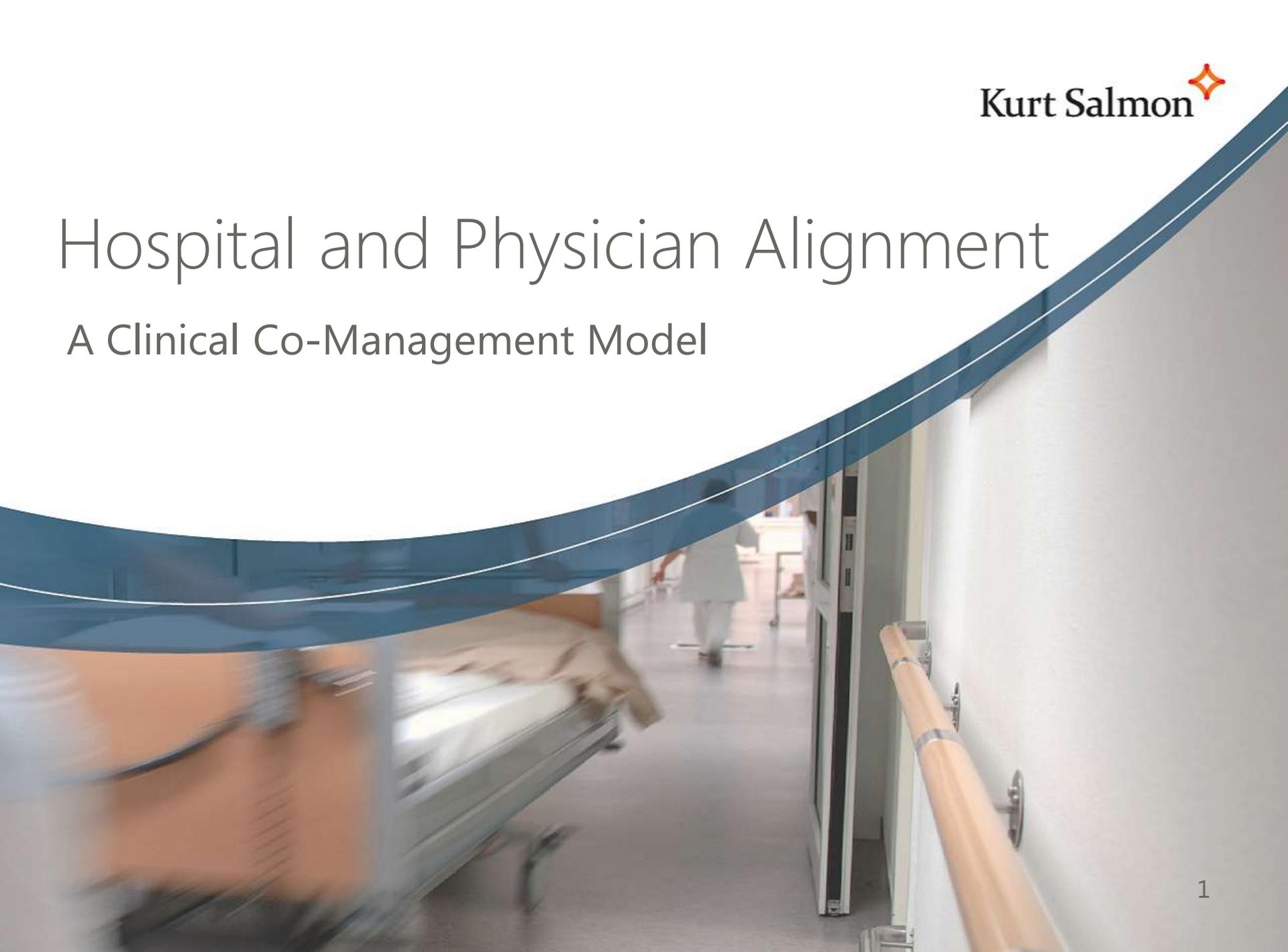


Hospital and Physician Alignment

A Clinical Co-Management Model



What is a Co-Management Model?

The Structure

Physicians form a new entity (i.e. a management company) that would contract with the hospital to manage the designated service-line program (“program”).

Physicians have an initial capital investment to form the management company. This would equate to development costs and is a one-time investment.

The physicians and the hospital will set up the program governance structure and the various oversight committees needed to appropriately manage the program (i.e., finance and operations committee, quality and PI committee, etc.).

The compensation for services provided by management company would include the following:

- Base management fee
- Incentive compensation

A New Approach

Objectives:

Enhance patient safety/quality of care

- Superlative clinical outcomes

Improve physician's quality of life

- Start time—cut time
- Physician down time

Enhance patient satisfaction

Increase profitability

Enhance employee satisfaction

Developing a Synergistic Approach to Health Care

Physician Components:

- Physicians must participate in and be held accountable for operating efficiencies
- Physicians must have defined control to make appropriate changes in their hospital operations

Hospital Components:

- Physicians and employees are equal team members
- All departments integrated into the delivery of care
- Financial and clinical data shared transparently

Key Success Factors

Physician involvement at all levels

- Extensive involvement in operations
- Share financial/clinical data un-blinded—the good and the opportunities
- Quantify savings opportunities
- Involvement in vendor negotiations
- Peer pressure to police their partners
- Decisions made quickly
- Standardization

Data Driven

- Patient flow
- Physician efficiency
- Why the variance occurred, not just that it occurred

Patient Focus

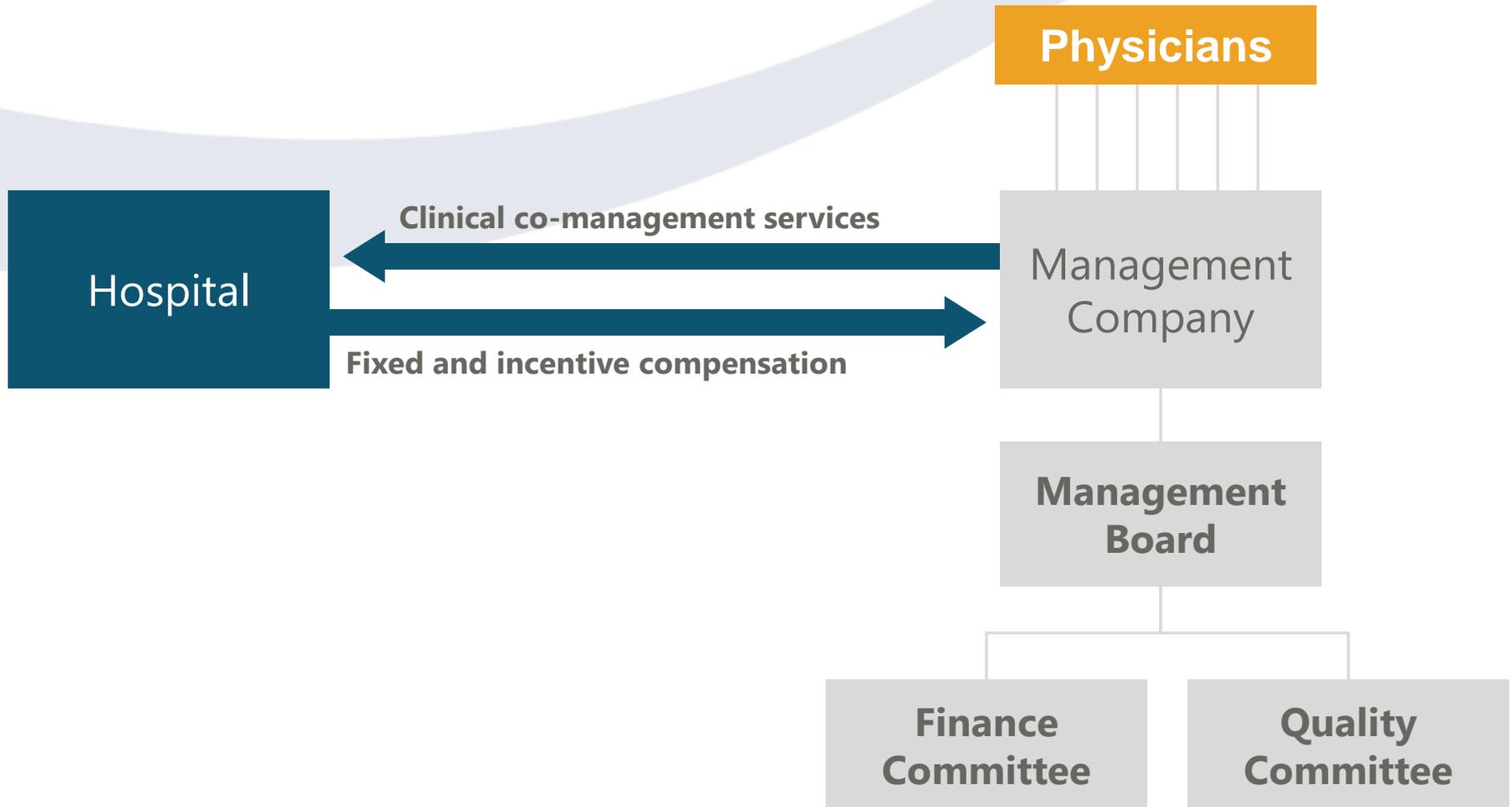
The Co-Management Model

What's in it for Hospitals

Pros

- Hospital and physician preparation for future changes in health care
- Quick and easy to execute
- Potential to increase physician productivity through improved operational and clinical outcomes
- Provides “flexibility” to hospital and physicians for future collaborative initiatives
- Strong model for initiating physician-hospital alignment and collaboration
- Improved communication between hospital and physicians
- Creates mechanism for physicians to play an active role in managing the service line
- Financial returns to hospital could be realized shortly after launch
- Limited capital investment requirements, limits physicians/hospital ‘at-risk’ investment
- No current issues of uncertainty because of regulatory issues (Medicare, IRS, etc...)
- Can provide access to capital for acquisition of technology without duplicating resources
- Win/win for physicians and hospital

Legal Structure of Transaction



What is the Process for Forming a Management Company?

A management company is important because it allows the hospital and physicians to form a partnership which can evolve into a positive, long-term relationship. The first step in the process of developing a management company is to create a steering committee which will perform the following tasks:

- Conducting baseline operational assessment to measure current performance and to develop recommended incentive metrics
- Defining the scope of services
- Developing participation criteria
- Defining the performance metrics that will be measured in the management company
- Creating a new program development plan
- Working with legal counsel to determine the valuation and address the regulatory issues surrounding the management company

Co-Management Contractual Elements

Clinical services—service line definition

Physician eligibility and exclusivity considerations

Staffing management

- Medical director services
 - Additional management
 - Staff
-

Operations management

- Training
- Quality
- Utilization/performance monitoring
- Management oversight/input

Co-Management Contractual Elements

Financial/Strategy Management

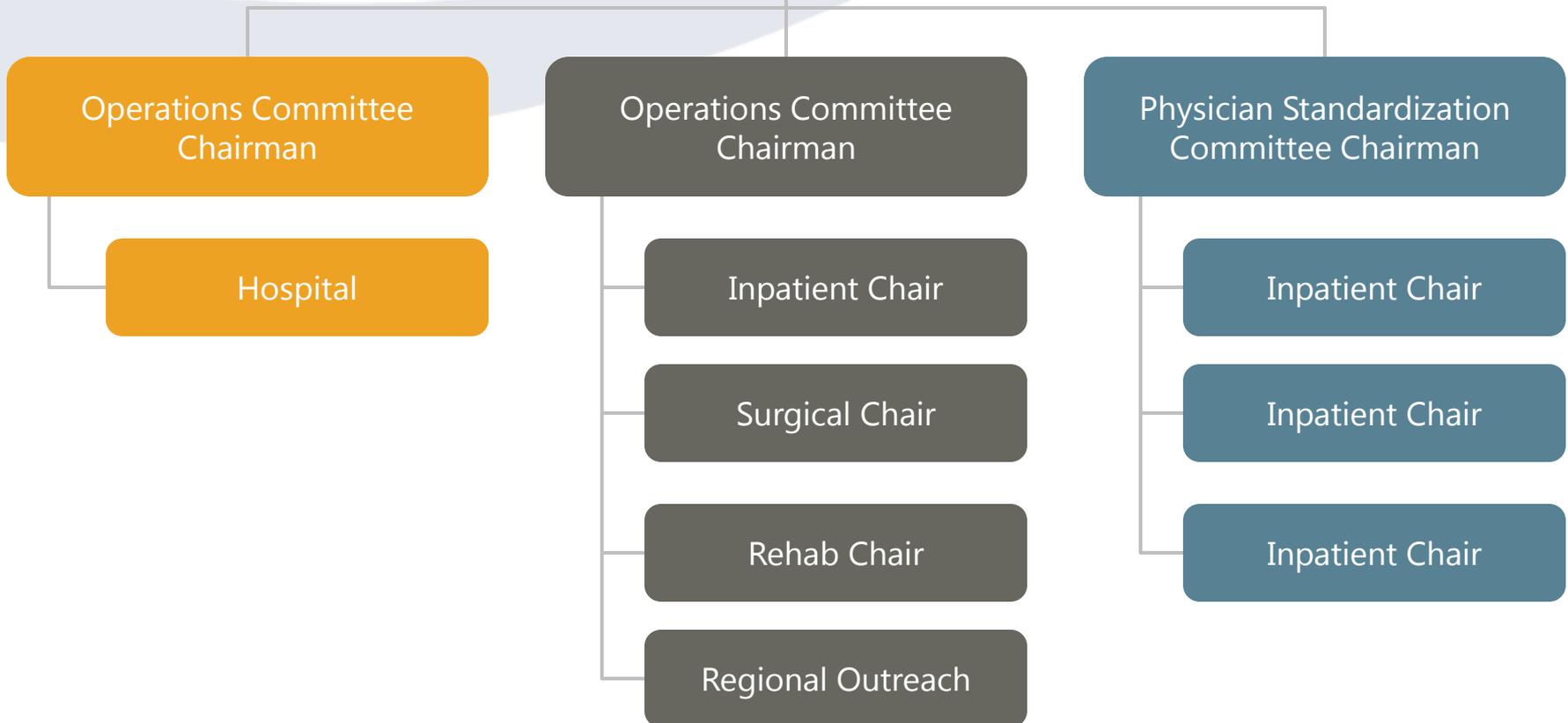
- Budget preparation
- Capital budget requests
- Vendor/supplier relationships
- Chart documentation and coding
- Future program development business cases

Clinical Management

- Develop, modify and promote best practice standards
- Quality metrics development and monitoring
- Clinical accreditation
- Physician and staff education and training
- New clinical programs

Overview of CCM Hospital Structure

Orthopedic Management
Executive Committee



Financial Summary

Determining the Value of the Contract

Once the scope of services has been determined, the information is used to pull the net revenue of the service line on an inpatient and outpatient perspective to determine the overall size of the service line. The information becomes critical as it provides a sense for the overall size of the program, the complexity of the program from a sub-specialty perspective, and will be used in developing the compensation structure of the management contract.

The compensation arrangement of the management company will be determined pursuant to an independent fair market value (FMV) opinion rendered by a third party. The FMV will derive their opinion based on prevailing fair market value procedures and are generally based on two methodologies: 1) cost approach and 2) market approach.

Approximating the value of the contract allows us to further design the details and structure of the co management agreement, including the allocations to the base and incentive compensation pools.

Base Management Fee

Base management fee—Payable monthly from hospital in consideration for management services provided related to the coordination and performance of the overall activities of the service line.

Base fee is determined by estimating the expected work effort of the management services to be provided and is based on fair and reasonable market standards.

Distributions to members—LLC is responsible for determining appropriate individual distributions usually based upon components such as:

- Board and committee participation—preparation and attendance at board and committee meetings.
- Medical director fees—the direct oversight of the clinical aspects of the service line/program.
- Day-to-day oversight and management responsibilities
- Distributions to members

Incentives

Incentives under the management company are programs designed to reward the accomplishment for specific results. To be effective the incentives must be:

- Measurable
- Controllable
- Realistic
- Time boxed
- Frequency of measurement and payout
 - Quarterly
 - Semi-annually
 - Annually

Overview of Incentives

1 Operational Efficiency

Operational efficiency will allow hospital to serve more patients at a lower cost, and can form the basis for innovative arrangements with payors and employers

Key elements of operational efficiency are measured by:

- OR metrics
 - OR utilization
 - Cancellations
 - On-time starts
 - Turnaround time
 - Operating hours
 - Case duration
 - Implant/supply utilization
- Floor metrics
 - Bed utilization
 - Length of stay
 - Discharge time
- Labor productivity
 - Staff ratios

2 Clinical Quality & Safety

As an orthopedics destination, hospital will need distinctive quality and safety outcomes to support its reputation and attract patients and payors

Clinical quality and safety metrics include:

- Never-events
 - Falls¹
 - Medication errors¹
 - Use of restraints¹
 - Pressure ulcers
- Common quality metrics
 - Preventable conditions rate
 - MRSA, CDiff & VRE rates
 - DVT and PE rates
 - Return-to-OR rates
- Emerging quality metrics
 - Surgical mortality
 - Total hip and knee mortality
- Strategy-focused metrics
 - To be defined

3 Patient Experience

As a hospital focusing on elective procedures, patient experience is a core component of your offering

Key measures of patient experience include:

- Standard surveys
 - HCAHPS
 - Press Ganey
- Additional assessments
 - Provider interaction
 - Pain management
 - Aftercare
 - Family involvement
 - Financial processes
 - Others?

¹ Associated with death or disability

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