

# **Proposal for Partnership**

to

## **Community Medical Center Missoula, MT**

**September 26, 2013**

### **Billings Clinic**

2800 10th Avenue North  
Billings, Montana 59107  
Phone: 406-238-2500  
[www.billingsclinic.com](http://www.billingsclinic.com)

### **RegionalCare Hospital Partners**

103 Continental Place, Suite 200  
Brentwood, Tennessee 37027  
Phone: 615-844-9800  
[www.regionalcare.net](http://www.regionalcare.net)

# Billings Clinic RegionalCare LLC

A partnership of Billings Clinic and RegionalCare Hospital Partners



## Offer to Community Medical Center A Montana strategy for growth.

- Positioning and resources for health care reform and population management.
- Leadership and capital for physician recruitment, training and retention to include 60 practitioners.
- Development of a Montana provider network to include resources toward a virtual multi-specialty model with physicians who lead and are committed to the goals of the organization.
- Service line expansion at CMC.
- \$60 Million cash up front.
- Elimination of all debt.
- \$70 Million net proceeds to charitable foundation.
- Programs, systems and scale to improve economic performance.
- Leadership and systems for clinical quality improvement, patient safety and satisfaction.
- Specific capital commitments to facility modernization, recruitment, strategic expansion, new equipment and the acceleration of Cerner IT capabilities.
- A fully engaged board that continues to set the strategic direction of CMC including 2 representatives of Billings Clinic.
- Offer to employ all employees, to retain seniority, regionally competitive salaries and excellent benefits.

# Billings Clinic RegionalCare LLC

A partnership of Billings Clinic and RegionalCare Hospital Partners

September 26, 2013

Board of Directors  
Community Medical Center  
2827 Fort Missoula Road  
Missoula, Montana 59804

Re: Indication of Interest from **Billings Clinic RegionalCare**

Ladies and Gentlemen:

On behalf of **Billings Clinic RegionalCare** we would like to express appreciation to the Community Medical Center organization for the invitation to participate in your review of partnership options. **Billings Clinic RegionalCare** is a joint venture (JV) between the Billings Clinic and RegionalCare Hospital Partners.

The decision you are facing will have a profound effect on CMC and the Missoula market. We understand that a new partnership must achieve a number of goals for CMC. These include the continuation of excellent patient care, service growth and improved market share. Our joint venture has the resources, expertise and capital to provide assistance with:

- Leadership and innovation applied to provider alignment.
- The development of a physician / hospital integrated care network.
- Cost management, reimbursement advantages, economies of scale.
- Significant capital to invest in recruitment, facilities, systems and the salaries/benefits to attract all levels of highly trained talent.
- Assistance and resources to navigate the challenge of the Affordable Care Act and other national and state reimbursement issues.

It is our strong belief that the future of the CMC organization will be most powerful through a Montana-based partnership, assuring geographic relevance and a cultural fit.

Throughout this proposal we present the background and purpose of our organizations separately and as a joint venture. The JV was formed for the purpose of blending the expertise and resources of both the Billings Clinic and RegionalCare Hospital Partners. The number of acute care hospitals RegionalCare operates totals eight. *All* of them are non-urban or rural which is an important distinction for the leadership and resources we collectively provide. All of these hospitals are gaining value through the influence of our partnerships: dedication to patient safety, quality and satisfaction, commitment to the highest standards for clinical outcomes, investments in systems, plant modernization and major facility projects.

All our affiliated hospitals have active community-based boards, assuring that each hospital is locally focused and addressing the needs of its market.

To this end, we believe that through a partnership with **Billings Clinic RegionalCare**, CMC will have access to the collective best of our organizations: pioneering leadership, cutting edge systems, financial strength, effective patient care models, Montana experience. The Billings Clinic is pleased to have a strong history of collaboration and capital investment with CMC.

Our JV proposal is specific in its commitments to CMC including assurance that all patients will receive care regardless of ability to pay, capital to invest in programs for quality improvement, governmental compliance, physician alignment and participation and employee satisfaction.

RegionalCare is a dynamic and growing company with a full complement of management talent. We are agile, wired to the special requirements of mid-size hospitals. We have access to significant capital and are investing it in community-based health care. RegionalCare has the references to back up our effective work in seven states.

The Billings Clinic is a physician-led health care organization, consisting of a large multi-specialty physician group practice, a 272-bed hospital and a 90-bed skilled nursing and assisted living facility. The Billings Clinic is partnered with ten critical access hospitals in Montana and Wyoming --- and is actively invested in several services and programs with Community Medical Center. The Billings Clinic supports the best evidence-based clinical expertise available in the country.

Together through this Joint Venture we have, as detailed in this proposal, joined together the best of our organizations. The commitments in this proposal are strong. We look forward to your response and thank you for the opportunity.

Sincerely yours,

**Billings Clinic RegionalCare**



Nicholas Wolter, M.D.  
Chief Executive Officer  
Billings Clinic



Martin S. Rash  
Executive Chairman  
RegionalCare Hospital Partners



2800 Tenth Avenue North  
P.O. Box 37000  
Billings, Montana 59107-7000

September 26, 2013

To the Board & Administration  
Community Medical Center  
Missoula, MT.

The Board of Directors of the Billings Clinic would like to add some background information regarding the Joint Venture partnership that we formed with RegionalCare Hospital Partners because we believe it will help the CMC Board understand the Billings Clinic-RegionalCare Hospital Partners relationship and this is relevant to your analysis of CMC partnership options.

Billings Clinic has a long-standing commitment to partnering with Montana communities to improve access to quality health care for Montanans living in our rural areas. Our regional growth strategy has been very successful but is limited by the resources we can commit to operate and facilitate the growth of those hospitals.

For considerable time over the past 18 months we reviewed an organizational concept that resulted in two important decisions for the Billings Clinic: (1) To form a strategic partnership for the purpose of further extending our resources and mission and (2) to do so with RegionalCare.

We thoroughly reviewed RegionalCare Hospital Partners as a potential partner for Billings Clinic. We wanted a partner with the resources and experience to create a platform that would allow us to speed up our ability to strengthen the mission and improve health care for more people.

Our review took us on a literal journey to look at Regional Care's partnerships with community hospitals. We wanted assurance that our two organizations had parallel purposes and compatible standards, ethics and acumen. We each reviewed the others strategic goals and investment decisions, commitments to quality and patient safety, and vision for creating the future value of community-based health care.

A large group of Billings Clinic board members and leadership team members spent a day at Regional Care's partner hospital in Florence, Alabama. We interviewed board members, administrators and community business leaders. We talked to leaders at the University of Alabama Birmingham about their service line partnership in Florence, taking major new cardiac services to a small market.

We came away with this a conviction that when it comes to their work with community hospitals, RegionalCare's leaders are hands-on, inclusive, resourceful and agile in their decision

making. They empower the local administrative teams to lead and they place major value on quality, patient safety and local control through powerful all-community boards. They have deep expertise and success in recruiting physicians to small markets and they understand the crucial nuances of smaller hospital organizations and how to elevate their energy and physicians toward regional expansion. They are active advocates for rural health care on a national basis, connected to policy influencers. They insist that their local admin teams use corporate resources for governmental compliance and ethics and that they are involved in community life. We discovered that RegionalCare commits millions of dollars to their community partnerships for better facilities, recruitment, new equipment, and clinics and outpatient services within each market.

Today RegionalCare is an important resource for extending Billings Clinic's work, our influence and our mission to serve. The proposal we are making to CMC has the full support of the Billings Clinic Board of Directors. It compliments everything we've already accomplished with Community Medical Center and it provides a great platform to build stronger, more accessible health care for Montana.

Board of Directors  
Billings Clinic



*J. Scott Millikan, MD FACS*  
Chairman



*David Brown*  
Vice Chairman

## **Montana Review Process**

In March 2013 senior executives from the Billings Clinic and RegionalCare met with Montana Attorney General Tim Fox and two members of his legal team, Mark Mattioli and Kelley Hubbard.

The purpose of the meeting was to introduce the joint venture, its formation and its purpose to bring resources to community hospitals in the state. We went in anticipation of at some point submitting an application to the State regarding a potential hospital partnership with our JV. In preparation for the meeting we were briefed thoroughly on the Montana statute that provides for a review of non-profit health entities seeking a for-profit partnership as an option to build services, facilities and medical professionals. The review falls under the purview of the Attorney General and the Insurance Commissioner.

We believe that the process as laid out in the statute is thorough and is a fair examination of the value of any proposed partnership. This includes the financial valuation of the hospital organization and that the result can be demonstrated as a long-term benefit for the public good.

Both the Billings Clinic and RegionalCare are fully prepared to manage the requirements of this statute. We believe our proposal to CMC provides for significant capital and expertise necessary to build the medical care services of the Missoula market.

Montana hospitals, like most across the country, are wrestling with decreasing reimbursement, physician shortages and increasing regulation. Many are seeking partnerships and affiliations that are being developed around the benefits of for-profit organizations. The fact that RegionalCare has a strong track record of living up to its performance and financial commitments, reinvests 100% of its free cash flow back into its partner hospitals and does not pay dividends to its sponsors will add assurances to the Montana review process.

Bringing new energy and new capital into Montana for improved health care will be a very positive story to tell.

## A partnership with Billings Clinic RegionalCare Joint Venture

The Joint Venture (“JV”) is an LLC formed by the Billings Clinic and RegionalCare Hospital Partners as the members.

Our combined resources will be made available to CMC as outlined below. The JV commitments to CMC are divided between the Billings Clinic and RegionalCare according to our individual resources and strengths.

JV COMMITMENTS	→	RESPONSIBILITY
Physician practice options (independent and employed), physician practice management.	→	Billings Clinic
Care management: models and elimination of practice variation.	→	Billings Clinic
Development of Montana-centered provider network.	→	Billings Clinic and RegionalCare
Population health management, reform, bundled payments, ACO’s.	→	Billings Clinic
Healthcare reform preparedness	→	Billings Clinic and RegionalCare
Facility modernization, technology investments, major strategic capital.	→	RegionalCare
Quality and patient safety (Lean processes – implement, measure, report, improve).	→	Billings Clinic
Sharing best practices.	→	Billings Clinic and RegionalCare
Clinical service lines: <ul style="list-style-type: none"> <li>• New to CMC.</li> <li>• Support of current programs.</li> </ul>	→	Billings Clinic
Information systems (Cerner) including EHR.	→	Billings Clinic
Marketing, community relations.	→	RegionalCare

Physician recruitment.	→	Billings Clinic and RegionalCare
Employee salaries, benefits.	→	RegionalCare
Future investment – in-market clinics, physician practices, etc.	→	RegionalCare
Day-to-day operations	→	Hospital CEO
CEO and administrative team responsible to	→	Hospital Board of Trustees and Joint Venture

From the start of our relationship, RegionalCare will provide these services in collaboration with your employee leaders, medical staff and the hospital board. They include:

- Governmental Compliance and Ethics**
- Quality Standards and Monitoring**
- Operations / Strategic Management**
- Employee Relations / Human Resources**
- Physician Recruitment and Retention**
- Physician Practice Management**
- Revenue Cycle Management**
- Business Office Operations**
- Case Management**
- Information Systems**
- Finance / Treasury Management**
- Insurance / Risk Management**
- Legal Affairs**
- Managed Care Contracting**
- Engineering / Construction Management**
- Accounting and Taxation**
- Materials Management & Group Purchasing Contracts**
- Public Relations & Accountability to the Community**
- Planning / Capital Requirements**
- Reimbursement**
- Medical Records & Coding**

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**1. Summary of Proposal for Partnership.**

## Summary of Proposal for Partnership from Billings Clinic RegionalCare

### The three-year value of partnership with RegionalCare:

<b>Cash at closing of transaction</b>	<b>\$60 Million</b>
<b>Plus:</b>	
<b>Facility and Service Line Growth Capital</b> (over 3 years)	\$18 Million
<b>Physician Recruitment</b> (40 physicians over 3 years)	<u>\$20 Million</u>
<b>VALUE TOTAL OVER THREE YEARS</b>	<b>\$98 Million</b>

- The **purchase price** of \$60 Million (including the net working capital of \$8.8 Million) will be paid in full by RegionalCare at transaction closing.
- The **long-term debt** will be eliminated by the seller from net proceeds at the closing of the transaction.
- This proposal includes commitments to accelerated implementation of Cerner modules over the next 3 years.
- Proposal also includes capital for implementation of physician alignment programs and strategies such as Leadership Billings Clinic.
- **RegionalCare commits to capital** for facilities modernization, equipment maintenance & upgrades, enhanced and new service lines. We have estimated a minimum of **\$18 million** over the first three years of our partnership based on 4% of next revenue. This does not include capital projects for major expansions or in-market acquisitions.
- **\$20 million for the recruitment of up to 40 new physicians** over the next three years. The amount is based on an average (depending on specialty) of \$500,000/physician, explained in this proposal. In your request of 60 providers over three years we have estimated 40 of those are physicians. All our recruitment efforts are collaborative with hospital administration and medical staff.
- This offer also includes approximately \$1.3 Million in annual property tax payments.

**Seller's flow of transaction funds using the June 30, 2013 Balance Sheet:**

Cash at closing	\$60.0 Million
Plus: Cash, marketable securities and short term investments	\$35.0 Million
Plus: Assets limited to use	\$5.9 Million
Plus: Other retained assets	<u>\$9.3 Million</u>
NET ASSETS	\$110.2 Million
Less: Long-term Debt	\$24.4 Million
Less: Notes payable & capital leases (including current portion)	\$10.4 Million
Less: Other Retained Liabilities	<u>\$4.6 Million</u>
<b><u>NET PROCEEDS TO FOUNDATION</u></b>	<b><u>\$70.8 Million</u></b>

Please see Tab 4 for detailed balance sheet allocation.

**2. Proposal Response Requests (Exhibit E).**

**1. Ensure the delivery of high-quality, cost effective health care services with measurable outcomes to the community through a commitment to expanding both the quality and scope of clinical services provided by CMC;**

- a. Provide your organization's Mission Statement; identify how it is implemented and how it aligns with CMC's commitment to provide a patient experience that is of high quality, safe and service-oriented to the patients, families and communities who seek health care services at CMC.**

Billings Clinic is an outstanding medical foundation built upon the following cornerstones:

- A multi-specialty physician group practice in which a “community of physicians” work together in a collegial matter is at the core of this model.
- A partnering of physicians, excellent business managers, professional staff and volunteers to create a team whose synergies drive our success.
- Not-for-profit, community-owned and governed.
- Mission driven-decision-making, dedicated to a higher purpose in the community and the region.
- An obsessive dedication to quality and service.

Montana has unique challenges to the provision of health care services - our vast geography, the extreme rurality of many parts of the State and the critical shortage of health care practitioners. In Billings Clinic's extensive regional work with Critical Access hospitals, outpatient local clinics and individual private practice providers, we realized that in order to achieve excellence in clinical quality, patient safety, service and value, some organizations needed more help than we alone can offer. We discovered that accessibility of capital and sustained access to a high level of professional management resources, beyond those that could be provided in by the Billings Clinic, were needed. Finding a solution led us to RegionalCare Hospital Partners.

Through our Joint Venture, **Billings Clinic RegionalCare**, Montana health care providers can benefit from a partnership with Billings Clinic, including our Montana history and our quality, safety and service excellence, as well as access capital and a comprehensive array of professional management resources. Billings Clinic and RegionalCare Hospital Partners formed our Joint Venture for exactly the opportunity presented by Community medical Center. We know that our anticipated work together will benefit from parallel dedication to excellence and sustainability. This forms the foundation of the Billings Clinic - RegionalCare relationship and is absolutely aligned with CMC's vision and commitment to patients and community.

At the heart of our three mission statements is the emphasis on the commitment to high quality healthcare for the communities that we serve. We look forward to helping Community Medical Center grow through its vision as a provider of innovative and outstanding health care for Missoula and beyond.

## **Billings Clinic Mission, Vision, Values**

The Billings Clinic is an outstanding medical foundation built upon the following cornerstones:

- A multi-specialty physician group practice in which a “community of physicians” work together in a collegial manner is at the core of this model.
- The partnering of physicians, excellent business managers, professional staff, and volunteers create a team whose synergies drive our success.
- Not-for-profit, community-owned and governed.
- Mission-driven decision-making dedicated to a higher purpose in the community and the region.
- An obsessive dedication to quality and service.

The mission of Billings Clinic is to provide health care, education and research. Our vision is to be a national leader in providing the best clinical quality, patient safety, service and value. Billings Clinic has demonstrated an unwavering commitment to meeting the health care needs of our region.

Billings Clinic and Community Medical Center already share a host of core values, including:

**Quality:** We are committed to a high standard of quality and value to achieve optimal clinical outcomes.

**Service:** Our goal is to deliver outstanding service to our patients and communities in the region by anticipating and meeting their needs with compassion.

**People:** We respect and value each individual.

**Teamwork:** Each individual contributes as a member of the team, accomplishing more than an individual can alone. Flexibility, mutual trust and cooperation are essential.

**Integrity:** We take responsibility for our actions and communicate openly and honestly with each other and the public.

## **RegionalCare Hospital Partners**

### **MISSION**

We believe the heart of healthcare is service to others. We are mindful that we are able to enter into community partnership because we are invited and selected to do so. The hospital is one of a community’s most valuable assets. We bring our resources in partnership with its leaders and healthcare providers to enhance affordable, accessible healthcare. We seek to improve the health and quality of life of the people we serve.

## PURPOSE

### **To treat everyone like family, providing the peace of mind that comes from receiving extraordinary care close to home.**

The joining of our three organizations will formally unite us in common purpose, strengthening and expanding excellence in health care across Montana. How this will be accomplished is outlined in this proposal in sufficient detail for implementation with ample flexibility to allow for all voices to be heard and unique solutions to emerge from the process.

- b. Summarize your organization's overall strategy and specifically indicate how you envision CMC to fit into the strategy including any enhancement or realignment of services at CMC. It is CMC's goal to improve its cost position by 3 – 6% through service realignment with a new regional partner.**

In a partnership with **Billings Clinic RegionalCare**, we will work in tandem with the hospital board of directors and leadership to accelerate CMC's strategic plan with an emphasis on developing resources to grow the services and market share of CMC. Any service realignment will be based on how it fits into this plan but it will *not* include closing or downsizing any service. Our work together will address the capital investments and a physician recruitment/alignment strategy (outlined in this proposal) to build current services and add in new ones including specific service lines from the Billings Clinic.

The Billings Clinic strategy for Community Medical Center consists of building a strong, multidisciplinary, multispecialty physician group practice with physician leadership at all levels, with community governance and an emphasis on building an organization with shared culture and clinical values. The process would begin with a comprehensive assessment of the local situation and creation of a strategic operating plan that identifies service lines where market share could be improved. Based on our current experience working collaboratively with Community Medical Center we believe that strong service line expansion could be achieved in medical oncology/cancer care, cardiology and cardiac surgery, and would eventually include many more specialty service lines. (See current Billings Clinic Physician Specialties in Tab 7.) Service line expansion will be linked to quality and safety improvement, better use of business intelligence and information technology across both the clinic and hospital, personal service excellence and enhanced business tactics to drive market penetration.

Improvement in cost management will be realized from regional collaboration and efficiencies with the Billings Clinic. Through the JV further development of the Cerner IT resources and other options that are outlined throughout this proposal including the economies of scale through RegionalCare's multi-hospital platform for supply and equipment purchasing. RegionalCare provides each hospital administration with pricing contracts, systems and expertise to lower supply costs, save on new equipment purchases and reduce maintenance expenses. Other programs will improve costs and support expense reductions by improving case management, charge capture, record keeping and billing procedures.

RegionalCare is a member of HealthTrust Purchasing Group (HPG) and this pricing will be available to CMC. The HPG partnership guarantees RegionalCare's hospitals access to the purchasing organization with the best compliance record and therefore the best pricing in the industry. Our pricing programs and contracts include equipment, supplies, food, pharmacy and laboratory. HPG also includes an energy management program that works with local utilities on energy saving measures for health care facilities.

The employees of CMC will have access to the strong benefit package of RegionalCare. Benefit providers will work to reduce premiums and costs for larger organizations due to the volume that they add. RegionalCare currently has 4,600 employees, giving us a strong negotiating power for better employee benefits at a lower cost, particularly regarding health insurance.

It is also important to note that in RegionalCare hospitals departments are not closed, centralized or moved to other "headquarters." The goal for every hospital is to grow stronger as its own hub, supporting a stronger regional market position.

Many large systems both for profit and not-for-profit are moving toward centralizing hospital functions. Our pledge to maintain services locally is an important distinction that sets **Billings Clinic RegionalCare** apart.

By blending the services, systems and other resources of the Billings Clinic *and* RegionalCare we believe this will be more than enough to gradually improve CMC's goal for reducing costs.

**c. Define how you will lead the adoption of best practices and the elimination of unnecessary practice variation (clinical transformation) at CMC. It is CMC's goal to improve its cost position by 6-14% through this initiative.**

This effort will be led by the Billings Clinic, an organization that is dedicated to providing the best clinical quality, patient safety, service and value for our population while sharing our knowledge and expertise with other like-minded organizations as we meet tomorrow's health care challenges together. Working collaboratively, Billings Clinic will deploy service line and leadership teams to assist Community Medical Center assess current performance measures and support best practices in areas of strength. Through the JV a joint quality team that involves Billings Clinic and RegionalCare, CMC will develop processes for collecting and monitoring quality and service indicators and create an implementation plan that energizes and motivates the entire staff.

Billings Clinic's extensive experience in Lean processes in tandem with robust quality tools available through Cerner EHR systems will make measurable progress. Community Medical Center has not yet implemented essential features of the EHR system that integrate quality metrics into the workflow, providing opportunity to eliminate unnecessary practice variation. We anticipate a true learning exchange between the JV organizations and CMC as we identify and combine strategic approaches.

- d. Define your plan to centralize “back office” services. It is CMC’s goal to improve its cost position by 4-8% by securing scale and the integration of administrative services with a regional partner.**

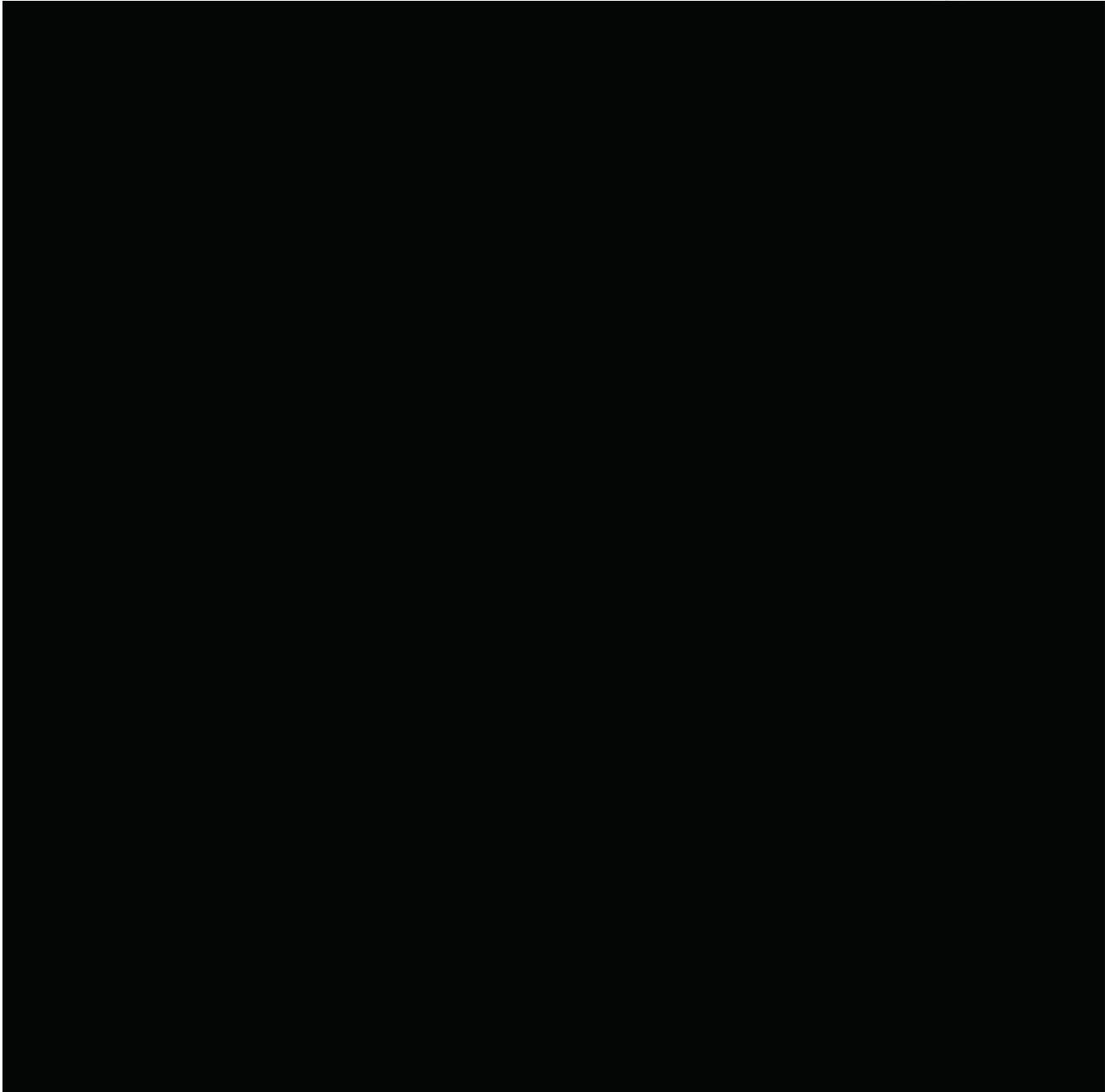
As mentioned earlier, a partnership with **Billings Clinic RegionalCare** will not lead CMC toward centralization of services such as the “back office”. Standardization, however, will be used as a source for streamlining programs and services as part of the management resources of RegionalCare. Both JV partners will provide support to physicians as well as hospital administration and department managers. This will add to CMC’s ability to realize cost savings without eliminating whole departments or closing services or diminishing outreach programs. The long-term strategy is to not only retain but gradually add health care jobs in the community.

Because CMC already uses some of the Billings Clinic fiscal and clinical system, many efficiencies without changeover downtime are already a reality.

- e. Define your competencies and goals to advance Lean or process improvement at CMC. It is CMC’s goal to secure savings of 8-12% through its Lean initiative.**

CMC will benefit greatly from Billings Clinic’s major work in this area. 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





**f. Describe your organization’s plans to increase the scope of services provided at CMC.**

As previously discussed, **Billings Clinic RegionalCare** will begin a collaborative process with CMC leadership to create a plan to build on strengths and opportunities in the market. All of the resources of the JV will be brought to the effort to increase the scope of services, supplemented by regional outreach clinics and telemedicine capabilities. (Please see current outreach activities and Eastern Montana Telemedicine system capabilities in Tab 7.)

As previously discussed Billings Clinic is a medical foundation built on a multi-specialty physician group practice model. Whether through this model or variations that include private

practice groups and independent practitioners, we will have the resources and capital to integrate and grow CMC's services throughout the greater Missoula service area.

We have reviewed a market share study of the primary service area. In 2012 CMC had less than 20% of the market's cardiology, 28% of gastroenterology, 24% general medicine, 17% neurology and 27% urology. Addressing expansion in these and other areas in a joint planning process will be central to all growth planning.

Each service line will need resources including financing for physician recruitment as well as alignment with physicians already in the market, investments in equipment, facility upgrades and clinical expertise from Billings Clinic. Gradual and steady penetration of targeted services will reduce outmigration and build CMC's regional stature.

Of potential value to the CMC medical community is a unique strength of the Billings Clinic organization is participation in the Mayo Care Network. Through this network Billings Clinic has easy access to Mayo Clinic's knowledge and expertise, and the result is that patients can receive that 'second opinion' from Mayo without leaving Billings. At present there are only 21 Network members worldwide. The application process extended for over seven months, and included an evaluation by Mayo Clinic of all aspects of Billings Clinic operations: alignment of the mission/vision/values, clinical and operational expertise and financial strength and comprehensive business acumen. After selection, extensive training was conducted on the unique practice tools that allow Billings Clinic providers to tap into Mayo expertise.

Access to the Mayo Clinic Care Network for Missoula providers will involve a due diligence process. In this were successful it could be combined with services for clinics and other remote sites via the Eastern Montana Telemedicine System.

**g. Identify the systems and structures utilized to drive, implement, measure, report and improve quality of patient care, and how these systems and structures would be implemented and/or integrated in the CMC environment to achieve measurable improvements in clinical quality (as defined by current CMS standards) at CMC.**

Billings Clinic is a *national leader* in the development and implementation of strong and innovative information systems and technology. This has enabled the organization to achieve outstanding clinical care, exceptional levels of patient safety and a highly effective business model. Participation in this technology 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 qualification for reimbursement premiums for 'meaningful use' of technology.

The Billings Clinic EHR is not just a repository of data, but is being used to aggregate and extract information that aids in clinical decision-making, improvement of population health, improved patient safety, the testing of alternative compensation models and an enhanced ability to participate in care quality initiatives with outside organizations including AMGA, VHA, AHA, AMA and Premier.

Through our long-term strategic partnership with Cerner, Billings Clinic has achieved speedier adoption of electronic solutions to strategic priorities, including improved population health in the region. Patients with chronic disease are tracked and managed with the aid of the information system. Clinicians receive scorecards that quantify the patient's adherence to the treatment plan.

Standardization and population management are prompted at every patient encounter. For the patient, an engagement scorecard helps inform and motivate self-care and adherence to the care plan. The patient portal allows patients to monitor their own progress and communicate electronically with the care team.

Our early integration of the EHR was in part possible because of the integrated practice model. This in turn has allowed us to capture data and improve the quality of care, moving Billings Clinic into the national forefront of many areas of excellence. These are represented by the citations, awards and top rankings on the next two pages.



**Rated #1 in Nation for Patient Safety by Consumer Reports ®**  
*2012*

**HealthGrades Distinguished Hospital Award for Clinical Excellence**  
*2004, 2005, 2013*

**Solucient 100 Top Hospitals in America Modern Healthcare and Truven  
Health Analytics**  
*2004, 2013*

**HealthGrades Distinguished Hospital Award for Patient Safety**  
*2007, 2010, 2011, 2012*

**Magnet™ Designation by the American Nurses Credentialing Center**  
*2006 – 2010, re-designated 2011-2015*

**US News and World Report Best Regional Hospitals - #1 in Montana for  
Diabetes and Endocrinology, Gynecology, Nephrology and Pulmonology**  
*2012-2013*

**US News and World Report Best Regional Hospitals - #1 in Montana for  
Gastroenterology & GI Surgery, Geriatrics, Gynecology, Nephrology,  
Neurology & Neurosurgery, and Pulmonology**  
*2013-2014*



**US News and World Report Best Nursing Homes – Five Star Rating for  
Transitional Care Unit**  
*2013*

**Modern Health Care’s Most Wired**  
*2003, 2007*

**Mountain-Pacific Quality Health Foundation Quality Award**  
*2003-2012*

**Solucient - Thomson Reuters 100 Top Hospitals in America for  
Cardiovascular Care**  
*2004 – 2009*

**Quest Top Performing Hospitals Award by Premier Healthcare Alliance**  
*2011*

**Beacon Award for Critical Care Excellence**  
*2007-2010, 2013-2016*

**NCQA/American Diabetes Association Diabetes Physician Recognition  
Program**  
*2010-2013*

**Accredited as an Accountable Care Organization by The National Committee  
for Quality Assurance**  
*2012*

**2. Enhance and expand CMC's medical staff by recruiting, training and retaining physicians while providing competitive compensation and benefits;**

- a. Describe your primary care and specialty networks and your strategy for achieving Community's goal of hiring approximately 60+ providers over the next three years and building Community Physician Group and developing a virtual, multi-specialty clinic with select specialty groups.**

We welcome the challenge of assisting CMC in building the Community Physician Group and a virtual clinic. The resource requirements both in recruiting expertise and capital are substantial. The leadership and experience needed to create a culture of shared clinical values is a unique resource available through Billings Clinic.

Fortunately our JV provides the capital and additional management resources through RegionalCare that will be required to build a powerful Montana-centered multi-specialty virtual clinic.

Recruitment Costs: As mentioned, the capital required for physician recruitment is significant. Using national averages for recruitment packages, including sign-on bonus, marketing, relocation and income guarantees and other incentives (depending on the specialty) today it costs an average of \$500,000 to recruit a physician. The **Billings Clinic RegionalCare** commitment to CMC is 60 providers including 40 physicians. Those 40 physicians will cost approximately \$20 Million.

Financial impact of a new physician:

- Averaging all specialties across the U.S., a new physician practicing full time in your community adds *\$1.5 Million / year* in revenue to the hospital once their practices are established.
- Therefore over the next three to five years 40 new physicians will add \$60 Million to hospital revenues annually.
- Every newly recruited physician will be encouraged to join an affiliated practice setting or be employed in alignment with the CMC's mission and growth strategies.

Recruitment Experience: CMC will have the benefit of recruitment expertise from both RegionalCare Partners and Billings Clinic. Physician recruitment and retention are areas in which RegionalCare is out-performing most organizations who are recruiting to non-urban hospitals. RegionalCare has a very skilled team of on-staff recruiters. As outlined in our financial commitments, we are confident in our abilities to recruit 40 physicians and 20 mid-level professionals for a total of 60 providers over the next three years.

In the last three years Billings Clinic has recruited 76 physicians. RegionalCare, in the same time period has recruited 151 physicians to 7 hospitals. This partnership provides CMC access to those to two very effective recruitment sources, important for a number of reasons:

- About 84% of hospitals and group practices nationwide are recruiting actively today.

- There are 5,000 physician recruiters in this country, recruiting for other hospitals.
- Among medical school graduates finishing training in the last ten years, only 12% selected non-metro markets for their practices.

**Why RegionalCare and the Billings Clinic are so effective at recruitment:**

- On-staff team of recruiters who are experienced with non-urban medical settings.
- Committed capital and competitive offers for recruitment.
- Energized support for a process that involves each hospital's recruitment efforts.
- Options for employment through the Billings Clinic.
- Start-up assistance and practice management for the new private practice physicians.
- Attention to community and lifestyle fit for both the physician and family.

Billings Clinic has extensive experience in training new physicians many of whom chose placement in our region. Recognizing a critical shortage of physicians would severely impact the quality of life for 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. The **Billings Clinic RegionalCare** partnership will continue to support CMC's commitment to training physicians in residence.

Despite the success of the Montana Family Medicine Residency, our state continues to face a critical shortage of primary care physicians. Billings Clinic applied and received accreditation to launch Montana's first Internal Medicine Residency program and will accept its first cohort of 12 new physicians in training on July 1, 2014. An additional 6 will be accepted each year thereafter.

The IM Residency will develop individual knowledge, skills and professional attitudes within a collaborative, patient-centered medical home model, preparing new physicians for leadership roles in a transformed healthcare system as quality and safety leaders. This program intends to identify and develop physicians who desire to remain in the region for professional practice.

Physician Leadership Development: Billings Clinic is a proven partner with unique experience and commitment to Montana that includes:

- An absolute commitment to community ownership and governance.
- An obsessive dedication to quality, patient safety, service and value.
- Expertise in physician recruitment and a 95% retention rate.
- Physician clinical integration with proven expertise in building physician leadership.
- Innovative and adaptive management services.
- Partnerships with Critical Access Hospitals as operational partners, clinics and outreach programs across Montana and Wyoming.

The successful Billings Clinic model is built around the employed physician multispecialty group practice, and the organization has extensive experience in developing physician leadership and decision-making processes within this model. However, both Billings Clinic and RegionalCare recognize that this is not the only model for successful physician engagement and are open to supplementing your work to build a structure that works for Community Medical Center.

**b. Identify the electronic health record system your organization uses that integrates between physicians and other outpatient and inpatient facilities, and how CMC's physicians and facilities would be integrated into that system.**

A major advantage to this proposal for partnership is the existing alliance in place between Billings Clinic and Community Medical Center. CMC has already implemented many components of the Cerner EHR in partnership with Billings Clinic. This is a major advantage to our proposed partnership. It means no disruption in IT services or additional costs for system changeover. Additionally, the expansion of the system to include Quality Works will allow CMC to integrate quality measures into the workflow. The financial commitments of this proposal contemplate accelerated additions to Cerner resources for CMC including the ambulatory side of CMC's clinical operations to achieve maximum value from the EHR. (See question 5.b below for more details).

**c. Describe the formal organizational structures for physician leadership and how they will have input into regional/organizational strategic and operational care delivery planning and decision making.**

Physician leadership initiatives will be led by Billings Clinic with operational support from RegionalCare. Strategic Planning is critical to achieving CMC's mission and vision. This includes action steps associated with each goal and linkage to specific departmental goals and division leaders, with explicit benchmarks. The development of physician leadership is crucial to CMC's long-term organizational effectiveness. Performance of individuals, departments, divisions and the organization as a whole must be continuously monitored and evaluated to ensure progress is made every day toward improving quality, safety and satisfaction.

A program of "Personal Service Excellence" provides training for every employee in performance expectations and is very effective in creating unity behind the organization's mission. In addition physician and managerial leadership development is realized through a program called 'Leadership Billings Clinic.' Pairing a physician and their corresponding service line manager, teams participate in an entire year of structured leadership activities. This process improves internal understanding and communication, provides insight into individual leadership style and promotes a broad understanding of the many issues facing the modern healthcare organization. This model can be a blueprint for bringing these programs to CMC.

**3. Committed to charitable care delivery and funding;**

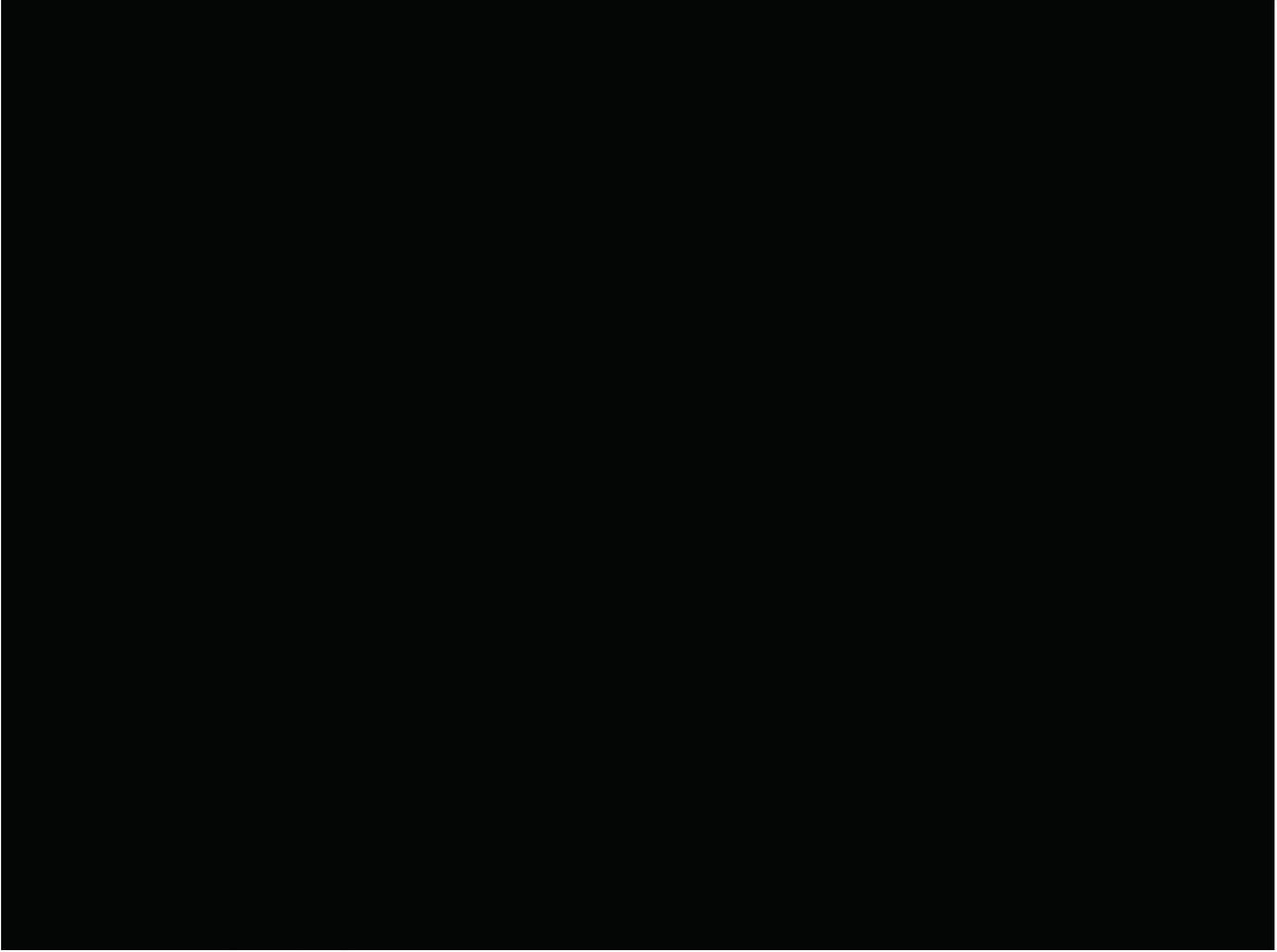
**a. Summarize your organization's charitable care policy and the average percentage of charity care provided relative to net patient revenue over the past three years.**

Billings Clinic, RegionalCare and all hospitals that comprise our respective systems are committed to serve all who need care without regard to ability to pay. We identify patients who are in need of financial assistance early in their care, provide financial counseling, payment plans, financing options and financial assistance as appropriate to each situation.

In 2012, the Billings Clinic Community Benefit contribution totaled \$45Million. This included \$14.8 million in financial assistance (charity care) to 5,496 patients. About half of that figure, a total of \$7.4 million, supported patients from the secondary and tertiary region. More than [REDACTED] visits were covered by Medicaid with a shortfall in government reimbursement of [REDACTED] visits were covered by Medicare with a shortfall of [REDACTED]. Billings Clinic subsidizes many health services not fully reimbursed for the cost of care, including [REDACTED]

We supported regional health professions education, hosted the annual regional science expo, and subsidized [REDACTED] in research trials including trials that benefit current and future patients with diseases such as cancer, influenza, and diabetes.

Over [REDACTED] Billings Clinic patients received free medications through Medication Assistance Program last year and [REDACTED] students participated in injury prevention education. [REDACTED] people who needed care for acute mental illness and/or substance abuse issues received supported care. Our HealthLine registered nurses provided information to over [REDACTED] callers.



In all RegionalCare hospitals commitments to charity care are crucial to the mission of each hospital, and each hospital always provides services to all who need care regardless of the ability to pay. RegionalCare either adopts or expands the policies of new hospital partners.



**4. Offer employees a friendly work environment and maintain existing employment practices;**

Support of hospital employees is a major emphasis for RegionalCare, as it is for the Billings Clinic. Crucial to patient care are the values and team spirit of a participative work place, most importantly the experience that people have as patients and their families.

Another important area of employee relations is through our commitments to maintain regionally competitive salaries and benefits. Related to the importance of a hospital's work environment is RegionalCare's ethics and compliance department. The purpose of the program which will be available to the CMC staff is to provide all employees with the information to build awareness of their responsibilities in promoting an ethical environment and to performing services in

compliance with the regulatory protections provided to all patients. To protect each hospital's integrity, safety and patient confidentiality RegionalCare provides education and training programs that promote the values of honesty, integrity, respect and professionalism.

**a. Provide your organization's nurse staffing levels, nurse-to-patient ratios, and overall turnover and vacancy rates for the past three years.**

The partners of the JV view these statistics as proprietary information but will be happy to provide transparency on all staff issues if **Billings Clinic RegionalCare** is selected to proceed in discussing a CMC partnership.

RegionalCare's staffing levels / ratios are not established centrally but are reviewed on an individual basis through the budgeting process that begins with each department manager. The levels vary between hospitals depending on many factors including acuity level, facility layout and strategic initiatives. The budgeting process involves consideration of patient satisfaction scores, community health needs, unemployment in the market and introduction of new services.

**b. Provide the job categories and percentage of your organization's employees that are subject to collective bargaining agreements.**

Nurses employed at the Billings Clinic hospital are members of the Montana Nurses Association, with 566 nurse members. One RegionalCare hospital has an SEIU contract. In both cases the employee relationship are positive through supportive work place environments and labor relations.

**c. Define your overall employee satisfaction or employee engagement scores and define how they compare (percentile) with other like providers.**

All indicators of employee satisfaction at Billings Clinic are high, especially when compared with other like providers. Using Pascal Metrics to survey cultural quality issues (2012) █ of employees "Agree" or "Agree Strongly" that Billings Clinic is a good place to work. █ were "proud" to work in this setting. █ like their job.

In Teamwork Climate, over █ of employees responded "Agree" or "Agree Strongly" that it is easy to ask questions when there is something they do not understand and that they have the support from others in the work setting to care for patients. Over █ of employees responded 'Agree' or 'Strongly Agree' on safety climate, including whether they would feel safe at Billings Clinic as a patient.

**5. Be well-positioned for health care reform and population management in the greater Missoula market;**

**a. Describe the extent to which your organization has entered into shared-savings programs/contracts, ACOs, bundled payment programs, or risk-**

**bearing contracts with government health care programs or commercial payors.**

Billings Clinic has been progressive in embracing value-based initiatives that are having a very positive impact on the organization and the individuals served. Billings Clinic has developed an expertise in the evaluation, implementation and dissemination of these programs throughout our integrated health care system. As a result Billings Clinic is well-positioned to assist the CMC organization in health care reform requirements and population management for the greater Missoula market.

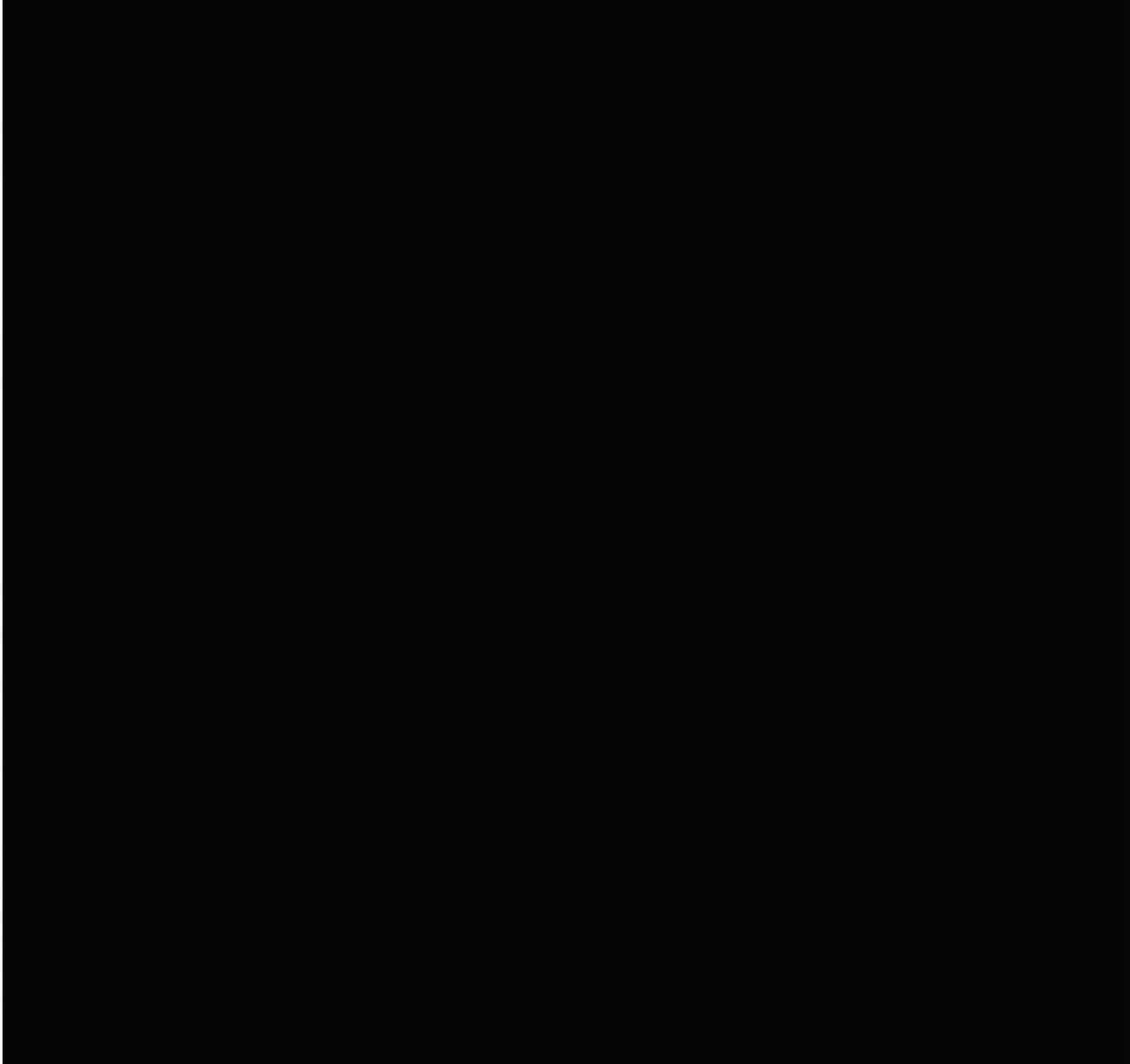
Currently Billings Clinic participates in the Premier ACO, and has applied as part of a group of Premier members for a CMMI Round II Innovation grant that will expand bundled payments in the ambulatory care setting for complex patients. Billings Clinic also participates in the bundled payment for total knee, total hip and the CMS MSSP program. In the private payer setting, Billings Clinic provides population health management for complex patients in the ambulatory care setting with Blue Cross Blue Shield.

Indicative of early interest and expertise in shared savings and managed care, Billings Clinic was one of ten organizations nationwide chosen in 2005 to participate in the Centers for Medicare and Medicaid Services (CMS) Physician Group Practice (PGP) Demonstration and the following-up Transition Demonstration. The objective of the project was to demonstrate whether care quality could increase and costs decrease by replacing a fee-for-service model with a system of health care management for the Medicare population. Clinical and financial results of this project provided much of the basis for the clinical requirements of the Affordable Care Act and influenced the development of Accountable Care Organizations. The PGP project was the gateway to Billings Clinic participation in additional Medicare shared savings programs, including bundled payment initiatives for total hip and knee and the Medicare Shared Savings Program (MSSP). Billings Clinic is certified as an Accountable Care Organization by NCQA.

On the private payor side, Billings Clinic manages care for nearly 7,000 BCBS insured lives in eastern Montana and is the sole owner of New West Health Services, a Medicare Advantage provider with 19,000 covered lives. The New West Medicare Advantage program is very important for use in population health as well as management of the service line for patients covered by Medicare. Billings Clinic has the expertise to evaluate shared risk and bundled payment opportunities and selectively choose to participate in programs that pose a reasonable risk.

**b. Describe your organization's IT infrastructure and its ability to support an ACO/population health-type model including meaningful use compliance status, integration across the continuum of care, total cost of care management, etc.**

The Cerner System in use at Billings Clinic and Community Medical Center is fully able to support ACO/population health management, meaningful use compliance, integration across the continuum of care and total cost of care management. The Cerner tools are supplemented with other data sharing initiatives designed to assist in improving patient care through the use of predictive models.



The Billings Clinic shares a population database with Humedica, Crimson and other business strategy support providers to help us achieve 'best in the nation' quality and patient safety status.

Community Medical Center has already completed successful implementation of the Billings Clinic Cerner EHR, thereby connecting together a highly successful network of Critical Access Hospitals in the region with access to state-of-the-art clinical and financial systems and dedicated support through Billings Clinic. This established inter-operability of the EHR is vital gain resources and improvements in quality, safety and efficiency.

Our strategic plan includes funding for CMC to install the Quality Works module. This allows integration of quality measures into the workflow, full integration of outpatient clinical care management in a single medical record and expanded Cerner helpdesk access to 24/7 coverage. CMC can anticipate both lower IT costs and enhanced strategic capabilities in a full integration with Billings Clinic.

The JV financial commitments to CMC will include the development of a plan to accelerate Cerner Solutions available to Community Medical Center.

**c. Describe your organization's ability to provide the continuum of care (including owning/partnering with SNFs, ALFs, home health agencies, behavioral health, medical homes, etc.) and the level of coordination across all settings.**

Billings Clinic has a long history of expertise in operating skilled nursing facilities, home health agencies and psychiatric facilities. All of these are part of the current Billings Clinic integrated health care system. In addition Billings Clinic has developed partnerships with 10 critical access hospitals. Four of those have recently entered into formal governance relationships with Billings Clinic. In those communities there have been construction of new integrated medical campuses at Beartooth Billings Clinic (Red Lodge) and Stillwater Billings Clinic (Columbus). A new facility in Livingston will break ground shortly. All managed facilities share the Cerner EHR. The Billings Clinic strategy in the region is to strengthen and protect primary care in Montana's remote communities while providing safe, effective and high quality tertiary care in Billings for specialty and acute care.

**d. Describe the care management models deployed or planned for your organization.**

Billings Clinic is in the final stage of full implementation of the Patient Centered Medical Home in the outpatient setting. This initiative is moving in parallel to the development of our Internal Medicine Residency Program, scheduled to admit the first cohort of twelve new physicians in July, 2014. Billings Clinic has been an early adopter and pioneer in multidisciplinary cancer care including patient navigation and survivorship programs. Billings Clinic has great expertise in serving the unique needs of Montana's American Indian population, including a native American Patient Advocate program, special outreach to American Indian communities, American Indian patient navigators and informational brochures (cancer clinical trials) translated into Crow and

Northern Cheyenne languages. All of this experience is transferrable to the Missoula area population through joint planning efforts.

**e. Describe the expertise/competency that your organization offers in regards to population health management, shared savings programs and risk-bearing contracts including your organization's ability to spread financial risk under risk-based reimbursement models.**

Indicative of early interest and expertise in shared savings and managed care, Billings Clinic was one of ten organizations nationwide chosen in 2005 to participate in the Centers for Medicare and Medicaid Services (CMS) Physician Group Practice (PGP) Demonstration and the following-up Transition Demonstration.

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The PGP project was the gateway to Billings Clinic participation in additional Medicare shared savings programs, including bundled payment initiatives for total hip and knee and the Medicare Shared Savings Program (MSSP). Billings Clinic is certified as an Accountable Care Organization by NCQA.

**f. Describe your organization's strategy to build and expand a regional provider network and how Community would fit into that plan.**

Billings Clinic has a well-developed regional strategy, as evidenced by our extensive network of branch, outreach and affiliate locations. Our philosophy has four pillars:

1. Formalize partnerships with physicians and community hospitals in the region to preserve access to quality, local community health care.
2. Advocate partnerships that are based on trust, shared vision, values and goals.
3. Transfer health care knowledge and expertise to partnering organizations thus fostering sound decision-making.
4. Utilize progressive management methods to achieve optimal operational, financial, and clinical outcomes.

Today four regional organizations have shared governance models with Billings Clinic:

**Beartooth Billings Clinic (Red Lodge, MT)**

- 25% member of their association with 3 board seats
- CEO and physicians are employed by Billings Clinic
- Organizational management contract in place

**Stillwater Billings Clinic (Columbus, MT)**

- Sole member of their association with 3 board seats
- Employ the CEO and physicians

- Organizational management contract

**Livingston Healthcare (Livingston, MT)**

- 2-4 board seats, not to exceed 25% of total board seats
- Employ the CEO
- Organizational management contract

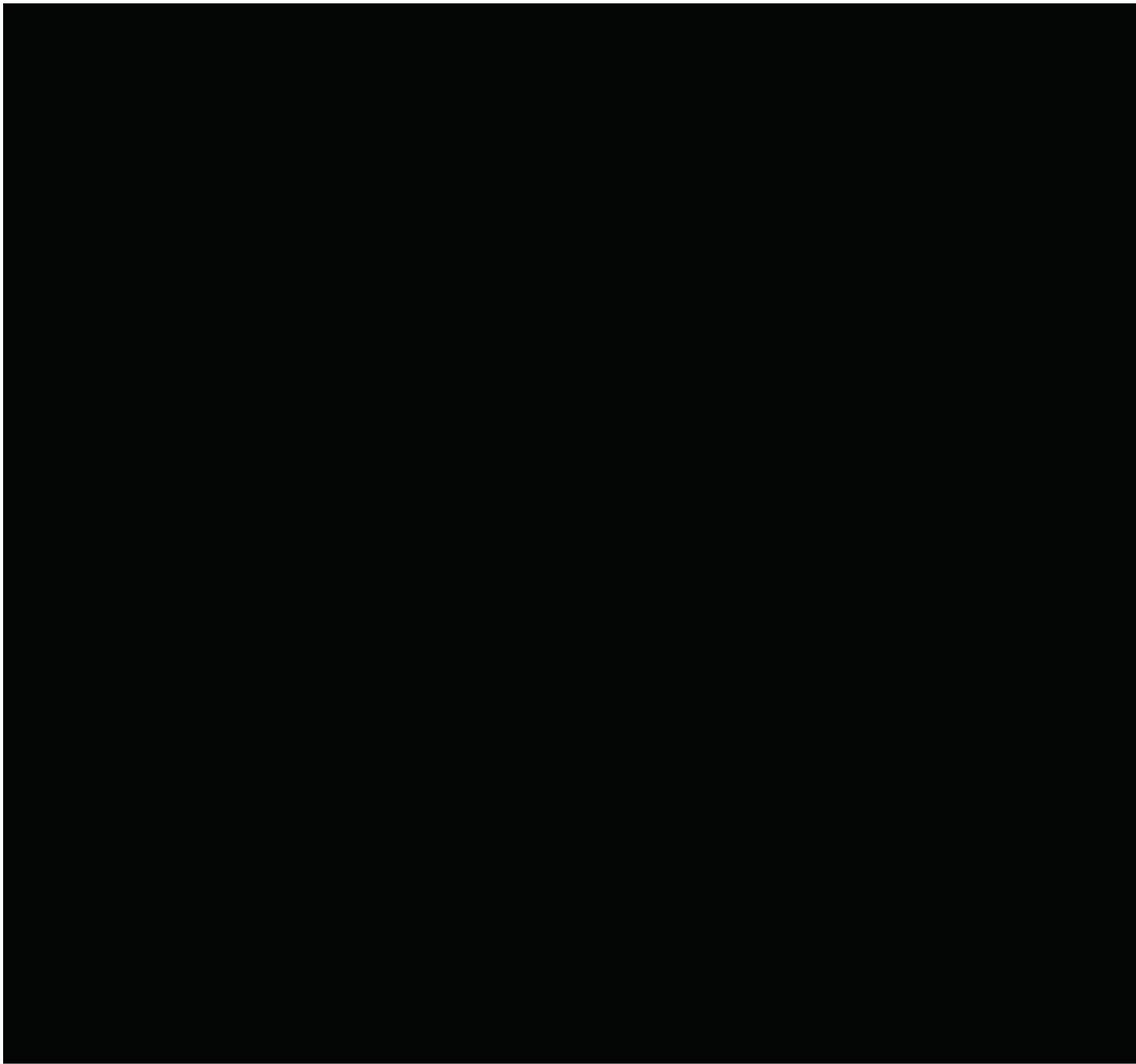
**Glendive Medical Center**

- 2 of the 11 board seats
- Employ the CEO
- Organizational management contract

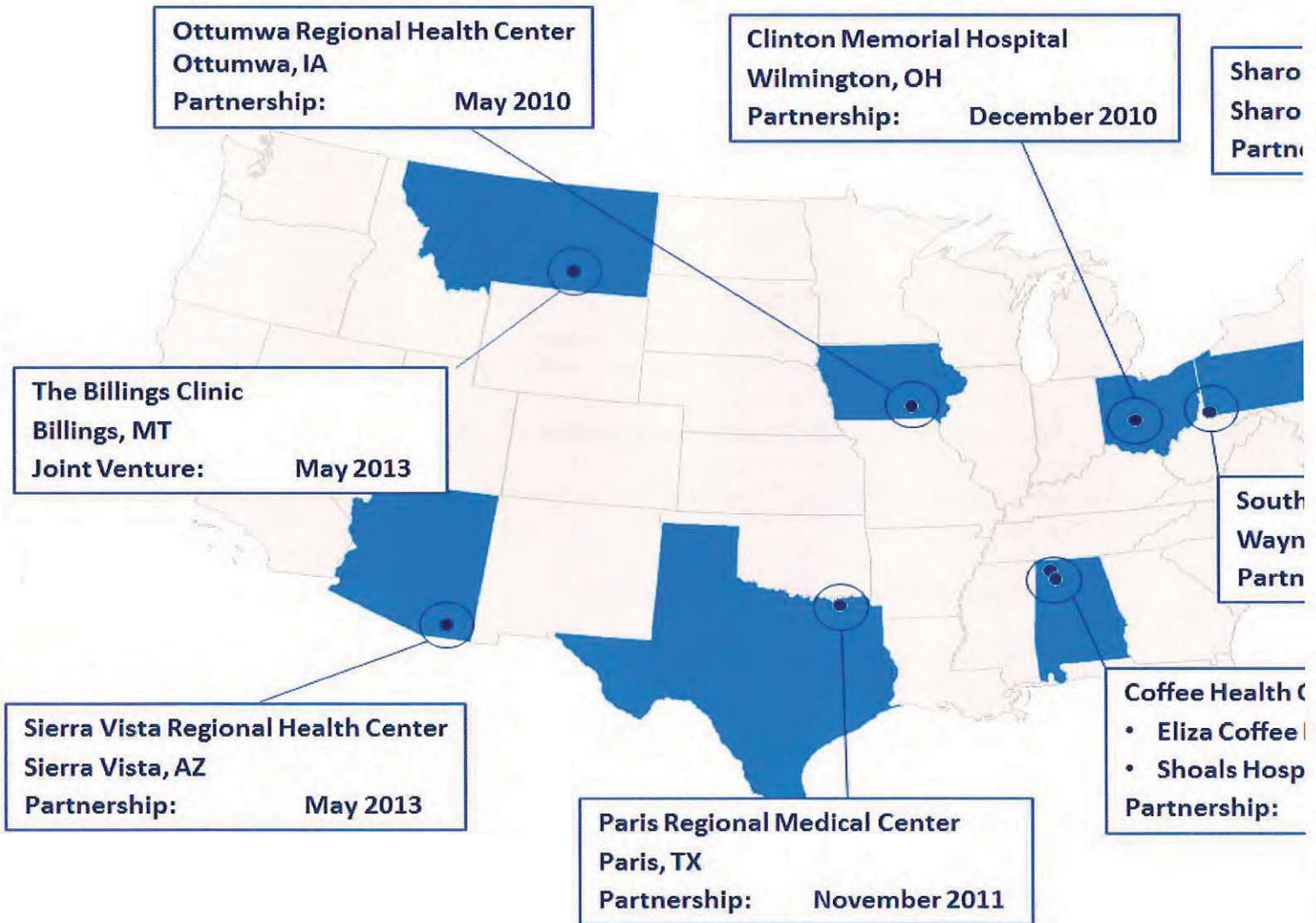
The Board of Directors of Billings Clinic has a formal Regional Strategy Committee to assist the Board with oversight of our regional expansion activities as a health system. The responsibilities of the Regional Strategy Committee include:

- I. To identify and evaluate options to support organizational growth and evolution of regional health system through expanded partnerships, affiliations and other stakeholder relationships. Identify implications on organizational governance and leadership structure.
- II. Oversee the expansion through IT-related applications and information technology
- III. Build knowledge of and inform service line business planning, market expansion and physician specialty outreach strategies.

In addition, a Regional Advisory Board has been proposed to provide an ongoing forum to assist Billings Clinic and its affiliate organization boards and leadership to collectively address issues of health system evolution at the governance level. Proposed members of the RAB include CEOs, board chairs and designated board members of all participating affiliate organizations.



# RegionalCare partner hospitals



**g. Describe your organization's strategy to position CMC for population health management and/or other new care models under health care reform.**

This question is addressed in #5.

**6. Describe your organization's experience in the merger integration of hospitals, outpatient facilities and physician practices.**

In addition to the clinics and critical access partners of Billings Clinic described throughout this proposal, RegionalCare leaders have career histories that include the merger, acquisition and integration of community hospitals and physician practices. Through all of our collective experiences the JV partners are skilled at:

- Fiscal and managerial collaboration.
- Affecting gradual and effective cultural change.
- Making and fulfilling capital commitments that improve quality and grow services for community-based healthcare organizations.
- Blend best practices and shared resources between multi-hospital organizations.

We would welcome CMC to this blended family of hospitals and all the resources discussed in this proposal.

**7. Provides a well-integrated health system;**

**a. Describe the functions performed at the corporate level versus at the local hospitals.**

As the JV partner responsible for hospital operations and capital resources, RegionalCare will delegate the continued leadership of CMC to the hospital CEO and supporting team.

Our decentralized structure is designed to empower the day-to-day management of CMC to the hospital's administrative team and to provide them with easy access to the resources and expertise of the RegionalCare professionals --- and in a number of areas to the Billings Clinic management team.

The CEO will have a dual reporting relationship: (1) to the Joint Venture through a regional operations manager who is part of the RegionalCare corporate staff, and (2) to the hospital system's Board of Trustees.

In addition, certain reports and obligations will be established for the Joint Venture board of directors. This five-member board is made up of two representatives of Billings Clinic and three from RegionalCare. Their obligations cover strategic plans of JV partner hospitals, any changes in mission, values or philosophy of JV hospitals and any material changes in services provided. They will also review and approve annual budgets.

The JV partner hospital's senior team will participate in regularly scheduled RegionalCare meetings concerning patient safety and quality, strategic direction and financial performance. This executive reporting process is collaborative with the hospital's Board of Trustees so that the planning and operational goals of the organization are addressed in a seamless reporting process.

In addition, the JV will provide a high level of formal support to the hospital's quality program through the combined resources of the Billings Clinic and RegionalCare. This is a key focus of the JV partnership. A quality oversight committee will work with hospital managers and members of the medical staff. The committee of the JV will be made up of two representatives from the Billings Clinic, two from RegionalCare and one from the hospital. It will meet regularly to address the quality and safety programs and challenges of CMC including specific plans and activities.

Throughout this proposal the extensive resources in all areas of patient care from the JV partners have been highlighted. They will be made available to CMC in a unified and programmatic effort to support and accelerate the mission and effectiveness of the CMC organization.

**b. Describe the methodology for allocating capital and corporate overhead.**

Capital expenditures are allocated based on the annual capital budget prepared by the local management team and board of trustees. For each of our community hospital partners, RegionalCare is committed to providing the capital to address the growth requirements to expand clinical services in each market. The capital budget includes funding for all maintenance as well as all approved renovation / expansion projects.

RegionalCare's corporate overhead allocation to our hospitals is less than 3%.

**8. Provide for CMC's long-term stability and security based on the historic and projected financial performance, long-term vision, and commitment to serve as a stable partner;**

**a. Provide a summary of your organization's financial position.**

**RegionalCare Hospital Partners – Our Financial Strength**

Through a partnership with our JV, CMC will have access to the financial resources of RegionalCare. Our tremendous track record and the long-term success of our senior officers have secured a future for our company and its hospitals with a high level of financial support.

Warburg Pincus, RegionalCare's major stockholder is the world's leading health care investment firm and has been for over 35 years. They based their significant investments in our company on many factors but foremost, our ability to put together effective and motivational management teams that can build hospital services, increase market share and improve quality outcomes for mid-sized hospitals across the country.

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. Our capitalization and financial position are very strong. Beyond currently available and committed funds, we are confident in our ability to attract additional debt financing for strong acquisitions. We have the expertise as well as the financial backing to offer hospitals and their physicians the resources for organizational stability and regionally focused growth.

RegionalCare's source of funds to consummate this transaction will be a combination of existing cash on hand, existing debt capacity and available equity.

**b. Provide an organizational profile for your organization including:**

For Billings Clinic please see Tab 7.

For RegionalCare Hospital Partners:

- For profit status, formed in 2009.
- Partner hospitals:
  - Ottumwa Regional Health Center, Ottumwa, Iowa.
  - Clinton Memorial Hospital, Wilmington, Ohio.
  - Eliza Coffee Memorial Hospital, Florence, Alabama.
  - Shoals Hospital, Muscle Shoals, Alabama.
  - Paris Regional Medical Center, Paris, Texas.
  - Southwest Regional Medical, Waynesburg, Pennsylvania.
  - Sharon Hospital, Sharon, Connecticut.
  - Sierra Vista Regional Health Center, Sierra Vista, Arizona
- Joint Ventures and services line affiliations:
  - Billings Clinic.
  - University of Alabama Birmingham (UAB).
- Headquarters:  
103 Continental Place, Suite 200  
Brentwood, TN 37027
- 4,600 employees in 8 hospitals.
- Management team biographies can be found in Tab 5.

**c. Indicate whether your organization is subject to a corporate integrity agreement and if so, the terms of that agreement(s).**

Neither the Billings Clinic nor RegionalCare are subject to a corporate integrity agreement.

**d. Provide a list of any hospitals acquired or sold in the past five years.**

The hospital partnerships of both JV partners are listed in several places throughout this proposal.

**9. Present any financial, regulatory and other non-financial hurdles to closing;**

**a. Identify and discuss any and all contingencies to closing, including regulatory (e.g. antitrust) and if applicable, third-party financing.**

Both RegionalCare and the Billings Clinic are fully prepared with experienced legal counsel for any state or federal filings and processes required including Hart Scott Rodino.

As mentioned earlier in the proposal, senior executives of Billings Clinic and RegionalCare together met with Montana Attorney General Tim Fox and his staff in March 2013 as well as a healthcare policy advisor to Montana Governor Steve Bullock. The purpose of these meetings was to introduce and request preliminary support for the **Billings Clinic RegionalCare** joint venture as we anticipated the potential for returning with an application regarding a partnership with a Montana hospital.

**b. Indicate the level at which your response has been approved within your organization and what approvals will be required to sign a definitive agreement and close the transaction.**

The Boards of both our organizations have reviewed and approved this proposal subject to a final approval following completion of all due diligence and definitive agreements.

**c. Identify any third party consents you will need to obtain for entering into the transaction as contemplated (such as banks, bond insurers, lessors, and landlords).**

RegionalCare will seek bank approvals for any portion of this financial offer we elect to finance through debt.

**3. Asset Purchase Term Sheet (Exhibit C).**

[~~BIDDER~~HOSPITAL LETTERHEAD]

September ~~10,~~ 2013

~~Christine Craft~~  
~~Senior Vice President, Development~~  
~~Mary Margaret Relfe~~  
~~Assistant Director, Development~~  
~~{BIDDER}~~  
~~103 Continental Place, Suite 200~~  
~~Brentwood, TN 37027~~  
~~Billings/RCHP Healthcare Holdings, LLC~~  
~~Attn: Nicholas Wolter, M.D.~~  
~~2800 Tenth Avenue North~~  
~~Billings, Montana 59101~~

#### **LETTER OF INTENT**

Dear ~~Ms. Craft and Ms. Relfe~~Dr. Wolter:

The purpose of this letter of intent (this "Letter") is to set forth certain non-binding understandings and certain binding agreements by and between Community Medical Center ("Hospital") and ~~{BIDDER}~~Billings/RCHP Healthcare Holdings, LLC ("Bidder") pursuant to which Hospital intends to sell certain assets and operations of Hospital to Bidder, as more particularly described in the attached term sheet (the "Term Sheet"), incorporated herein by reference.

Paragraphs 1 through ~~2423~~ of the Term Sheet (collectively, the "Non-Binding Provisions") reflect our mutual understanding of the matters described in them, but each party acknowledges that the Non-Binding Provisions are not intended to create or constitute any legally binding obligation between Hospital and Bidder, and neither Hospital nor Bidder shall have any liability to the other party with respect to the Non-Binding Provisions until a definitive agreement and other related documents (collectively, the "Definitive Agreement") are prepared, authorized, executed and delivered by and between the parties. If the Definitive Agreement is not prepared, authorized, executed, and delivered for any reason, neither party to this Letter shall have liability to the other party to this Letter based upon or relating to the Non-Binding Provisions.

Upon execution by the parties to this Letter, Paragraphs ~~2524~~ to ~~2726~~ of the Term Sheet (collectively, the "Binding Provisions") will constitute the legally binding and enforceable agreement of the parties in recognition of the significant costs to be borne by the parties in pursuing the transaction and further in consideration of the mutual undertakings as to the matters described herein.

The Binding Provisions may be terminated only by mutual written consent; provided, however, that the termination of the Binding Provisions shall not affect the liability of a party for breach of any of the Binding Provisions prior to the termination. This Letter shall be construed and enforced in accordance with the laws of the State of Montana. No signatory hereto shall assign this Letter to any third party.

Notwithstanding the foregoing, this Letter is intended to evidence the understandings which have been reached regarding the proposed transactions and the mutual intent of the parties to negotiate in good faith

~~Christine Craft~~  
~~Mary Margaret Relfe~~  
Nicholas Wolter, M.D.  
September ~~10,~~   , 2013  
Page 2

a Definitive Agreement in accordance with the terms contained in the Term Sheet. If not terminated earlier pursuant to the terms hereof or by execution of the Definitive Agreement, this Letter shall expire on February 28, 2014, unless extended in writing by the mutual agreement of the parties.

Each party acknowledges that it is a party to that certain Mutual Confidentiality and Non-Disclosure Agreement, dated September 1, 2013, and that such agreement remains in full force and effect.

If the terms herein are acceptable, please sign and date this Letter in the space provided below to confirm the mutual agreements set forth in the Binding Provisions and return a signed copy to the undersigned.

Sincerely:

COMMUNITY MEDICAL CENTER

By: \_\_\_\_\_  
Steve Carlson  
Chief Executive Officer

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

ACKNOWLEDGED AND AGREED:

~~[BIDDER]~~  
BILLINGS/RCHP HEALTHCARE HOLDINGS, LLC

By: \_\_\_\_\_  
[NAME]  
[TITLE]

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

**Community Medical Center**  
**Term Sheet for a Transaction with ~~{BIDDER}~~**  
Billings/RCHP Healthcare Holdings, LLC  
 September 10,    , 2013

Non-Binding Provisions	
<p><b>1. Parties</b></p>	<p>a) Community Medical Center, a Montana nonprofit corporation that is exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and all of its controlled affiliates (collectively, "Hospital"). Hospital is the parent company of an integrated healthcare system providing acute care and general health services to residents of western Montana and Idaho (collectively, the "Business").</p> <p>b) <del>{Bidder}, a for-profit hospital</del> <u>Billings/RCHP Healthcare Holdings, LLC, a Delaware limited liability</u> company together with one or more of its <u>subsidiaries/affiliates</u> (collectively, "Bidder").</p>
<p><b>2. Form of Transaction</b></p>	<p>Bidder, <del>through one of its subsidiaries (the "Subsidiary")</del>, intends to purchase substantially all of the operating assets of the Business (the "Purchased Assets") from Hospital (the "Transaction").</p>
<p><b>3. Purchased Assets and Assumed Obligations</b></p>	<p>a) The Purchased Assets shall consist of all of the operating assets of Hospital other than the "Excluded Assets" identified below. The Purchased Assets will include:</p> <ul style="list-style-type: none"> <li>i. Net working capital assets (including inventories, patient accounts receivable, other receivables, and prepaid expenses and advances);</li> <li>ii. owned and leased real property;</li> <li>iii. equipment;</li> <li>iv. <u>all other property, whether tangible or intangible, of every kind, character or description owned by Hospital and used or held for use in the operation of the Business;</u></li> <li>v. <del>iv-</del> patient, medical, personnel and other records of the Business;</li> <li>vi. <del>v-</del> licenses, permits, and trade names (to the extent transferable);</li> <li>vii. <del>vi-</del> <u>Hospital's rights under</u> operating contracts and leases related to the Business; <del>and</del></li> <li>viii. <del>vii-</del> interests held by Hospital in joint ventures related to the operation of the Business.</li> <li>ix. <u>Hospital's interests in all property arising or acquired in the ordinary course of the Business between the date of the Letter (as defined in Paragraph 6 hereof) and the Closing (as defined in Paragraph 5 hereof).</u></li> </ul> <p>b) The following shall be excluded from the Purchased Assets (the "Excluded Assets"):</p> <ul style="list-style-type: none"> <li>i. Cash, cash equivalent and investments;</li> <li>ii. amounts that may result from post-Closing settlements of cost reports, appeals and other risk settlements that relate to pre-Closing periods;</li> <li>iii. amounts earned, accrued or paid with respect to Meaningful Use</li> </ul>

**Community Medical Center  
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	<p>attested to, or for which the requirements for attestation have been substantially met, prior to the Closing;</p> <p>iv. assets whose use is limited or restricted;</p> <p>v. other long term investments;</p> <p>vi. commercially unreasonable contracts or contracts that raise regulatory concerns; and</p> <p>vii. other current and long term assets not related to <u>Hospital's</u> current operating activities.</p> <p>c) Bidder will assume such obligations of Hospital as is usual and customary in transactions similar to the Transaction.</p> <p>d) Exhibit A hereto reflects the estimated allocation of the assets and liabilities between Bidder and Hospital based on the June 30, 2013 balance sheet of Hospital.</p>
<b>4. Treatment of CMC Foundation</b>	<p>Prior to executing the Definitive Agreement (as defined in Paragraph <del>2726</del> hereof), CMC Foundation, at its sole discretion, may request, as a result of the Transaction, Hospital to withdraw or otherwise give up its position as the sole member of CMC Foundation immediately prior to the Closing. In such event, CMC Foundation shall have the right to retain, and exclude from the Transaction, the assets of CMC Foundation at the time of such withdrawal and to continue to operate as an independent tax-exempt entity.</p>
<b>5. Closing</b>	<p>The closing of the Transaction is referred to herein as the "Closing."</p>
<b>6. Consideration</b>	<p>a) Bidder shall pay a purchase price (the "Cash Purchase Price") of <del>[\$—60 million]</del> in cash at Closing minus any long-term debt or capitalized leases (including current portions) that are assumed by Bidder at the Closing.</p> <p>b) Subsequent to the execution of the Letter of Intent (the "Letter") in which this Term Sheet is incorporated by reference, Bidder shall not propose any reduction of, or other direct or indirect change to, the Cash Purchase Price, except for the determination of Net Working Capital (as defined in Paragraph 7 hereof) or in the event that Bidder discovers, during confirmatory due diligence, a fact or circumstance, of which Bidder was previously unaware, directly related to the operation of the Business that may <u>be reasonably anticipated to</u> result in a Material Adverse Change (as defined in Paragraph <del>2423</del> b) hereof).</p>
<b>7. Net Working Capital</b>	<p>a) The Cash Purchase Price assumes Net Working Capital (as defined below) of <del>[\$—]8.8 million</del> at the Closing <u>and, Subsequent to the Closing,</u> the Cash Purchase Price will be adjusted upward (or downward) to the extent that Net Working Capital <u>at Closing</u> exceeds (is less than) such amount.</p> <p>b) "Net Working Capital" is comprised of inventories, patient accounts receivable, other receivables, prepaid expenses and advances that have continuing value to the operations of the Business and accounts payable, accrued salaries and expenses, accrued vacation expenses and any PTO whether recorded or unrecorded, with appropriate adjustment for such unrecorded amount.</p>
<b>8. Treatment of Indebtedness</b>	<p>Bidder will not assume, and Hospital will remain liable for all existing indebtedness (including capital leases) with such amounts to be paid out of the Cash Purchase</p>

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	Price.
<p><b>9. Capital Commitment</b></p>	<p>For a period of ten (10) years after the Closing, Bidder shall commit to fund <del>annual-average</del> capital <del>expenditures at</del> <u>contributions averaging</u> not less than <del>10%</del> <u>four percent (4%)</u> of the Business' annual <del>depreciation</del> <u>net patient revenue, less bad debt</u>, to fund the development of projects and services for the benefit of the residents of the Business' primary service area, subject to deferral based on mutually agreed upon exceptions for exigent financial circumstances and regulatory requirements.</p>
<p><b>10. <del>Subsidiary</del> Governance</b></p>	<p>a) As of the Closing, Bidder will establish a ten (10) member non-fiduciary Board of Trustees <del>for the Subsidiary</del> (the "Local Board") <u>for the Business' current acute care hospital (the "ACH")</u>. The Local Board will be comprised of four (4) physicians, five (5) community leaders and the local Chief Executive Officer <u>of the ACH, ex officio</u>.</p> <p>b) The initial members of the Local Board shall be appointed in consultation with Hospital.</p> <p>c) The Local Board shall be self-perpetuating consistent with the <del>Subsidiary's governing documents</del> <u>Local Board's by-laws</u>.</p> <p>d) In general, financial, strategic and other decisions of the Local Board will require approval by Bidder.</p> <p>e) The Local Board will provide recommendations to Bidder regarding the establishment of hospital policies, the maintenance of patient care quality and provision of clinical service and community service planning in a manner responsive to local community needs.</p> <p>f) Subject to certain limited exceptions, the duties of the Local Board will include, but not be limited to the following:</p> <ul style="list-style-type: none"> <li>i. Ensure compliance with all accreditation requirements including but not limited to credentialing and other medical staff matters;</li> <li>ii. Provide oversight for institutional planning, make recommendations for new clinical services, participate in an annual review of the Business' strategic and financial plan and goals;</li> <li>iii. Review and have input into any substantive changes in the services provided by the Business.</li> <li>iv. Review and recommend approval of operating and capital budgets as well as make recommendations with respect to capital expenditures fulfilling commitments made by Bidder in the Definitive Agreement (as defined in Paragraph <u>2726</u> hereof);</li> <li>v. Make recommendations with respect to quality assessment and improvement programs;</li> <li>vi. Provide oversight of risk management programs relating to patient care and safety;</li> <li>vii. Foster community relationships and identify community service opportunities;</li> <li>viii. Review disaster plans that deal with both internal (e.g., fire) and external disasters; and</li> <li>ix. Evaluate recruitment needs to ensure adequate medical staff capacity to continue to meet community needs.</li> </ul>

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<p><b>11. Commitment to Quality, Safety, and Patient Satisfaction</b></p>	<p>After the Closing, Bidder shall operate the Business with a commitment to quality, safety and patient satisfaction, including maintaining Joint Commission accreditation and participation in the Medicare, Medicaid, and TriCare programs.</p>
<p><b>12. Commitment to Teaching Programs</b></p>	<p>Bidder shall maintain and continue to support Hospital’s current residency training programs and will seek to expand the training of residents at the Business in a reasonable and appropriate manner in order to support the recruitment and retention of physicians in Hospital’s community.</p>
<p><b>13. <del>14.</del> Right of First Refusal</b></p>	<p><del>Following the restrictions set forth in Paragraph 13 hereof,</del> Hospital or its designee will maintain in perpetuity a right of first refusal to purchase the Business under essentially the same terms and conditions provided to or by Bidder if Bidder agrees to sell or transfer substantially all of the assets and operations of the Business to an unaffiliated third party. Hospital shall have 60 days to exercise its right and 180 days to close, subject to extensions necessary to accommodate any regulatory approvals. The foregoing restriction shall not apply to a change of control of Bidder or a sale of <del>Bidder’s</del> interests in multiple facilities <u>owned by Bidder or its affiliates</u> in which the value of the Business represents less than seventy-five percent (75%) of the total value (based upon net revenue) of the transaction.</p>
<p><b>14. <del>15.</del> Maintenance of Clinical Services</b></p>	<p>Subject to mutually agreed upon exceptions for exigent financial circumstances and regulatory requirements, Bidder shall agree to maintain essential clinical services <del>and departments</del> at not less than current levels (“Essential Services”) at the <del>Business’ current acute care hospital</del> ACH for a period of ten (10) years after the Closing. Essential Services shall include the following services lines and departments: ICU/CCU, NICU, med/surg, pediatrics, orthopedic, mother/baby, rehabilitation, labor and delivery, inpatient and outpatient surgery, recovery, laboratory, electrodiagnostics, stress testing, cath lab, CT scan, diagnostic imaging, ECHO, endoscopy, pharmacy, respiratory therapy, emergency, pediatrics specialty clinic, departments of Community Physician Group, Community Care Center (chemotherapy and radiation therapy), IVO – infusion therapy, CMC cardiology and outreach, nuclear medicine, trauma (level III), wound care clinic, childbirth education classes, MT Pediatric Surgery, sterile supply, and materials management.</p>
<p><b>15. <del>16.</del> Charity Care and Community Obligations</b></p>	<p>Bidder acknowledges that Hospital has historically provided significant levels of care for indigent and low-income patients and has also provided care through a variety of community-based health programs. Bidder shall adopt, maintain, and adhere to Hospital’s current policies on charity and indigent care or adopt other policies and procedures that are at least as favorable to the indigent and uninsured as Hospital’s existing policies and procedures. Bidder shall also continue to provide care through community-based health programs, including cooperation with local organizations that sponsor healthcare initiatives to address identified community needs and improve the health status of the elderly, poor, and other at-risk populations in the community.</p>
<p><b>16. <del>17.</del> Medical Staff</b></p>	<p>a) Bidder intends to involve the Business’ physicians in the strategic and capital</p>

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<p><b>Matters</b></p>	<p>planning process for the Business, insuring that the critical needs of the medical staff are met and that strategic initiatives and investments are prioritized to best meet the needs of medical staff physicians and their patients.</p> <p>b) Bidder shall commit to provide the necessary resources to effectively recruit and retain a quality medical staff consistent with a recruitment plan to be mutually agreed to by the parties prior to the Closing, which the parties expect will contemplate the recruitment of an additional 60 FTEs over a three-year period covering a broad range of specialties including, but not limited to, cardiology, emergency medicine, surgery, oncology, obstetrics / gynecology, hospitalists, neurology, neurosurgery, ENT and urology.</p>
<p><b>17. <del>18.</del> Employee Matters</b></p>	<p>a) Bidder shall <del>maintain</del><u>extend offers of employment at comparable</u> wages and benefits, with no downward pay adjustments for at least 12 months after the Closing, to all Hospital employees <del>retained by Bidder who are actively employed and in good standing at the Closing.</del></p> <p>b) <u>Subject to due diligence</u>, Bidder shall commit to honor all existing severance agreements between Hospital and Hospital’s employees.</p> <p>c) Hospital employees shall retain their current seniority and vesting in Hospital’s or any successor benefit programs.</p> <p>d) Hospital employees retained by Bidder shall retain their current seniority for purposes of determining vacation accruals after the Closing.</p> <p>e) As of the Closing, Bidder shall provide Hospital employees with a retirement plan, vacation, sick leave, holidays, health insurance, life insurance, and other employee benefits consistent with the current benefit plans in effect at Hospital or those Bidder benefit plans in effect from time to time with no waiting periods or pre-existing condition limitations for any benefit plan offered by Bidder to current Hospital employees.</p> <p>f) Bidder agrees to honor any existing collective bargaining agreements.</p>
<p><b>18. <del>19.</del> Treatment of Contracts</b></p>	<p>Bidder shall accept assignment of and assume all obligations arising after the Closing under contracts, operating leases, physician arrangements and other operating obligations of the Business, with no offset against the Cash Purchase Price; <u>provided, however</u>, that Bidder shall not be obligated to assume commercially unreasonable contracts or contracts that raise regulatory concerns.</p>
<p><b>19. <del>20.</del> Indemnification</b></p>	<p>Bidder and Hospital shall agree to indemnification provisions along with certain limitations usual and customary in transactions of this type.</p>
<p><b>20. <del>21.</del> Medicare Provider Number</b></p>	<p>Bidder will assume Hospital’s Medicare acute-care hospital provider number.</p>
<p><b>21. <del>22.</del> Tail Policies Insurance</b></p>	<p>As of the Closing, <del>Bidder</del><u>Hospital</u> shall <del>provide</del><u>obtain</u> and pay for appropriate tail insurance policies <del>to cover Hospital directors’ liabilities and such other risks as applicable, with coverage levels reasonably satisfactory to Bidder, to insure against the professional and general liabilities of the Business relating to all periods prior to Closing.</del></p>
<p><b>22. <del>23.</del> Transition</b></p>	<p>a) Subject to applicable regulatory requirements, Bidder shall have the opportunity to provide limited input to significant business activities of Hospital after execution of the Definitive Agreement and prior to the Closing including, but not limited to:</p>

	<p><del>i.</del> <u>i.</u> Capital expenditures in excess of \$1.0 million not included in Hospital's routine annual capital and operating budgets.</p> <p><del>ii.</del> <u>ii.</u> <del>Significant new</del> <u>New</u> contracts in excess of \$250,000 in annual expense <u>or any contract with a physician, physician group or other possible referral source regardless of dollar amount.</u></p> <p><del>iii.</del> <u>iii.</u> Changes in title or assignment of specified senior executives.</p> <p><u>iv.</u> <u>Changes in salaries, bonuses, benefits payable to employees other than in the ordinary course of business.</u></p> <p><u>v.</u> <u>Any other activity not in the ordinary course of business.</u></p> <p><del>b.)</del> <u>b.)</u> In addition, Hospital <u>and Bidder</u> shall work <del>with Bidder to perform, or cause to be performed, any act, submission or filing, including the Letter for the purpose of application for a Certificate of Need ("CON"), as is necessary and directed by Bidder including CON's necessary for Hospital to remain competitive in its marketplace</del> <u>together to obtain any governmental or other approvals necessary for the consummation of the Transaction.</u></p>
<p><u>24. 23. Closing</u></p>	<p>a) The Closing shall take place as soon as practicable after all required regulatory and other approvals for the Transaction have been obtained, unless otherwise mutually agreed by the parties to the Letter. The Closing will be subject to mutually agreed closing conditions, including but not limited to (i) completion of a satisfactory due diligence review of the Purchased Assets and the Business, (ii) receipt of surveys, title insurance commitments and environmental and engineering surveys reasonably satisfactory to Bidder, (iii) receipt of all necessary regulatory approvals and permitted license transfers, (iv) delivery of documents of conveyance and assignment, (v) expiration of the "waiting period" under the HSR Act <u>(as defined in Paragraph 24 hereof)</u>, and (vi) <del>no</del> <u>the absence of a</u> "Material Adverse Change" (as defined below) shall have occurred.</p> <p>b) "Material Adverse Change" shall mean an event, change or circumstance which, individually or together with any other event, change or circumstance would be reasonably expected to have a material adverse effect, either individually or in the aggregate, on the business, assets, liabilities, financial condition or results of operations of the Business whether such effect would be realized before or after the Closing; provided, however, that a Material Adverse Change shall not include: (i) changes in the financial or operating performance due to or caused by the announcement of the Transaction or seasonal changes; (ii) changes or proposed changes to any law or regulation, reimbursement rates or policies of governmental agencies or bodies that are generally applicable to hospitals or health care facilities; (iii) requirements, reimbursement rates, policies or procedures of third party payors or accreditation commissions or organizations that are generally applicable to hospitals or health care facilities; (iv) general business, industry or economic conditions, including such conditions related to the Business; (v) local, regional, national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack; (vi) changes in financial, banking or securities markets (including any disruption thereof and any decline in the price of any security or any market index); or (vii) changes in</p>

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	GAAP.
<b>Binding Provisions</b>	
<del>25.</del> <u>24.</u> Expenses	<p>a) Each party shall bear its respective legal, accounting and other expenses and costs in connection with the Transaction; <del>provided, however, if the Transaction is consummated, Bidder will bear all such expenses.</del></p> <p>b) Bidder and Hospital shall split the cost of title insurance upon the real property to be leased and the cost of a survey of such property, as well as all recording taxes and fees payable in respect of the Transaction.</p> <p>c) Bidder shall pay the filing fee, if any, required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the “HSR Act”) and all expenses of inspecting the Purchased Assets, including the cost of any environmental surveys.</p>
<del>26.</del> <u>25.</u> Press Release	Except as otherwise required by law, all press releases or other public communications of any sort relating to the Transaction, and the method of the release for publication thereof, will be subject to the prior approval of both parties.
<del>27.</del> <u>26.</u> Legal Effect, Exclusivity and Diligence	<p>a) This Term Sheet is subject to and contingent upon due diligence review and the negotiations, approval, and execution of all necessary definitive agreements and related documents (“Definitive Agreement”). Upon execution of the Letter, Bidder and Hospital will negotiate in good faith the terms and conditions of the Definitive Agreement.</p> <p>b) <u>Bidder contemplates the expenditure of substantial time and sums of money in connection with legal, accounting and operational due diligence to be performed in conjunction with the proposed Transaction prior to the execution of the Definitive Agreement. For purposes of inducing Bidder to execute the Letter, during the period from the date of acceptance thereof until the expiration or termination of the Letter as provided therein, Hospital shall not, directly or indirectly, without Bidder’s prior written consent, solicit, initiate or participate in negotiations with any corporation, partnership, limited liability company, other entity or person (other than Bidder) contemplating a transaction involving all or a material part of the Business or Purchased Assets, directly or indirectly, whether by sale of membership interest, member substitution, merger, consolidation, sale of assets, lease, affiliation, joint venture or other form of transaction. In the event such a proposal is received by Hospital, Hospital will promptly notify any such third party of the existence of this exclusivity covenant and of Hospital’s unwillingness to discuss any other proposed transaction concerning the Business or the Purchased Assets until the Letter expires or is terminated. Such notice shall be in writing and a copy thereof simultaneously delivered to Bidder.</u></p> <p>c) <del>b)</del> As part of Hospital’s due diligence on Bidder, Bidder shall in reasonable detail describe its strategy for the Business post-Closing including, but not limited to, steps to reduce expenses at the Business through implementation of best practices and reduction of overhead.</p> <p>d) <del>e) The Letter and this Term Sheet are not intended, and shall not be construed, to create an obligation that Hospital negotiate exclusively with Bidder regarding the Transaction or any similar strategic transaction; provided that</del></p>

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	<p><del>Hospital will neither engage in any due diligence review nor execute a term sheet or similar preliminary document with any other party relating to a change of control transaction or asset sale of all or substantially all of the assets of the Business, unless Hospital first notifies Bidder of Hospital's intention to do so.</del></p> <p>Upon execution of the Letter by both parties, Bidder and Hospital will conduct and cooperate in reasonable due diligence regarding the Transaction, including without limitation the Business, <u>the Purchased Assets</u> and parties to the Transaction. Bidder and Hospital intend that the period of diligence not exceed 45 days <u>from the date that Bidder's information requests have been satisfied</u> and that the Definitive Agreement be approved and executed within 30 days thereafter.</p>
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**4. Balance Sheet Allocation (Exhibit D).**

**Community Medical Center, Inc.**  
 Unaudited Balance Sheet  
 June 30, 2013

	<u>June 30, 2013 Balances</u>	<u>Acquired by Bidder</u>	<u>Retained by CMC</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 14,642,265		\$ 14,642,265
Restricted cash	-		-
Current portion of assets limited as to use	3,785,147		3,785,147
Short-term investments	5,282,804		5,282,804
Hospital patient receivables, net	21,633,263	21,633,263	-
CPG patient receivables, net	2,726,130	2,726,130	-
Other receivables	1,885,891	1,885,891	-
Inventory	2,926,037	2,926,037	-
Prepaid and other assets	1,148,367	1,148,367	-
<b>Total Current Assets</b>	<u>54,029,904</u>	<u>30,319,688</u>	<u>23,710,216</u>
Long-term investments	15,101,689		15,101,689
<b>Assets Limited as to Use</b>			
By Board	12,055		12,055
Restricted for construction project, net of current	-		-
Held by Trustee under indenture agreement, net	2,141,930		2,141,930
<b>Total Assets Limited as to Use, Net of Current Portio:</b>	<u>2,153,985</u>	<u>-</u>	<u>2,153,985</u>
Beneficial Interest in Community Medical Center For	4,627,121		4,627,121
Property and Equipment, Net	68,327,374	68,327,374	-
<b>Other Assets</b>			
Unamortized bond insurance costs	827,029		827,029
Notes receivable	3,877,121		3,877,121
Investment in Majority Owned Subsidiary	1,274,932	1,274,932	-
Investment in joint ventures	3,736,518	3,736,518	-
<b>Total Other Assets</b>	<u>9,715,600</u>	<u>5,011,450</u>	<u>4,704,150</u>
<b>Total Assets</b>	<u>\$ 153,955,673</u>	<u>\$ 103,658,512</u>	<u>\$ 50,297,161</u>

**Liabilities and Net Assets****Current Liabilities**

Current portion of notes payable and capital lease obligations	\$ 1,870,252	\$ -	\$ 1,870,252
Accounts Payable			
Trade	11,221,364	11,221,364	-
Construction and equipment	492,704	492,704	-
Estimated third-party payor settlements	4,440,188		4,440,188
Accrued salaries, payroll related liabilities, and other	9,770,427	9,770,427	-
Accrued interest payable	151,034		151,034
<b>Total Current Liabilities</b>	<b>27,945,969</b>	<b>21,484,495</b>	<b>6,461,474</b>

**Long-Term Debt Obligations**

Long-term obligations under bond indenture	24,447,509		24,447,509
Notes payable and capital lease obligations, less current maturities	8,489,994		8,489,994
<b>Total Long-Term Debt Obligations, Less Current Maturities</b>	<b>32,937,503</b>	<b>-</b>	<b>32,937,503</b>

**Total Liabilities**

	<b>\$ 60,883,472</b>	<b>\$ 21,484,495</b>	<b>\$ 39,398,977</b>
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