ADDITIONAL INQUIRIES

To Buyer:

Did the CEO of CMC, or anyone associated with the CEO, engage in any communications with anyone associated with the buyer or on behalf of the buyer, or any entity in which the buyer has a direct or indirect interest, about the possible future employment of the CEO with any entity, including, but not limited to, the for-profit successor to CMC in Missoula?

Response:

Yes.

If so, who were the parties to those discussions? What was the content of those discussions? When did the discussions occur? If the future employment was agreed upon, provide the terms of that employment.

Response:

Representatives of Buyer had communication with Mr. Carlson about the possibility of remaining on as CEO of Community Medical Center for some undetermined period after the conversion to for-profit status as early as December, 2013 during the time that Seller and its representatives were conducting due diligence regarding Buyer's existing hospital operations. These conversations were the result of information that had been communicated to Buyer that Mr. Carlson intended to retire after the sale took place. The Buyer believed that it was prudent to confirm the future intentions of Mr. Carlson and take appropriate steps to ensure that, if selected, the Buyer could protect against abrupt and disruptive leadership changes at CMC either prior to the closing or prior to an orderly transition of leadership.

Subsequent to these initial conversations, a conversation was held between representatives of Cain Brothers and representatives of Buyer confirming the Buyer's willingness to offer one additional year of severance to Mr. Carlson to ensure his availability to the Buyer during some transition period. The details of these conversations are addressed in the response to Question 14, submitted to the Attorney General on October 31, 2014. As indicated in a previous conversation with the Attorney General, other than Buyer's agreement in the Purchase Agreement to assume Mr. Carlson's existing employment agreement and related obligations, no employment was agreed to and no details were discussed until October of 201. At that time, the conversations were focused on the method by which to document the third year of severance for Mr. Carlson. These conversations never contemplated any employment with Buyer, RegionalCare, Billings Clinic or any affiliate other than as a transitional CEO at Community Medical Center.

Initially, the attorneys for Buyer and Mr. Carlson determined that the best way to document the third year of severance was through a simple letter agreement. Mr. Carlson signed that letter. After Mr. Carlson later announced that he would not in fact continue as CEO after the closing, the attorneys drafted a new agreement reflecting that he would be paid the agreed upon severance but Mr. Carlson also would be subject to additional covenants—namely availability for transition consulting and non-disparagement in addition to the Non-Compete covenant. Mr. Carlson has signed that new agreement.

As indicated in the response to Question 14, submitted to the Attorney General on October 31, 2014, it is typical in transactions such as the Community Medical Center transaction for acquiring entities to offer a retention arrangement to senior leadership to ensure a smooth transition. In this transaction, according to information submitted to the Attorney General by Seller and its counsel, the offers provided by both finalists included the same extended severance offer to Mr. Carlson so the existence of this benefit did not benefit either party over the other during the consideration by Seller and its representatives.

As required by the Asset Purchase Agreement, the Buyer is obligated to assume the employment contracts of Seller's employees, including Mr. Carlson. The payment of the compensation and any severance payments included in those agreements is the responsibility of the Buyer, and is not paid from any of the sales proceeds provided from Buyer to Seller as part of the transaction. As discussed during previous conversations with your office, the reasons for offering extended benefits are different depending on the facts and circumstances of each particular transaction. The benefits provided to the Buyer in the current transaction are:

-Extended benefits insure that the executive will remain employed and not commence a job search until after the closing. A lesser severance amount (12-18 months) could be matched as a starting bonus by a potential employer so a larger severance obligation is an incentive for the executive NOT to resign prior to closing.

--Extended benefits and the requirement for transition consulting insure the availability of the executive for some period of time after closing for transition. By making the executive commit to some transition assistance it helps insure a smooth transition. In this instance Mr. Carlson is legally bound to be available for consulting to the Buyer for a FULL THREE YEARS.

--Including additional severance compensation allows for the Buyer to require the executive to abide by restrictive covenants. Most severance arrangements on a change a control allow the executive to receive benefits after a change of control. The parties do not have the right to receive a broad release for any liabilities and do not receive any restrictive covenants. Paying for additional severance is a proven way to provide additional consideration in exchange for restrictive covenants. Under Montana law, this additional consideration is required in order for the Buyer to enforce a non-compete covenant similar to that included in Mr. Carlson's agreement.