, 2010

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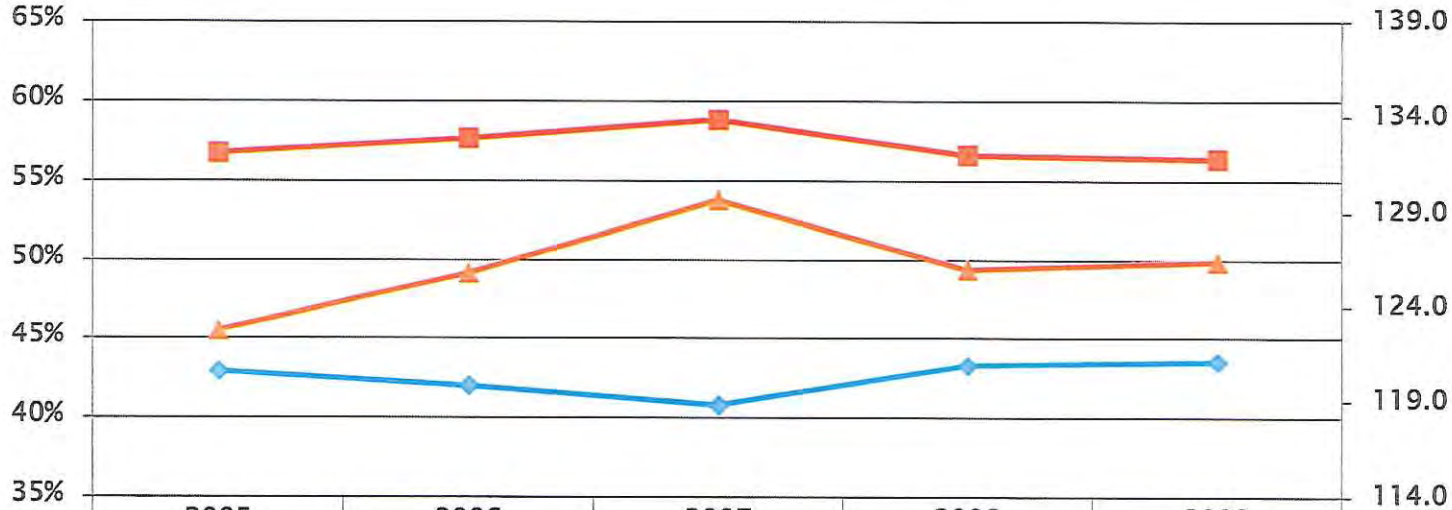
FYE 2005-2009



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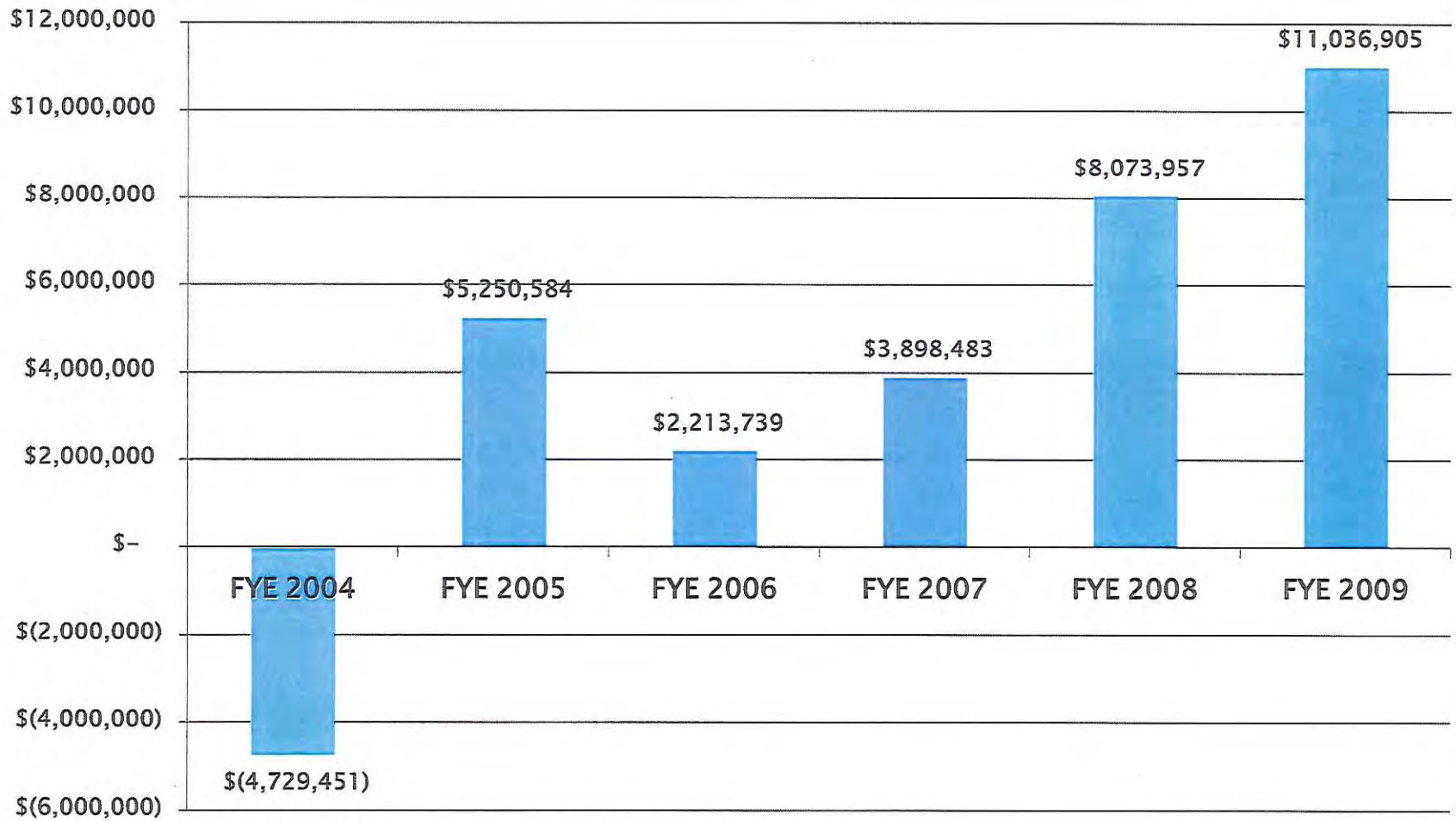

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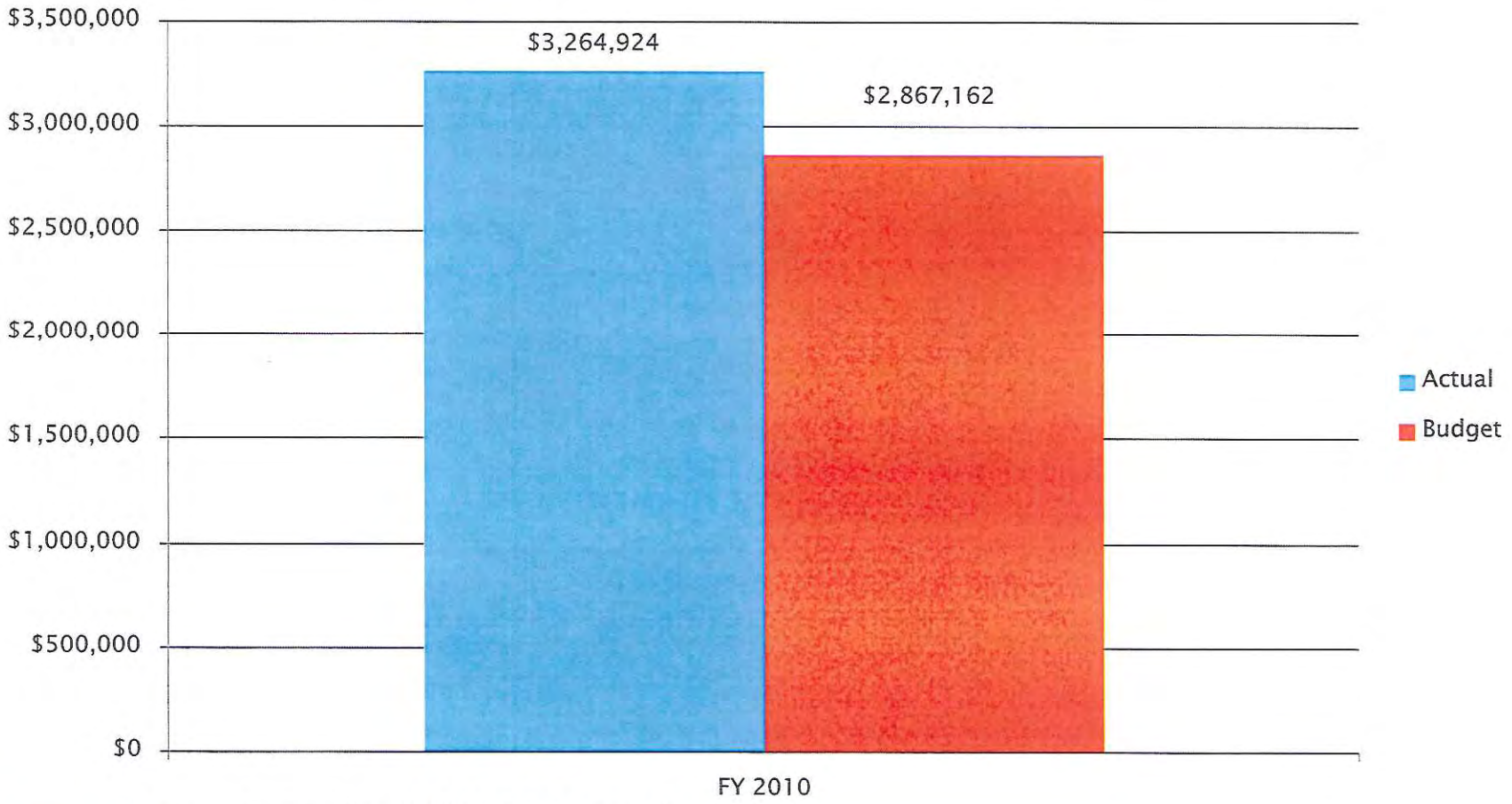

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What are Redacted strategic interests in CMC?

1. Select clinical program development with CMC
2. Expense sharing in overhead/infrastructure/back-office areas
3. Full merger/acquisition ("all-in")
4. Other

From: Carlson, Stephen
Sent: Wednesday, March 10, 2010 5:19 PM
To: Rumans, Mark MD; Wolter, Nicholas
Cc: Weisul, Jonathan P.; Reed, Frank MD

Gentlemen:

As you may recall, the CMC Board of Directors held a retreat this past weekend. The primary agenda item was to better define a long-term strategic direction for CMC. While the Board was very complimentary of CMC's recent performance, the general sense was that CMC was in no position to rest on past accomplishments. Additionally, the majority believed that CMC's long-term success was dependent on the further development of key strategic partnerships.

With that in mind, a detailed discussion ensued regarding four potential partners (The Billings Clinic, Bidder 2 Bidder 3 and Bidder 4 and how each could assist CMC in its quest for excellence. While each partner offered critical strengths and weaknesses, the Billings Clinic was clearly identified as the preferential partner for CMC.

As a next step, I, as the CEO of CMC, have been tasked with developing a strategic plan that defines how CMC and the Billings Clinic will work together for the mutual advancement of our respective organizations. The expectation is that the plan will present a compelling argument as to how our partnership will secure the long-term, financial viability of CMC. Absent of securing a compelling, financially viable plan, the CMC Board intends to reassess its partnering opportunities. I have been asked to present my plan at the CMC June board meeting - which gives me approximately 90 days to complete my work.

For the next 90 days, nothing on my calendar will be more important than the development of this plan. While I can appreciate that this may not be the Billings Clinic #1 priority, it is my sincere hope that our two organizations will be in a position to invest the time needed to complete what will be a daunting task.

I look forward to your thoughts at next week's, March 17th telephone conference meeting scheduled from 10:00 to 11:00 am.

Best regards,

Steve Carlson

Defining a Course for CMC's Future

June 24, 2010

"A New Business Model for Hospitals"

Kenneth Kaufman

A new business model for the nation's hospitals will fundamentally alter the overall landscape for health services delivery and how hospital survive and thrive in that landscape. Successful hospitals and health systems will be those that moved forward early to align with physicians, acquire care and disease management capabilities, implement integrated IT and communication systems and gain sufficient size and scale to direct the care delivery process in their markets. First movers will be rewarded.

Key Challenges for CMC

Healthcare Reform will require that hospitals redefine their business plans into one that is based on managing care and eliminating unnecessary utilization.

Hospitals will experience lower Medicare reimbursement as the federal government works to finance HC Reform.

The economic recession will drive Montana (and other states) to reduce Medicaid reimbursement.

Should Medicare become the standard rate of reimbursement, CMC would need to reduce annual expenses by $10 - 15 million.

90-day Follow-up to Whitefish Retreat

"To explore the business case for or against affiliation with the Billings Clinic, while keeping other options open."

Criteria	CMC Score	Comments
Breadth of Services	1.5	CMC is inordinately dependent on Medicaid, a payer whose future rate increases are least likely to keep pace with inflation. On a service line basis, CMC is strong in many of the lower-margin services (OB, Pediatrics, Rehab) and weak in the high-margin services (Cardiology, Neurosciences).
Brand	2.0	For many, CMC's market leadership is limited to Obstetrics and the NICU. Financial performance has been a historical community concern. On the positive side, recent improvement in CMC's financial performance, coupled with service line development (Pediatrics, Oncology) could serve CMC well relative to changing market perception.
Culture	2.5	CMC is recognized as Missoula's 'caring and compassionate' acute care provider. Many of CMC's employees enjoy extensive tenure with CMC. While employee stability is a strength, it also can be a barrier to embracing innovation and change.
Financial Strength	2.0	Recent operational success has resulted in CMC securing a BBB-rating. Long-term access to affordable debt is questioned due to limitations in institutional size and available cash.
Geography	2.0	CMC's central position in Western Montana serves it well as a provider for referral-dependent services. However, the referral market appears to be shrinking as rural providers work to expand services and retain local patients.
Innovation	2.0	CMC has seen modest success in service line development (Oncology) quality improvement (TeamSTEPPS, Zero Preventable Deaths) and hospital/physician integration (CPG development). Securing industry leading performance in each of these areas may be dependent on securing external expertise.
Quality Signature	2.0	CMC's quality indicators suggest that it delivers solid, but not industry-leading, performance. TeamSTEPPS and the 'zero preventable deaths' campaign may provide an opportunity for improvement.
Scale	1.0	CMC's ability to leverage cost-saving economies of scale is limited due to size. Hospitals that are part of a system are simply better positioned to negotiate superior contracts for items such as medical supplies and third-party payment.

CRITERIA	RANK	Definition/Why it's important...	[redacted]			
Breadth of Program		The extent to which programmatic strengths of potential partners align or complement current CMC capabilities.	3	2	2.5	3
Brand		The CMC consumer perception and familiarity with the reputation of a potential partner will significantly influence public reaction.	1.5	1	1.5	3
Culture		Mission, vision, and values of potential partners need to align with CMC and its surrounding community.	3	2	1	2.5
Financial Strength		The liquidity and leverage of any potential partner is a critical consideration and could determine future investment for CMC	1.5	2	3	2.5
Geographic Synergies		Justaposed and/or overlapping target markets allow for potential central delivery of programs and services (vs duplicating services).	1	1	2.5	3
Innovation		The extent to which provider is associated with developing new care delivery models, technology, processes, etc.	3	1.5	1.5	2
Quality Signature		Indicates the level of quality associated with the institution (both perception and reality).	3	2	1.5	2.5
Scale		Size correlates strongly with the ability to achieve economies of scale, operating efficiencies.	1.5	1.5	3	3
Political/Regulatory		The extent to which forming the partnership will not be difficult relative to political and regulatory issues.	3	3	2	1.5
		TOTAL	**20.5**	**16**	**18.5**	**23**

Key Advantages of Potential Partners

Bidder 4

Scale: Maximize cost reduction

[redacted]

Billings Clinic -

Political/Regulatory: A Montana (but not Missoula) based partner will maximize local control and choice and minimize stakeholder opposition

Criteria Reviewed

Service Integration

- Oncology: Chemotherapy and Radiation Therapy
- Pediatrics
- IP Rehabilitation
- Laboratory
- Helicopter

ACO/PACE/PCMH

IT Integration

Supply Cost Management

Malpractice Insurance

Oncology: CMC's 340-B qualification offers a unique opportunity for developing a highly profitable program. Within the first year of operation, the oncology service line generated revenues that drove approximately 20% of CMC's net operating income.

Billings Clinic

	Yr1	Yr2	Yr3	Yr4	Yr5
• CM (chemo) $Ms	-$0.6	$0.3	$1.0	$1.1	$1.1
• CM (Rad. Therapy)	TBD	TBD	TBD	TBD	TBD

Bidder 4

	Yr1	Yr2	Yr3	Yr4	Yr5
• CM (chemo) $Ms	$4.5	$4.2	$4.2	$4.2	$4.2
• CM (Rad. Therapy)	$0	$0	$0	$0	$0

Pediatrics: The Billings Clinic has expressed a desire to grow their pediatric offerings and are interested in having [redacted] "co-manage" cases in Billings similar to how [redacted] is working with Missoula Ob-Gyns.

Bidder 4 [redacted]

Billings Clinic

Annual CM of the "[redacted] model": $150,000

[redacted]

Rehabilitation Services : [redacted]

Billings Clinic

No opportunity for Rehab consolidation	$0
[redacted]	$750,000 (annually)
Capital cost to implement	TBD

Laboratory : Laboratory services offer significant potential relative to integration and cost savings due to economics of scale.

Billings Clinic

Annual CM of a Cytology integration	$15,000

Bidder 4

Annual CM of a [redacted]	$800,000

[redacted]

Billings Clinic

Annual CM of consolidating air transport services $0

Bidder 4

Annual CM of [redacted] air transport services $500,000

ACO/PCMH/PACE: Under HC reform, these models shift emphasis from episodic care of individuals to continuous and comprehensive care of populations, reimbursing and rewarding quality and outcomes as opposed to volumes. Cost savings are derived from early detection, effective care management and the avoidance of unnecessary resource utilization.

- **Billings Clinic (Statewide Model)**
  - (+) Advanced Physician/Enterprise Integration
  - (+) Strong cultural alignment with CMC
  - (+) History of successful collaborations
  - (+) Nationally recognized, high-quality delivery system
  - (+) Participating in high-profile Premier ACO pilot
  - (-) Would likely eliminate the opportunity for a single, MSO-based ACO
  - (-) Access to capital needed for PCMH/ACO development is questionable
- Bidder 4 **(Model)**

[redacted]

IT Integration: CMC is working to implement NextGen as the selected A-EMR for its employed and affiliated physicians. CMC is planning to implement a H-EMR during the second half of FY '11. Key goals for the IT strategy include securing economies of scale relative to supporting the A-EMR and the H-EMR, and strengthening referral relationships by building CMC's market position as a preferred referral center for Western Montana patients.

Billings Clinic

• H-EMR implementation (Cerner): CMC savings	$2,300,000 (1 time over 2 years)
• HIE Support sharing	$120,000 (annual)
• IT Support Desk: CMC savings	$155,000 (annual)
• Common I/T software shared licensing	$138,000 (one time)
• Microsoft Enterprise Agreement	$100,000 (annual)
• CMC/BC I/T integration: CMC savings	$120,000 to $680,000 (annually)

Bidder 4

• H-EMR implementation (Meditech/[redacted]	TBD
• HIE Support sharing	$ 120,000 (annual)
• IT Support desk: CMC savings	TBD
• Common I/T software shared licensing	TBD
• Microsoft Enterprise Agreement	TBD
• CMC/Bidder 4 I/T integration: CMC savings	TBD
• Pharmacy – loss of Cerner investment	-$200,000 (one time)

Supply cost management: CMC will need to make significant reductions in its overall cost position in response to projected cuts in future reimbursement. Should Medicare rates become the standardized payment for hospitals (as some have suggested), CMC would need to cut $10 – 15 million in annual expenses.

Billings Clinic

Annual CM of reducing supply costs	$800,000

Bidder 4

Annual CM of reducing supply costs	$800,000+

Malpractice Insurance: CMC currently participates in a risk reciprocal that is jointly owned by CMC and approximately 15 other hospitals. Could CMC join the Billings Clinic in their self-insured program, and if so, what would be the associated risk/benefit?

Billings Clinic

Annual CM of purchasing malpractice coverage	TBD

Bidder 4

Annual CM of purchasing malpractice coverage	$0

Summary

Service	5-year Contribution Margin
	Billings Clinic/
-Oncology	$2.90M
- Pediatrics	$0.75M
- Rehab (IP)	$0.00M
- Lab	$0.08M
-Helicopter	$0.00
-ACO…	$?
-IT	$5.10M
-Supply Cost	$4.00M
-Malpractice	$?
Annual Average	$2.56M

[redacted]

Recommendation

Move forward with the development and implementation of a JOA with Bidder 4 Hospital if:

- the terms of the JOA support the mission and goals of Community Medical Center
- [redacted]

Defining a Joint Operating Agreement

- Unlike the absolute financial and structural control affiliations previously described where a centralized authority has power over participating hospitals' boards of directors and assets, regional hospital systems are now affiliating through a joint operating agreement that may be implemented through a partnership or through a non-profit corporation. The hallmark of the joint operating agreement type of affiliation is that participating hospitals retain their separate identities, boards of directors, and a certain amount of autonomy even though considerable management and financial authority is shifted to the governing body of the JOA. For example, authority to make moral or ethical decisions based on religious principles is usually retained by the hospitals. Powers ceded to the governing body of the joint operating agreement and powers reserved by the hospitals may be spelled out in a variety of documents, including a joint operating agreement, a partnership agreement, articles of incorporation, bylaws, a code of regulations, or management contracts. Because a joint operating agreement affiliation is not a true merger, it has come to be called a "virtual merger."
- Virtual mergers are intended to unify operations to achieve cost efficiencies necessary to compete successfully in a managed care environment by eliminating duplications, consolidating managerial decisions, and offering third-party payers unified access to cost effective services.