

1. *Any Board meeting minutes prior to April 2013 that contain relevant information to the sale of CMC's assets, including a discussion of the proposed transaction, search process, or circumstances that led to it. The process overview document notes that the Board began considering potential partnerships as early as February 2010.*

The Board of Director Minutes from the months February 25, 2010, through March 27, 2014 (previously provided), that contain any relevant information are attached under folder #1 in the data room. Minutes were not provided for some months during this time-period either because a meeting was not held or nothing deemed relevant to the sale was considered. The Minutes have been redacted to protect individual privacy matters and material deemed to be sensitive in the hospital's competitive business environment.

2. *Any committee meeting minutes, besides the March 2014 Finance Committee meeting minutes that contain relevant information to the sale of CMC's assets.*

The only committee Minutes containing information relevant to the sale are the March 6, 2014 Finance Committee Minutes, previously provided. See the response to Request # 3 for the presentation materials considered at that meeting.

3. *Any materials considered by the CMC Board, or any committee of the Board, relevant to the sale of CMC's assets. For instance, the March 2014 Finance Committee minutes indicate that "Copies of all referenced materials are filed with the permanent record." No referenced materials were attached to the Finance Committee meeting minutes and it does not appear that they have been produced elsewhere.*

Board presentation materials considered by the Board prepared by outside consultant Kurt Salmon Associates ("KSA") dated February 1, 2010, and February 15, 2011, are submitted under folder #3 in the data room.

Materials prepared for the February 2013 Board retreat are submitted under folder #3 in the data room.

Board presentation materials considered by the Board prepared by outside consultant Cain Brothers dated August 22, 2013, September 26, 2013, October 25, 2013, December 19, 2013, January 16, 2014, February 27, 2014, and March 27, 2014, are submitted under folder #3 in the data room.

Materials dated March 6, 2014, prepared by Cain Brothers and referenced and considered by the Finance Committee at its March 6, 2014 meeting, are submitted under folder #3 in the data room.

4. *Copies of any Board resolution related to the proposed transaction.*

All resolutions are contained and outlined in the Board Minutes, as follows:

The resolution to accept the March 25, 2014 Letter of Intent from Billings-RCHP Healthcare Holdings, LLC is set forth in the March 27, 2014 Board Minutes, previously provided.

Two resolutions based on Motions from the Audit and Finance Committee to review an estimate of the necessary administrative holdbacks and the need for additional accounting resources are set forth in the May 22, 2014 Board Minutes, submitted with this response under folder #4 in the data room.

A resolution to have the Chair of the Board appoint members of the Board to meet with the [CONFIDENTIAL] to discuss the terms of a gift to create an endowment to fund healthcare needs in the hospital's service area is set forth in the June 26, 2014 Board Minutes, submitted with this response under folder #4 in the data room.

The resolution to conditionally accept the Asset Purchase Agreement ("APA") is set forth in the July 24, 2014 Board Minutes, submitted with this response under folder #4 in the data room.

The resolution to accept the terms of the APA, is set forth in the August 28, 2014 Board Minutes, submitted with this response under folder #4 in the data room.

The resolution to advise the [CONFIDENTIAL] that its preliminary foundation proposal covering the use of post-closing sale proceeds for charitable purposes is the proposal preferred by the Board, with any final terms subject to Board approval, is set forth in the September 25, 2014 Board Minutes, submitted with this response under folder #4 in the data room.

Although containing no relevant resolutions, the April 24, 2014 Board Minutes, containing matters relevant to the sale are also submitted with this response under folder #4 in the data room.

## **Process**

5. *You have advanced several grounds regarding the decision to pursue an affiliation and ultimately a sale of assets. Please fully explain, and provide any documentary evidence supporting your responses, why the proposed transaction will accomplish each of the following:*

a. *Reduce costs through service coordination and support service consolidation*

CMC recognized that its long-term success in an environment with increasing reimbursement pressures was dependent, in part, on its ability to reduce operating costs. The Joint Venture offers CMC the opportunity to streamline processes and economize services without closing hospital departments or reducing the services provided at CMC. As a result of the transaction with Billings Clinic, RegionalCare, and the Joint Venture, it is anticipated that CMC will be able to take advantage of economies of scale and reduce costs through process improvements. A good example can be found in Pediatric Surgery. By working together, the Billings Clinic and CMC can deploy a combined compliment of pediatric surgeons across their respective service areas. The parties hope to make available a broad range of specialists at CMC that would not be economically feasible in the Missoula community alone.

Additionally, Billings Clinic has made great strides in improving efficiency, including medical quality outcomes, containing costs and improving patient satisfaction through a Lean/Six Sigma process improvement initiative. The health system realized \$21.9 million in actual 'hard dollar' benefits through 110 individual improvement projects since 2009. Billings Clinic is currently implementing the process improvement program in all ten regional affiliate sites and hopes to obtain similar efficiencies (scaled to size) across the region. CMC would be able to benefit from Billings Clinic's LEAN expertise. CMC also expects to be able to reduce future IT development costs by jointly developing the Cerner EMR with the Billings Clinic.

Similarly, RegionalCare with its seasoned management team has reduced costs and expenses at its eight other hospitals by improving case management, charge capture, record keeping and billing procedures. RegionalCare would also provide CMC access to its multi-hospital platform for supply and equipment purchasing leading to reduced costs through economies of scale. Converting to RegionalCare's Group Purchasing Organization (GPO) is very important to CMC as it is believed that Providence Health and Services no longer will offer CMC continued access to their GPO, ProvSource.

- b. *Improve quality by collaborating on the identification and adoption of best practices*

In selecting Billings Clinic and the Joint Venture, CMC has chosen one of the national leaders in patient safety and quality of care. Billings Clinic has received numerous awards for its clinical excellence and was ranked #1 in the nation for patient safety by Consumer Reports in 2012. It has a proven track-record in developing and implementing strong and innovative information systems and technology that have resulted in achieving outstanding clinical care and exceptional levels of patient safety. Participation in the Billings Clinic EMR has been extended to Billings Clinic affiliated hospitals and other health care providers in Montana and Wyoming markets. The impact has been significant, resulting in improved clinical quality and efficiency allowing certain of these facilities to qualify for reimbursement premiums for ‘meaningful use’ of technology. The transaction will provide CMC access to Billings Clinic’s best practices and the ability to draw on this expertise to improve care in Missoula.

- c. *Prepare for the challenges introduced by the Affordable Care Act by acquiring the experience and competencies needed to manage capitation and population management*

CMC recognized that expected changes in government reimbursement policies require healthcare facilities to provide for population management and value-based care.

Billings Clinic has been progressive in embracing value-based initiatives and has developed significant expertise in the evaluation, implementation and dissemination of these programs throughout its integrated health system. Billings Clinic was one of ten organizations nationwide chosen in 2005 to participate in the Centers for Medicare & Medicaid Services (CMS) Physician Group Practice (PGP) Demonstration and the following-up Transition Program which further demonstrates its early interest in developing an expertise in shared savings and managed care. The objective of the PGP Demonstration was to determine whether quality of care could be improved and costs decreased by replacing a fee-for-service model with a system of health care management for the Medicare population. The results of this project provided much of the basis for the requirements of the Affordable Care Act and the development of Accountable Care Organizations.

Currently, Billings Clinic participates in the Premier ACO, and has applied

as part of a group of Premier members for the CMMI Round II Innovation grant that will expand bundled payments in ambulatory settings for complex patients. Billings Clinic also participates in the bundled payment for total knee, total hip and CMS Medicare Shared Savings Program. On the private payor side, Billings Clinic manages care for nearly 7,000 Blue Cross Blue Shield insured lives in eastern Montana and is the sole owner of New West Health Services, a Medicare Advantage provider with 19,000 covered lives.

By leveraging this experience and the Cerner System already in use at both Billings Clinic and CMC, the Joint Venture plans to support ACO/population management, meaningful use compliance, integration, across the continuum of care and total cost of care management at CMC. The transaction would allow CMC and Billings Clinic to develop a clinically integrated Montana system, a patient-centered coordinated care model that will have the infrastructure and expertise to expand to a broad range of Montana residents. The clinically integrated network would create new alliances and incentives that can offer innovative, competitive options for health care consumers and payors in the CMC community.

*d. Secure access to capital for service expansion, information systems development, and physician recruitment*

Under the terms of the purchase agreement, the Joint Venture has made substantial capital commitments to CMC for the next ten years including (i) investing a minimum of \$60 million in strategic initiatives, (ii) spending 3% of net patient service revenue on routine capital expenditures, and (iii) investing up to \$40 million for provider recruitment. Members of the CMC board, the CEO and members of the physician advisory committee toured two RegionalCare acquired hospitals including Clinton Memorial Hospital in Wilmington, Ohio and Eliza Coffee Memorial Hospital in Florence, Alabama. The CMC team had the opportunity to meet with local physicians as well as board and management members of the respective hospitals to assess RegionalCare's past record of keeping with its commitments. RegionalCare has demonstrated a strong track-record of living up to its performance and financial commitments and reinvesting free cash flow back into its partner hospitals.

RegionalCare's major stockholder is Warburg Pincus, the world's leading health care investment firm for over 35 years. Founded in 1966, Warburg Pincus has invested more than \$40 billion in over 650 companies in more than 30 countries. Warburg Pincus' initial investment of \$300 million in RegionalCare has been supplemented with debt capacity.

6. *In addition to the four grounds listed above, were there any other grounds for why the Board pursued an affiliation and ultimately a sale of assets? If so, please list the grounds and fully explain how the proposed transaction will satisfy those grounds and provide any relevant documentary evidence.*

a. *Expand services provided to the community*

An important objective of entering into a transaction for CMC was to gain access to the necessary resources to recruit physicians and allow CMC to expand the services offered to the Missoula community. An estimated 84% of hospitals and group practices nationwide are actively recruiting physicians and other providers today with the help of 5,000 physician recruiters. Among medical school graduates finishing training in the last ten years, only 12% selected non-metro markets for their practices. Together, Billings Clinic and RegionalCare will provide CMC with the financial resources and expertise to effectively recruit to Missoula in this very competitive environment.

The Joint Venture has committed to invest up to \$40 million over the next ten years to recruit 60 new providers. Billings Clinic and RegionalCare with their on-staff teams of recruiting personnel have shown success in recruiting to non-urban markets. RegionalCare, over a period of three years, has recruited 125 physicians to eight hospitals. Billings Clinic has recruited 130 physicians in the last five years and has a retention rate of 95%. With its large and reputable multi-specialty physician group, Billings Clinic also has the ability to recruit high-end specialists to the market and share these physicians with CMC to serve Missoula patients.

Recognizing that a critical shortage of physicians would severely impact the quality of life of Montanans, Billings Clinic joined with Riverstone Health and St. Vincent's Hospital to establish the Montana Family Medicine Residency in 1995. This program has graduated 87 Family Practice physicians in the past 18 years, with 62 graduates (71%) retained in Montana. To address the continuing shortage of primary care physicians in Montana, Billings Clinic applied and received accreditation to launch Montana's first Internal Medicine Residency program and accepted its first cohort of 12 new physicians in training on July 1, 2014. An additional six will be accepted each year thereafter. The partnership with the Joint Venture will continue to support CMC's commitment to training physicians in residence and increase CMC's ability to recruit physicians and expand services.

7. *Information regarding CMC's strategic objectives, strengths, and weaknesses identified through the initial assessment performed by Cain Brothers.*

Cain Brothers reviewed and confirmed CMC's assessment which suggested that although financially successful, CMC will be faced with a number of challenges as a stand-alone hospital that, like all healthcare providers, must respond to market forces and legislative mandates for change in the manner and method of the delivery of care. CMC's options for the future must be viewed within the context of market changes occurring nationally, regionally, as well as in the state of Montana. To meet the challenges imposed by regulatory and broad market forces, Cain Brothers' assessment indicated that CMC would need to invest significant resources into facilities, new technologies and new methods of providing care.

CMC considered this assessment and coupled with a desire to continue to be a high quality health care provider to the greater Missoula community, a number of objectives were established by CMC when evaluating a strategic alternative, including:

- Continuing the development of clinical centers of excellence and fostering the development of specialty services.
- Attracting and retaining a high quality medical staff.
- Increasing service levels in existing programs.
- Positioning CMC to offer new models of care.
- Making necessary capital investments in new technology and facilities.
- Continuing to improve balance sheet financial strength.
- Offering patient choice for our community and region.
- Creating a statewide approach to patient care focused on quality and safety.

To achieve these objectives, Cain Brothers identified a number of challenges faced by CMC:

- **Access to Capital** – To access new capital, bondholders would require CMC to strengthen its balance sheet by building up its cash balances. Building cash while at the same time making significant investments in technologies, facilities and care methods would require further improvements in financial performance that could be achieved only through growth, service economization and the capturing of new economies of scale.
- **Health Care Reform and Difficult Reimbursement Environment** – Health Care Reform and virtually all policies by CMS as well as the State of Montana provide for a more limited reimbursement to hospitals in the future. A significant proportion of CMC’s revenues historically have been generated from Medicare and Medicaid patients. Expected changes in government reimbursement policies, including incentives for population management and value based care, are likely to have a significant negative impact on CMC and most other hospitals in the State of Montana.
- **Managed Care Consolidation** – As a standalone system, CMC faces challenges by larger health care organizations that are capable of securing national, regional and statewide contracts at more favorable terms than those attainable by CMC. Furthermore, as commercial payors develop more limited plan options, the ability to remain competitive becomes even more difficult. As a response to these trends, hospitals and physicians are organizing into state and regional networks. These networks are designed to align hospitals and physicians to improve access to contracts, technology, capital and the other resources necessary to survive in a difficult managed care environment.
- **Physician Integration** – One objective of Health Care Reform is to reduce excess use of services provided to patients by physicians and hospitals. However, physicians and hospitals traditionally have been provided with different financial incentives. Under the reform

legislation, both groups need to align their incentives in order to deal with payment restrictions without lowering the quality of patient care. In addition to aligning financial incentives, physicians and hospital systems need to make vast investments in information systems to manage effectively the care of their patients. Larger health care organizations have the capital resources to develop and maintain these systems, and can also create vehicles to allow physicians to participate more directly in decisions affecting patient care.

- ***Shift to Outpatient Care*** – Many patients who in the past were treated in hospitals are now being treated as outpatients. Free-standing clinics, surgery centers, and even doctors' offices are being used today to provide services that were once provided in the hospital setting. The shift of care from inpatient to outpatient settings means that competitors can come to Missoula with very little capital required. Each patient treated by some other provider directly affects CMC and its ability to provide the more intensive medical services needed by the community.

The board's ultimate conclusion to pursue a transaction was based on the fundamental premise that stand-alone hospital systems such as CMC will be challenged to remain viable in a Health Care Reform environment. CMC's increasing need for capital alone is sufficient reason to consider alternatives, but there are additional considerations. Survival alone may not meet the increasing needs of an aging population and the competitive environment faced by CMC. To succeed in the emerging health care market, CMC recognized the need to be closely aligned with physicians and other provider organizations, in a manner allowed and encouraged through the Joint Venture.

8. *Material distributed to potential partners through Cain Brothers, including the executive summary of CMC, process letters and proposed term sheets.*

See folder #8 in data room, which contains an example of the cover process letter sent to all prospective bidders. Attached as Exhibits to each cover letter were the CMC Overview, a template Membership Substitution Term Sheet, a template Asset Purchase Term Sheet, a Balance Sheet Allocation, and a Proposal Response Request.

9. *Information produced by or relied upon by the Physician Advisory Committee in their consideration of any potential partner.*

The Physician Advisory Committee (PAC) was invited to, and able to participate in, several of the board meetings since the committee was established in October 2013. As a result, PAC members had access to information that was presented to the CMC Board of Directors. Further, a number of committee members joined members of the Board on site visits to hospitals of each of the five bidders. During these site visits, PAC members were able to speak privately with physicians at the respective hospitals. To the extent bidders approved, PAC members also had an opportunity to subsequently contact physicians at the bidder hospitals to conduct further reverse due diligence. Ultimately, the Board's partnering decisions were made in no small part on the recommendations presented by the membership of the PAC.

### **Conflicts of Interest and Post-Closing Employment and Board Positions**

10. *CMC's conflict of interest policy and any disclosure statements executed by CMC Board members, officers, or key employees.*

A copy of CMC's Conflict of Interest Policy is submitted under folder #10 in the data room.

Copies of the CMC Board of Directors' Certifications including their Conflict of Interest Statements for 2014 and previous years are submitted under confidential folder #10 in the data room, to protect individual privacy.

11. *In the process of pursuing an affiliation and ultimately a sale of assets, were any conflicts of interest (or apparent conflicts) identified with respect to any CMC Board member, officer, or key employee?*

Yes.

- a. *If so, fully explain each of the conflicts (or apparent conflicts), identify the directors), officer(s), or key employee(s) involved, and explain how the conflicts (or apparent conflicts) were resolved.*

At the Board's September 25, 2014 monthly meeting, the Board discussed a proposal to "affiliate" with the [CONFIDENTIAL] to have [CONFIDENTIAL] receive the net closing proceeds from the sale to be used to support a healthcare mission in the hospital's service area. Three (3) Directors disclosed potential

conflicts of interest in connection with a discussion of this proposal.

Director [CONFIDENTIAL] disclosed that she was currently a member of the [CONFIDENTIAL]. Director [CONFIDENTIAL] was excused from the meeting. Following discussion, the Board concluded that Director [CONFIDENTIAL] had a conflict of interest pursuant to the Hospital's conflict of interest policy, and by a majority vote decided not to allow her to vote on the [CONFIDENTIAL] proposal.

Director [CONFIDENTIAL] disclosed that he is the [CONFIDENTIAL] located at the [CONFIDENTIAL], and noted his salary is paid by the [CONFIDENTIAL] (not the [CONFIDENTIAL]). Director [CONFIDENTIAL] was excused from the meeting. Following discussion, the Board determined by a majority vote that Director [CONFIDENTIAL] did not have a material conflict pursuant to the Hospital's conflict of interest policy, and agreed to permit him to vote on the proposal. However, despite the Board's decision, [CONFIDENTIAL] abstained from voting on the [CONFIDENTIAL] proposal.

Director [CONFIDENTIAL] disclosed that he is the [CONFIDENTIAL], and that his salary is paid by the [CONFIDENTIAL] (not the [CONFIDENTIAL]). Director [CONFIDENTIAL] was excused from the meeting. Following discussion, the Board determined by a majority vote that Director [CONFIDENTIAL] did not have a material conflict of interest pursuant to the Hospital's conflict of interest policy, and agreed to permit him to vote on the [CONFIDENTIAL] proposal.

12. *What understandings, if any, have been reached for the continued employment of key employees of CMC?*

Pursuant to the terms of Section 10.1 of the APA (previously submitted), the Joint Venture has agreed to offer employment to (i) to all employees who are actively employed by, and in good standing with the Hospital at Closing, and (ii) all currently represented bargaining unit employees under the terms and conditions of employment outlined within the Hospital's Collective Bargaining Agreements. The offers will be for positions and at compensation comparable to that enjoyed by the employees immediately before Closing.

Under Section 10.2 of the APA, the Joint Venture has agreed to (i) waive any limitations or pre-existing conditions and eligibility waiting periods under the "Joint Venture's Benefit Plans", (ii) provide each employee credit for any co-pays and deductibles paid before Closing, and (iii) recognize seniority and service by the employees prior to Closing.

In addition, as indicated in the response to Question 14 below, Joint Venture has agreed to assume the obligations under CMC's Senior Leadership Team Severance Policy to certain key CMC employees, CMC's obligations under the offer letters to David Lechner and Stan Moser, and CMC's obligations under the existing employment agreement with Mr. Steve Carlson. Please see Schedule 4.13(f) 2 to the Asset Purchase Agreement for a complete list of those employees entitled to participate in the Senior Leadership Team Severance Policy.

13. *What understandings, if any, have been reached for the appointment of any of CMC's directors on:*

a. *Any Board of the Buyer;*

CMC shall have the right under Section 10.2 of the APA to appoint the Missoula Community member to the seven (7) member Board of Managers, who shall not be employed by any of the parties. Under Section 10.3 of the APA, the Joint Venture in consultation with the Seller, will form a Board of Trustees including at least four (4) physicians and five (5) community members. The Hospital's CEO will be an ex officio (non-voting) member of the Board. Following Closing the Billings Clinic will amend its Articles of Incorporation to allow CMC for a period of not less than ten (10) years to appoint one (1) member of the Billings Clinic Board subject to the terms and conditions contained in Section 10.4 of the APA.

b. *The CMC Foundation; or*

No understandings have been reached about the appointment of any CMC Directors to the CMC Foundation Board, but CMC is currently the sole member of the CMC Foundation. See the response to Request 29 under folder #29 in the data room.

c. *Any charitable entity that will receive any portion of the net proceeds of the sale of CMC assets?*

See the response to Requests 32-34.

14. *List any special benefits that will accrue to any director, officer, or key employee of CMC or any entity related to CMC as a result of the transaction.*

During the course of its consideration of the transaction, CMC's Board leadership was advised by Cain Brothers that in addition to normal severance arrangements, in order to ensure continuity of senior management, organizations contemplating a

change in control often provide additional retention arrangements for senior leadership in the form of retention payments, extended severance payments, or success fees upon conclusion of a transaction. These incremental retention payments are typically paid by the selling organization, or offset against purchase price if assumed by the buying organization.

Stephen Carlson, CMC's CEO, is currently employed under an employment agreement, which among other provisions, provides for an eighteen to twenty-four month severance benefit upon termination for other than cause. During the negotiation process with the two final bidders, the bidders were asked to address retention risk and to assume the obligations under Mr. Carlson's employment contract. Each bidder was asked, at a minimum, to assume the terms of all employment contracts, including Mr. Carlson's. In initial discussions the unsuccessful final bidder indicated that it may be willing to extend Mr. Carlson's severance payment to three years. The Joint Venture in addition to agreeing to assume the terms of the existing contracts, offered to extend Mr. Carlson's severance benefit to three years to ensure a continuity of leadership and an orderly transition of ownership and management. At the direction of the Board and in order to provide for comparable treatment of Mr. Carlson, so as not to create any bias and to reduce retention risk during the process, the other final bidder was asked for and agreed to match the employment severance terms provided to Mr. Carlson by the Joint Venture without altering the purchase price and other financial terms of the proposed transaction. This was viewed as a positive outcome for CMC as it did not involve a reduction in purchase price and enhanced the retention incentive for Mr. Carlson. In addition, the Joint Venture and Mr. Carlson have agreed that his employment agreement will be amended to include a non-competition covenant by Mr. Carlson for the term of his employment and any period during which he is receiving severance benefits.

No director, officer or key employee will be paid a retention payment or success fee as a result of this transaction.

In addition, as discussed in the response to Request #12 above a change of control could trigger severance benefits for the other individuals listed on Schedule 4.13 (f) 2 attached to the Asset Purchase Agreement.

15. *Copies of any agreements that involve directors, officers, or key employees of CMC relating to the transaction.*

See response to Requests #12 and #14. Mr. Carlson's Employment Agreement is submitted under folder #15 in the confidential data room. The offer letters to David Lechner and Stan Moser are submitted under folder # 15 in the confidential data room. CMC's Senior Leadership Team Severance Policy is submitted under

folder #15 in the confidential data room.

## **Valuation and Financial Information**

16. *Copies of all valuations, appraisals, studies, reports, and opinions used in assessing the proposed transaction.*

Please see folder #3 in the data room, which includes Cain Brothers' presentations to the board including valuations and assessments of the proposed transactions.

17. *Copies of CMC's five most recent IRS Forms 990 and audited financial statements.*

Please see folder #17 in the data room, which includes IRS Form 990 for 2009 – 2013 as well as Community Medical Center audits for fiscal years 2009 – 2014.

18. *Financial projections and other records that may be used to assess future earnings and valuations, including but not limited to budgets or projections made for specific service line expansions (e.g. Radiation Oncology).*

Please see folder #18 in the data room, which includes projections for Community Medical Center and radiation oncology. Also included in the folder are adjustments to EBTIDA and revenue to reflect Community Medical Center's normalized earnings.

19. *Current financial information for each service line and the corresponding future financial projections for each service line.*

Community Medical Center does not track financial information by service line and has no projections by service line.

20. *Please provide a list of the five most expensive improvements, renovations, and/or upgrades attained by CMC in the previous three years acquired for the purposes of expanding CMC's patient care offerings (e.g. linear accelerator radiation oncology machine). Include a basic description of the purpose and utility of the improvements, renovations or upgrades and the upfront costs to CMC, including purchase price of equipment and technology necessary for each respective improvement, renovation, or upgrade.*

### **The most sizeable investments include:**

1. Medical oncology: ~\$6,400,000 – CMC constructed a new Medical Oncology Center on campus, having outgrown its original space. The

building was designed to be able to add Radiation Oncology space if needed in the future.

2. Radiation oncology: ~\$8,500,000 – CMC’s latest construction project, this building is attached to the Medical Oncology Building, above, and shares a common lobby. This expense includes the cost of a new linear accelerator.
3. Women’s/OB: ~\$17,300,000 – CMC renovated old space and added new construction to completely revamp its Women’s Services area, including the NICU.

In addition to the investments above, CMC had the following investments.

### **Information Systems**

Cerner System – CMC has invested over \$12 million in its IT system during the last 5 years. CMC is now fully implemented and compliant with all governmental standards. CMC also invested \$1 million in NextGen, the software for its physician group.

### **Da Vinci Robot– 2011 - \$1.7 million.**

CMC’s Da Vinci does single site surgery, which is a unique capability for Missoula. It also allows Community Medical Center to be the only hospital in its market area to provide single incision GYN surgery. CMC’s advertising campaign centered around “night vision” and “our Da Vinci can see in the dark”. The newer model has an option to inject a dye and view certain anatomical specimens that will light up under a green light almost like in a flouro procedure. It is a preferred capability by the urologists.

**Advanced Imaging – 2011 - \$1.7 million** —Purchase of AI building from Shelter West/Quality Construction. It had been leased by the AI previous to acquisition and CMC had been paying half of the lease cost.

**Endoscopy – 2010 - \$1.7 million** – Not only did CMC remodel the unit (Gordon Construction), but CMC also increased the size significantly and built a new patient waiting room adjacent to the unit. CMC also added an isolation room, restroom, procedure, and recovery rooms.

**ICU remodel – 2012- \$600,000** — CMC gave the unit a face lift to the unit, retrofitted some of the air handling capabilities to make rooms “isolation capable (negative air flow)” and remodeled the hallways to prepare for Electronic Health Records (cubbies with glass looking in to each room). CMC remodeled the ICU

and the ICU Stepdown unit, nursing station, staff lounge, and etc.

**Back-up electricity generator - \$1 million** – The generator provides additional back-up electricity.

### **General facility upgrades**

CMC has been updating and remodeling for years to upgrade what was a fairly aged facility a decade ago.

21. *Please provide a prioritized list of CMC's current needed or anticipated capital improvements and the estimated cost needed to accomplish each of the improvements.*

See spreadsheet in folder #21 in the data room

### **Buyer Information**

22. *Fully explain the extent of unrestricted assets of RCHP – Billings – Missoula, LLC and how those assets constitute adequate financial resources sufficient to meet all of its post-closing obligations under the Asset Purchase Agreement. Provide any relevant documentary evidence that supports your response.*

The members of the Joint Venture are Billings Clinic, directly, and Billings-RCHP Healthcare Holdings, LLC, a parent level joint venture formed between Billings Clinic and a wholly-owned subsidiary of RegionalCare. The capitalization and funding of the closing obligations of the Joint Venture necessary to consummate the acquisition will come from capital contributions of those owners from available cash on hand and/or from proceeds under the terms of currently existing credit facilities. Funding for the post-closing obligations will come from cash generated from CMC facility operations and from other RegionalCare operations as the indirect parent of the Joint Venture. Additionally, RegionalCare has a credit facility in place with \$55 million of availability to support its hospitals' operations, including those of the Joint Venture.

23. *Information regarding the existing presence of Billings Clinic, RCHP, or any affiliate of either entity in any Montana market.*

### **Billings Clinic**

*Hospital services:* Billings Clinic owns and operates a hospital in Billings.

*Clinic services:* Billings Clinic owns and operates clinic locations in Billings, Bozeman, Miles City, and Cody, WY.

*Affiliate hospitals:* Billings Clinic maintains affiliate relationships with the following hospitals:

- Columbus (Stillwater Billings Clinic)
- Glendive (Glendive Medical Center)
- Livingston, WY (Livingston HealthCare)
- Red Lodge (Beartooth Billings Clinic)

See also the response to Question #24 in regard to these affiliate relationships.

*Management services:* In addition to the formal affiliations above, Billings Clinic maintains relationships with hospitals in its broader service area. These relationships generally entail the provision of management, information systems, and ancillary support services to the hospitals. Physician and physician assistant services also are provided at some locations. The affiliated hospital locations are:

- Big Timber (Pioneer Medical Center)
- Colstrip (Colstrip Medical Center)
- Harlowton (Wheatland Memorial Healthcare)
- Lovell (North Big Horn Hospital)
- Plentywood (Sheridan Memorial Hospital Association)
- Roundup (Roundup Memorial Hospital)
- Scobey (Daniels Memorial Healthcare)

*Outreach Clinics:* Billings Clinic physicians provide services on an intermittent or periodic basis (i.e., on a nonresident “circuit rider” basis) at clinics in the following

locations:

*Montana:* Big Timber, Bozeman, Columbus, Colstrip, Glasgow, Glendive, Great Falls, Hardin, Helena, Lewistown, Livingston, Miles City, Missoula, Plentywood, Poplar, Red Lodge, and Sidney

**North Dakota:** Williston

**Wyoming:** Cody, Lovell, Powell, Sheridan, Thermopolis, and Worland

*Telemedicine:* Billings Clinic also provides telemedicine, teleradiology and reference lab services.

**RegionalCare:** *RegionalCare has no existing presence in Montana, except through its affiliation with the Billings Clinic.*

24. *Information regarding previous purchases of nonprofit operations or assets by Billings Clinic, RCHP, or any affiliate of either entity.*

**RegionalCare:** RegionalCare operates eight hospitals through the following transactions, five of which were acquired from nonprofit or governmental entities:

- **Ottumwa Regional Health Center** (Ottumwa, Iowa).
  - 5/1/2010 a wholly-owned subsidiary of RegionalCare acquired the assets of Ottumwa Regional Health Center from Ottumwa Regional Health Center, Incorporated, an Iowa not-for-profit corporation.
- **Eliza Coffee Memorial Hospital** (Florence, Alabama) and **Shoals Hospital** (Muscle Shoals, Alabama).
  - 7/1/2010 a wholly-owned subsidiary of RegionalCare acquired the assets of both Eliza Coffee and Shoals Memorial Hospital from The Health Care Authority of Lauderdale County and the City of Florence, Alabama.
- **Clinton Memorial Hospital** (Wilmington, Ohio).
  - 12/1/2010 a wholly-owned subsidiary of RegionalCare acquired the assets of

Clinton Memorial from Clinton County.

- **Sierra Vista Regional Health Center** (Sierra Vista, Arizona)
  - 5/1/2013 a wholly-owned subsidiary of RegionalCare entered into a long-term lease of the operations and assets of Sierra Vista Regional Health Center from Sierra Vista Regional Legacy Foundation.
- **Paris Regional Medical Center** (Paris, Texas), **Sharon Hospital** (Sharon, Connecticut), and **Southwest Regional Medical Center** (Waynesburg, Pennsylvania).
  - 11/4/2011 These three facilities were acquired through a merger of the investor-owned Essent Healthcare into a wholly-owned subsidiary of RegionalCare.

**Billings Clinic**

Billings Clinic has not purchased the assets or operations of any other nonprofit hospital or health system.

Billings Clinic maintains the following non-controlling membership and governance relationships with certain of the affiliated hospitals identified in the response to Question 23.

**Stillwater Billings Clinic**

Billings Clinic is the sole corporate member of Stillwater Billings Clinic, with the right to appoint 25% of the Stillwater Billings Clinic Board of Directors. Billings Clinic became the member of the hospital in 2011 through amendment of the Stillwater governing documents. No cash consideration was paid for the amendments.

**Beartooth Billings Clinic:**

Billings Clinic is a member (but not the sole member) of the hospital corporation with the right to appoint 25% of the Beartooth Billings Clinic Board of Directors.

**Glendive Medical Center:**

As part of its affiliation relationship, Billings Clinic has a contractual right to appoint a minority (2 out of 9) of the GMC Board of

Directors.

**Livingston Healthcare:** As part of its affiliation relationship, Billings Clinic has a contractual right to appoint a minority (25%) of the Livingston Healthcare Board of Directors.

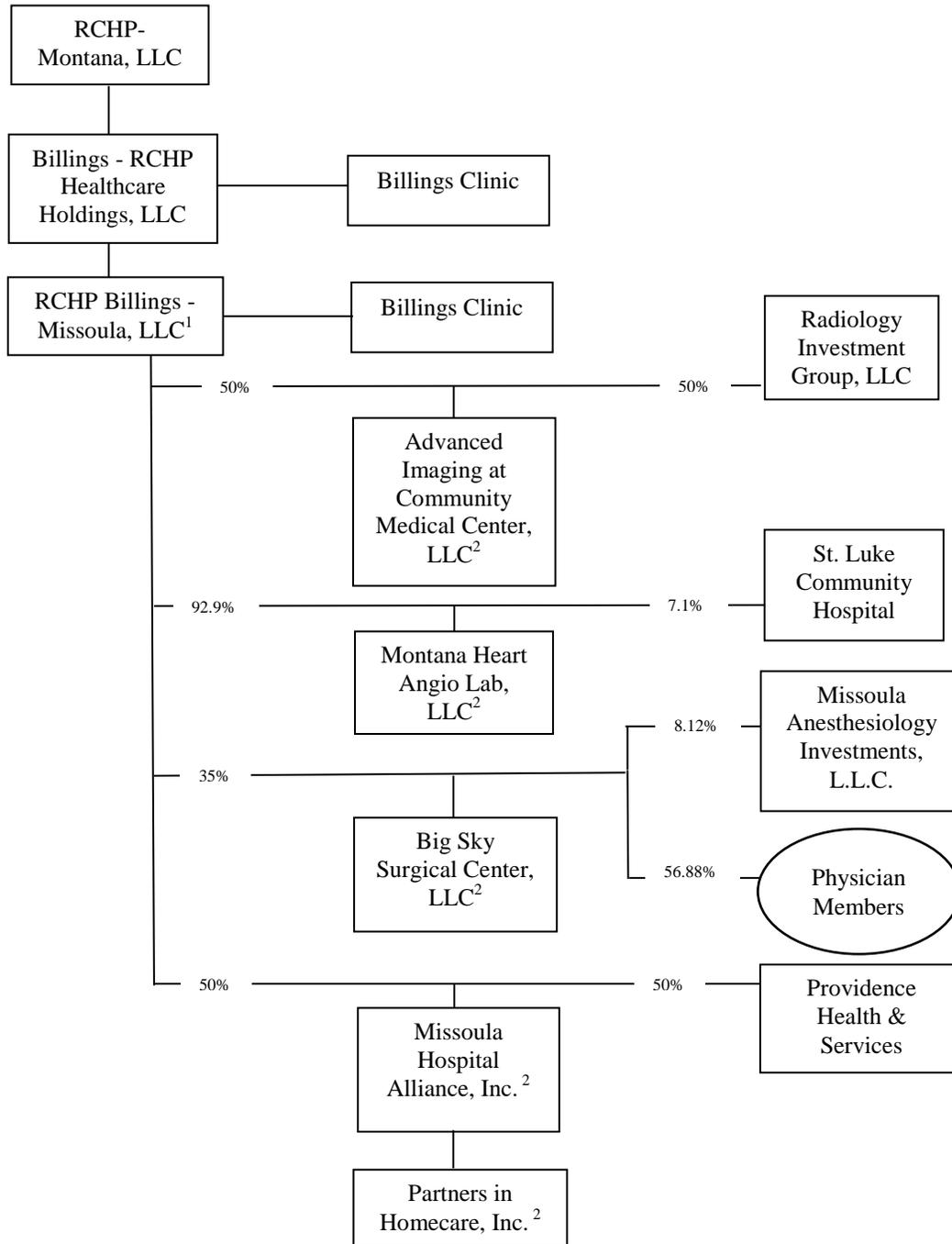
25. *Describe RCHP Billings-Missoula, LLC's plans for the strategic initiatives commitment described in Section 10.12 of the Asset Purchase Agreement.*

After the Closing, through collaboration with the local Board of Trustees, the Joint Venture will develop a strategic plan for CMC which will establish the priorities and timing for the expenditure requirements outlined in Section 10.12 of the APA. The strategic plan will be modified and updated from time to time by the Joint Venture partners, in consultation with the local Board of Trustees and the administration and physician leadership of CMC, including the local Board of Trustees. The strategic plan will be consistent with the commitments of the Joint Venture to expand the scope and services available at CMC.

26. *A copy of the physician recruitment plan.*

The Joint Venture has engaged a national management consultant The Chartis Group, to provide a comprehensive analysis of the medical provider needs of the CMC. This analysis will provide the necessary framework for the development of a final comprehensive physician recruitment plan appropriate for the CMC. This analysis is critical to ensure that the commitments from Billings Clinic and RegionalCare for recruitment are carried out according to solid and current market data and analytics. This will enable the adopted plan to reflect changing clinical demands, utilization patterns, the age/retirement of current physicians, and goals for population access, subject to additional modification over time. This plan is not only critical to the recruitment program but to the maximization of the long-term retention rate of those recruits. The Chartis report is underway and is expected to be delivered in mid-November for the development of the final physician recruitment plan.

27. A post-closing organizational chart.



1. Joint Venture entity that will acquire the assets of CMC.
2. Subject to receipt of certain approvals and consents.

## Charitable Purpose and Post Closing Transfer of Charitable Assets

28. *A complete description of CMC's charity care policy and procedures.*

Copies of CMC's charity care policy (i.e. "Financial Assistance Eligibility") [Policy #0.00.0] as well as its Poverty Guidelines for 2011-2014 are submitted with this response under folder #28 in the data room.

29. *Information regarding any existing foundation or other charitable funds that support, or are related to CMC. How will the proposed transaction affect the structure and purposes of any such foundation or charitable funds?*

Community Medical Center Foundation ("CMCF") has a twenty-five year history of executing a mission of providing philanthropic support for the advancement of care at CMC. It accomplishes this through the promotion of the availability of high quality medical care to the residents of Missoula and the surrounding area by providing funds, funding arrangements, and financial assistance to CMC and by conducting or participating in education programs related to the treatment and prevention of human illness and disease. The sole Member of CMCF is CMC.

The proposed transaction will affect the structure and purposes of CMCF in that:

- a. CMCF will need to change its name, mission, and structure so that all ties to CMC (whose assets will be operated by a for-profit entity after Closing) are severed; in its Bylaws CMCF has the option to retain its assets and continue to operate as an independent tax-exempt entity, or to join CMC in transferring the assets to the new foundation created to use the closing proceeds for charitable purposes; and
  - b. Funds that are restricted for use at and by CMC will need to be utilized for a like-purpose that does not directly benefit CMC, all consistent with donor intent.
30. *Information and documents related to donor-restricted assets and procedures proposed to ensure future compliance with restrictions.*

CMCF assets currently total \$5,043,251 with \$3,124,558 in permanently restricted assets (representing 31 endowments) and \$1,049,570 in temporarily restricted assets (representing 89 funds). The majority of CMCF's temporarily and permanently restricted assets are designated for use at CMC.

CMCF sees two scenarios for the temporarily restricted funds:

- a. Disburse funds, in accordance with donor intent, prior to the closing date;  
or
- b. Utilize funds for a like-purpose that does not directly benefit CMC.

To ensure compliance with the restrictions placed on donor-restricted assets, following approval of a new mission, Foundation staff will actively work with living donors (or the CMCF Board for others), who have made restricted gifts, to discuss all options for use of the gift funds, with one option being to refund donor gifts.

31. *Explain how a \$500,000 distribution to the University of Montana is similar to the charitable mission of CMC and how it will be used to benefit a similar geographic area as that which CMC serves?*

The Joint Venture has agreed that the \$500,000 donation to the University of Montana may be made through the University of Montana Foundation designated as a restricted gift to be used solely for healthcare purposes in CMC's market area in Western Montana.

32. *Identify the nonprofit organization(s) that will receive CMC's charitable assets after the transaction. If more than one organization will receive CMC's charitable assets after the transaction, identify what amount or percentage of the assets will go to each.*

A proposal to transfer CMC's net closing proceeds to a [CONFIDENTIAL] is being prepared for presentation to the Attorney General. The funds will be used for charitable purposes by creating an endowment fund to support healthcare projects in CMC's service area that are consistent with the Institute for Healthcare Improvement's "Triple Aim Initiative". The proposal will be submitted to the Attorney General independent of this response.

33. *How will the nonprofit organization(s) that will receive CMC's charitable assets ensure that the future use of these assets will serve CMC's charitable mission and geographic service area?*

See the response to Request #32.

34. *Will any of CMC's directors, officers, or key employees have any affiliation with the nonprofit organization(s) that will receive CMC's charitable assets after the transaction? If so, please identify the director, officer, or key employee and fully explain the affiliation.*

See the response to Request #32.

35. *Historic versions of CMC's governing documents, including Articles of Incorporation and Bylaws, that have not already been provided to this office.*

All the Articles of Incorporation and any amendments thereto from 1945 to 1976 (the Articles and Amendments from 1976 through 2014 have previously been submitted) are submitted under folder #35 in the data room.

The current 2012 Bylaws have been previously provided. CMC does not maintain a complete file of historic Bylaws. Attached in folder #35 in the data room are copies of the Bylaws, or copies of edits to the Bylaws, from 2003, 2008, 2009, and 2010.

### **Unnumbered Request**

36. *Communications from the public reviewed by the CMC Board.*

Attached under folder #36 in the data room are communications (e.g. letters and emails) received by CMC from members of the public in response to CMC's public request for comments. The names and addresses of those submitting comments to CMC have generally been redacted to protect individual privacy rights.