

ACME MEDICAL CENTER SUMMARY OF RELATIONSHIPS

Engagement: Valuation Consulting Services

Client: 250+ bed, nonprofit, acute care hospital

Location: Southwestern U.S.

Subject Interest: Various Agreements between our Client and a 14 Physician Orthopedic Practice

Description of Engagement:

HCC was engaged by our CLIENT to provide our opinion related to the *Fair Market Value* payments to be made by our CLIENT to certain physicians for the provision of certain specified services, including:

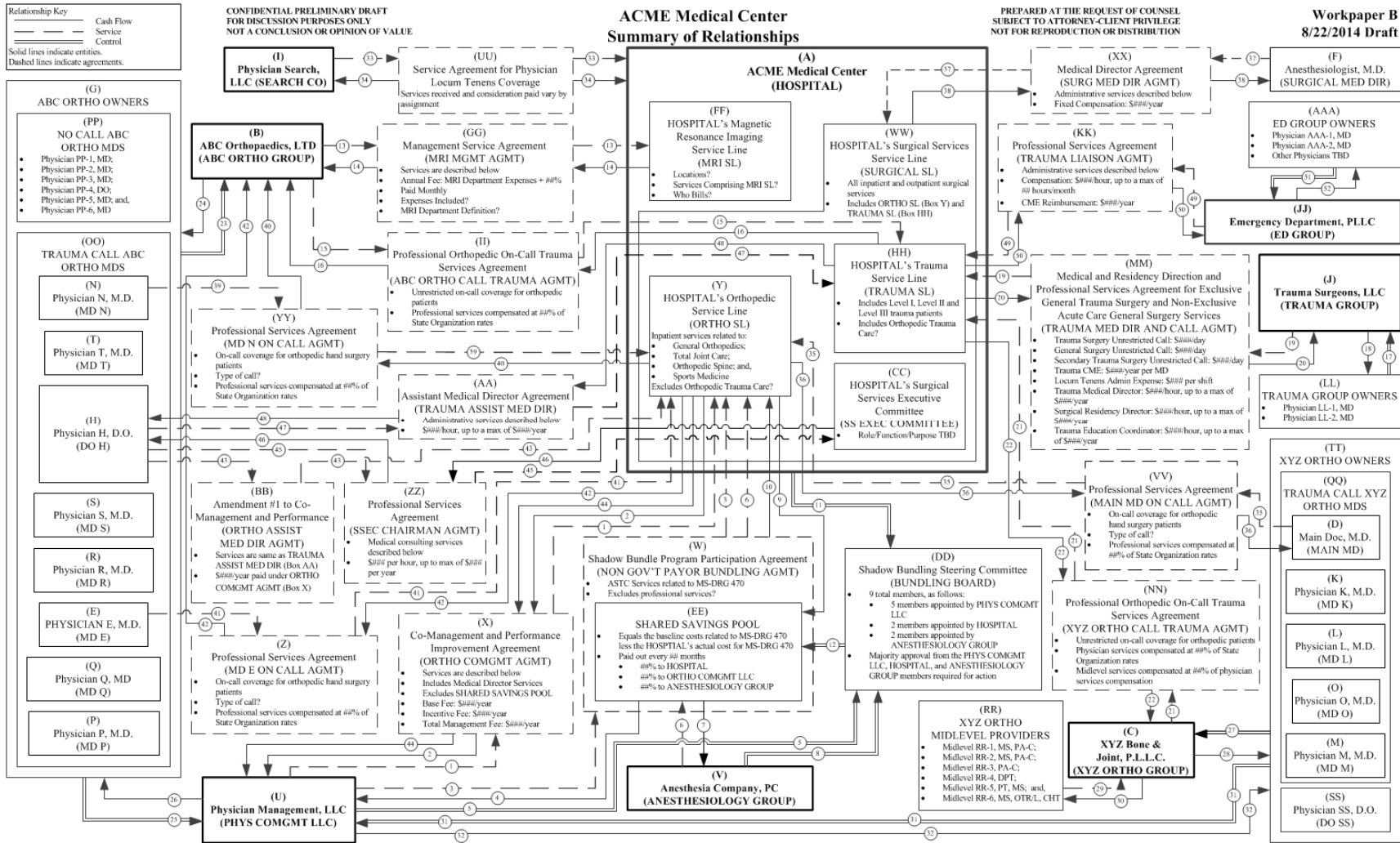
- (1) Locum Tenens Coverage;
- (2) Management Services;
- (3) Unrestricted Call Coverage for Orthopedic Patient Services;
- (4) On-Call Coverage for Orthopedic Hand Surgery;
- (5) Physician Administrative Services;
- (6) Medical Consulting Services;
- (7) Co-Management Services; and,
- (8) Bundling Pricing Strategies.

In addition, HCC was further engaged to provide our conclusions and certified opinion related to the *Commercial Reasonableness* of all elements of the prospective transaction in its entirety, including a consideration of whether the prospective transaction serves a legitimate business purpose in the absence of any potential referrals.

See the following exhibits for a brief description of the prospective transaction.



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Entities:

- (A) ACME Medical Center (HOSPITAL) is a nationally accredited, not-for-profit, general short-term acute care hospital, owned by AMCE Health System.
- (B) ABC Orthopaedics, Ltd. (ABC ORTHO GROUP) is an orthopedic practice with XX physicians that see patients in the Southwestern United States. ABC ORTHO GROUP has offices at 123 Main Street, Anytown, USA, and 456 Broadway, Anycity, USA.
- (C) XYZ Bone & Joint, P.L.L.C. (XYZ ORTHO GROUP), is a group of orthopedic surgeons that provide for a full spectrum of musculoskeletal conditions specializing in the knee, hip, spine, shoulder and general orthopedics, as well as providing integrated ancillary services.
- (D) Main Doc, M.D. (MAIN MD), is board certified orthopedic sports medicine surgeon.
- (E) Physician E, M.D. (MD E) is a board certified orthopedic hand surgeon.
- (F) Anesthesiologist, M.D. (SURGICAL MED DIR) is a board certified anesthesiologist.
- (G) ABC ORTHO OWNERS are TRAUMA CALL ABC ORTHO MDS and NO CALL ABC ORTHO MDS.
- (H) Physician H, D.O. (DO H), is a board certified orthopedic trauma surgeon.
- (I) Physician Search, LLC (SEARCH CO), provides physician search services for both temporary and permanent placement across the United States in more than XX physician specialties.
- (J) Trauma Surgeons, LLC (TRAUMA GROUP) is a domestic southwestern limited liability company, which employs or contracts with general trauma surgeons.
- (K) Physician K, M.D. (MD K) is a board certified orthopedic sports medicine surgeon.
- (L) Physician L, M.D. (MD L) is a board certified orthopedic hip and joint surgeon.
- (M) Physician M, M.D. (MD M) is a board certified orthopedic sports medicine surgeon.
- (N) Physician N, M.D. (MD N) is a board certified orthopedic hand surgeon.
- (O) Physician O, M.D. (MD O) is a board certified orthopedic spine surgeon.
- (P) Physician P, M.D. (MD P) is a board certified orthopedic general surgeon.
- (Q) Physician Q, M.D. (MD Q) is a board certified orthopedic spine surgeon.
- (R) Physician R, M.D. (MD R) is a board certified orthopedic foot and ankle surgeon.
- (S) Physician S, M.D. (MD S) is a board certified orthopedic sports medicine surgeon.
- (T) Physician T, M.D. (MD T) is board certified orthopedic sports medicine surgeon.
- (U) Physician Management, LLC (PHYS COMGMT LLC) is a domestic southwestern limited liability company, owned by certain physicians specializing in orthopedics, which provides management services.
- (V) Anesthesia Company, PC (ANESTHESIOLOGY GROUP), is an anesthesiology group with XX board certified anesthesiologists and X certified nurse anesthetists.
- (W) The Shadow Bundle Program Participation Agreement (NON-GOV'T PAYOR BUNDLING AGMT) is an agreement between PHYS COMGMT LLC, HOSPITAL, and the ANESTHESIOLOGY GROUP to provide certain ancillary and technical component (ASTC) services, related to MS-DRG 470 – Total Knee Arthroplasty, to NON-GOVERNMENT PATIENTS.
- (X) The Co-Management and Performance Improvement Agreement (ORTHO COMGMT AGMT) requires PHYS COMGMT LLC provide certain management services to ORTHO SL, including: (1) Employee management; (2) Training and education; (3) Continuity of care; (4) Quality assurance and Utilization Review; (5) Best practice standards; (6) Patient care protocols; (7) Pre-procedure/visit communications; (8) Adverse



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- event monitoring; (9) Patient satisfaction efforts; (10) Administrative operating policies; (11) Budgeting; (12) Supply chain management; (13) Equipment and facility maintenance and capital expenditures; (14) Compliance issues; (15) Government audits; (16) Accreditation and certification; (17) New Program Development, and (18) Medical director services. HOSPITAL pays consideration to PHYS COMGMT LLC in the amount of \$XXX for XX months of service (\$XXX per year), allocated between a base fee in the amount of \$XXX for XX months (\$XXX per year) and an incentive fee in the amount of \$XXX for XX months (\$XXX per year).
- (Y) The HOSPITAL's Orthopedic Service Line (ORTHO SL) consists of the HOSPITAL's inpatient clinical services related to general orthopedics, total joint, orthopedic spine, and sports medicine services.
- (Z) Professional Services Agreement (MD E ON CALL AGMT) requires MD E provide HOSPITAL with non-elective hand surgery services. ABC ORTHO GROUP receives consideration from the HOSPITAL for services rendered by MD E in the amount of XX% of the reimbursement yield of the State Organization Physician Fee Schedule for professional services rendered.
- (AA) Assistant Medical Director Agreement (TRAUMA ASSIST MED DIR AGMT) requires DO H provide certain administrative services to the TRAUMA SL, including (1) Providing and maintaining continuing medical education (CME); (2) Acting as a liaison between HOSPITAL and HOSPITAL's medical staff; (3) Business development; (3) Physician recruitment; and, (4) Ad hoc operational analysis, as requested. HOSPITAL pays consideration to DO H in the amount of \$XX per hour, up to a maximum of \$XXX per year, for services rendered to the TRAUMA SL.
- (BB) Amendment #1 to Co-Management and Performance (ORTHO ASSIST MED DIR AGMT) requires DO H perform the same services as the TRAUMA ASSIST MED DIR (Box AA). HOSPITAL pays PHYS COMGMT LLC consideration in the amount of \$XXX per year for administrative services rendered.
- (CC) HOSPITAL's Surgical Services Executive Committee (SS EX COMMITTEE) is TBD.
- (DD) The Shadow Bundling Steering Committee (BUNDLING BOARD) directs oversees, and reviews the operations of the NON-GOV'T PAYOR BUNDLING AGMT. The BUNDLING BOARD consists of 2 members appointed by the HOSPITAL, 5 members appointed by the PHYS COMGMT LLC, and 2 members appointed by the ANESTHESIOLOGY GROUP. The BUNDLING BOARD can only take action if the action is approved by each of the following: (1) a majority of the PHYS COMGMT LLC members; (2) a majority of the HOSPITAL members; and, (3) a majority of the ANESTHESIOLOGY GROUP members.
- (EE) The SHARED SAVINGS POOL consists of an underdetermined amount of consideration equal to the baseline costs for providing services related to MS-DRG 470 less the HOSPITAL's actual cost incurred for providing services related to MS-DRG during each XX month period of the NON GOV'T PAYOR BUNDLING AGMT. Any amounts allocated to the SHARED SAVINGS POOL are distributed every XX months in amounts equal to XX% to the HOSPITAL, XX% to PHYS COMGMT LLC, and XX% to the ANESTHESIOLOGY GROUP.
- (FF) HOSPITAL's Magnetic Resonance Imaging Service Line (MRI SL) is TBD.
- (GG) Management Service Agreement (MRI MGMT AGMT) requires ABC ORTHO GROUP to provide certain management services to MRI SL, including: (1) Administration; (2) Human resources; (3) Environmental services; and, (4) Information Systems.
- (HH) HOSPITAL's Trauma Service Line (TRAUMA SL) consists of all services provided to critically injured patients who are classified by an emergency department physician as Level I – Trauma Critical Response, Level II – Trauma Guarded, or Level III – Trauma Mechanism.
- (II) Professional Orthopedic Trauma On-Call Services Agreement (ABC ORTHO CALL TRAUMA AGMT) requires ABC ORTHO GROUP provide unrestricted call coverage and professional services to the TRAUMA SL for trauma patients. ABC ORTHO GROUP receives consideration from the HOSPITAL in the amount of XX% of the reimbursement yield of the State Organization Physician Fee Schedule for professional services rendered.



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- (JJ) Emergency Department, PLLC (ED GROUP), is a domestic southwestern limited liability company, established in XXXX to provide physician staffing and management services for the emergency department of HOSPITAL.
- (KK) Professional Services Agreement (TRAUMA LIAISON AGMT) requires TRAUMA LIAISON provide certain administrative services to the TRAUMA SL, including: (1) Attending Trauma Committee meetings; (2) Reviewing trauma morbidity and mortality cases; (3) Trauma committee CME presentations; and (4) Trauma patient care process improvements. HOSPITAL pays consideration to TRAUMA LIAISON in the amount of \$XXX per hour, up to a maximum of XX hours per month, for administrative services rendered and up to \$XXX per year for continuing medical education expenses.
- (LL) TRAUMA GROUP OWNERS are Physician LL-1, MD, and Physician LL-2, MD.
- (MM) Medical and Residency Direction and Professional Services Agreement for Exclusive General Trauma Surgery and Non-Exclusive Acute Care General Surgery Services (TRAUMA MED DIR AND CALL AGMT) requires TRAUMA GROUP to provide certain services to the TRAUMA SL, including: (1) unrestricted trauma surgery call coverage services; (2) unrestricted general surgery call coverage services; (3) professional medical services; (4) trauma surgery medical director services; (5) surgical residency director services; and, (6) trauma education coordinator services. TRAUMA GROUP receives consideration from the HOSPITAL in the amount of: (1) \$XXX per day for unrestricted trauma surgery call coverage services; (2) \$XXX per day for unrestricted general surgery call services; (3) \$XXX per day for unrestricted secondary (“back-up”) trauma surgery call coverage; (4) \$XXX per year per surgeon for trauma related continuing medical education; (5) \$XXX per day for administrative services associated with on-call locum tenens services; (6) \$XXX per hour for trauma surgery medical director services, up to a maximum of \$XXX per year; (7) \$XXX per hour for surgical residency director services, up to a maximum of \$XXX per year; and, (8) \$XXX per hour for trauma education coordinator services, up to a maximum of \$XXX per year.
- (NN) Professional Orthopedic On-Call Trauma Services Agreement (XYZ ORTHO CALL TRAUMA AGMT) requires XYZ ORTHO GROUP provide unrestricted call coverage and professional services to the TRAUMA SL for trauma patients. XYZ ORTHO GROUP receives consideration from the HOSPITAL in the amount of XX% of the reimbursement yield of the State Organization Physician Fee Schedule for services rendered by XYZ ORTHO OWNERS. XYZ ORTHO GROUP receives consideration from the HOSPITAL in the amount of XX% of the physician services reimbursement yield for services rendered by XYZ ORTHO MIDLEVEL PROVIDERS.
- (OO) TRAUMA CALL ABC ORTHO MDS are MD T, MD N, MD E, DO H, MD S, MD P, MD R, and MD Q.
- (PP) NO CALL ABC ORTHO MDS are: Physician PP-1, MD; Physician PP-2, MD; Physician PP-3, MD; Physician PP-4, DO; Physician PP-5, MD; and, Physician PP-6, MD.
- (QQ) TRAUMA CALL XYZ ORTHO MDS are: MD O, MD K, MD L, MD M, and MAIN MD.
- (RR) XYZ ORTHO MIDLEVEL PROVIDERS are: Midlevel RR-1, MS, PA-C; Midlevel RR-2, MS, PA-C; Midlevel RR-3, PA-C; Midlevel RR-4, DPT; Midlevel RR-6, MS, OTR/L, CHT; and, Midlevel RR-5, PT, MS.
- (SS) Physician SS, D.O. (DO SS), is a board certified orthopedic sports medicine surgeon.
- (TT) XYZ ORTHO OWNERS are TRAUMA CALL XYZ ORTHO MDS and DO SS.
- (UU) Service Agreement for Physician Locum Tenens Coverage requires SEARCH CO provide physician services as requested by HOSPITAL.
- (VV) Professional Services Agreement (MAIN MD ON CALL AGMT) requires MAIN MD provide HOSPITAL with non-elective hand surgery services. MAIN MD receives consideration from the HOSPITAL in the amount of XX% of the reimbursement yield of the State Organization Physician Fee Schedule for professional services rendered.



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- (WW) HOSPITAL's Surgical Services Service Line (SURGICAL SL) includes all inpatient and outpatient surgical services offered by the hospital, such as cardiovascular surgery, endoscopy, general surgery, laparoscopy, neurosurgery, ophthalmology, orthopedic surgery, otolaryngology surgery, pediatric surgery, plastic surgery, thoracic surgery, trauma surgery, urology, and vascular surgery.
- (XX) Medical Director Agreement (SURG MED DIR AGMT) requires SURGICAL MED DIR to provide certain administrative services to the SURGICAL SL, including: (1) Assisting the HOSPITAL in obtaining and maintaining licenses, permits, certifications, and accreditations; (2) Quality assurance, utilization, and risk management reviews; and, (3) Business development. SURGICAL MED DIR receives consideration from the HOSPITAL in the amount of \$XXX per year for services rendered.
- (YY) Professional Services Agreement (MD N ON CALL AGMT) requires MD N provide HOSPITAL with non-elective hand surgery services. ABC ORTHO GROUP receives consideration from the HOSPITAL for services rendered by MD N in the amount of XX% of the reimbursement yield of the State Organization Physician Fee Schedule for professional services rendered.
- (ZZ) Professional Services Agreement (SSEC CHAIRMAN AGMT) requires DO H provide certain medical consulting services to SS EX COMMITTEE, including: (1) Serving as chairman for the SS EX COMMITTEE; (2) Making budget and long-term project recommendations; (3) Recommending equipment purchases and facility improvements; and (4) Developing and implementing a quality assurance plan and utilization review process. DO H receives consideration from the HOSPITAL in the amount of \$XXX per hour for medical consulting services rendered, up to a maximum of \$XXX per year.
- (AAA) ED GROUP OWNERS are: Physician AAA-1, MD; Physician AAA-2, MD; and Other physicians to be determined (TBD).

Relationships:

- (1) PHYS COMGMT LLC provides certain management services to the ORTHO SL of HOSPITAL.
- (2) HOSPITAL pays PHYS COMGMT LLC for services rendered to ORTHO SL.
- (3) PHYS COMGMT LLC provides research, design, implementation and evaluation of the bundling of ASTC services related to MS-DRG 470 to the HOSPITAL.
- (4) PHYS COMGMT LLC receives certain economic benefits from the SHARED SAVINGS POOL.
- (5) PHYS COMGMT LLC appoints 5 members to serve on the BUNDLING BOARD.
- (6) ANESTHESIOLOGY GROUP provides research, design, implementation and evaluation of the bundling of ASTC services related to MS-DRG 470 to the HOSPITAL.
- (7) ANESTHESIOLOGY GROUP receives certain economic benefits from the SHARED SAVINGS POOL.
- (8) ANESTHESIOLOGY GROUP appoints 2 members to serve on the BUNDLING BOARD.
- (9) HOSPITAL allocates certain economic benefits to the SHARED SAVINGS POOL from resources dedicated to the ORTHO SL.
- (10) HOSPITAL receives the economic benefits of the NON GOV'T PAYOR BUNDLING AGMT.
- (11) HOSPITAL appoints 2 members to serve on the BUNDLING BOARD.
- (12) BUNDLING BOARD oversees, monitors, and administers the SHARED SAVINGS POOL.
- (13) ABC ORTHO GROUP provides certain services to MRI SL.
- (14) HOSPITAL pays ABC ORTHO GROUP for services rendered to MRI SL.
- (15) ABC ORTHO GROUP provides unrestricted on-call and professional services to TRAUMA SL.
- (16) HOSPITAL pays ABC ORTHO GROUP for services rendered to TRAUMA SL.
- (17) TRAUMA GROUP OWNERS own the TRAUMA GROUP.



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Relationships Continued:

- (18) TRAUMA GROUP OWNERS receive the economic benefits of owning the TRAUMA GROUP.
- (19) TRAUMA GROUP provides certain services described in TRAUMA MED DIR AND CALL AGMT to TRAUMA SL.
- (20) HOSPITAL pays consideration to TRAUMA GROUP for services rendered to TRAUMA SL.
- (21) XYZ ORTHO GROUP provides unrestricted on-call and professional services to TRAUMA SL.
- (22) HOSPITAL pays XYZ ORTHO GROUP for services rendered to TRAUMA SL.
- (23) ABC ORTHO OWNERS own ABC ORTHO GROUP.
- (24) ABC ORTHO OWNERS receive the economic benefits of owning ABC ORTHO GROUP.
- (25) ABC ORTHO OWNERS individually own PHYS COMGMT LLC.
- (26) ABC ORTHO OWNERS receive the economic benefits of owning PHYS COMGMT LLC.
- (27) XYZ ORTHO OWNERS own XYZ ORTHO GROUP.
- (28) XYZ ORTHO OWNERS receive the economic benefits of owning XYZ ORTHO GROUP.
- (29) XYZ ORTHO MIDLEVEL PROVIDERS provide medical services to XYZ ORTHO GROUP.
- (30) XYZ ORTHO MIDLEVEL PROVIDERS receive consideration for services rendered to XYZ ORTHO GROUP.
- (31) XYZ ORTHO OWNERS individually own PHYS COMGMT LLC.
- (32) XYZ ORTHO OWNERS receive the economic benefits of owning PHYS COMGMT LLC.
- (33) SEARCH CO provides physician locum tenens coverage to HOSPITAL.
- (34) HOSPITAL pays consideration to SEARCH CO for physician locum tenens services rendered.
- (35) MAIN MD provides on call coverage and professional services to ORTHO SL.
- (36) HOSPITAL pays MAIN MD for services rendered to the ORTHO SL.
- (37) SURGICAL MED DIR provides certain administrative services to SURGICAL SL.
- (38) HOSPITAL pays SURG MED DIR for administrative services rendered to SURGICAL SL.
- (39) MD N provides on call coverage and professional services to ORTHO SL.
- (40) HOSPITAL pays MD N for services rendered to ORTHO SL.
- (41) MD E provides on call coverage and professional services to ORTHO SL.
- (42) HOSPITAL pays ABC ORTHO GROUP for services rendered to ORTHO SL by MD E.
- (43) DO H provides certain administrative services to ORTHO SL.
- (44) HOSPITAL pays PHYS COMGMT LLC for services rendered under the ORTHO ASSIST MED DIR AGMT.
- (45) DO H provides medical consulting services to SS EXEC COMMITTEE.
- (46) HOSPITAL pays consideration to DO H for services rendered to the SS EXEC COMMITTEE.
- (47) DO H provides certain administrative services to the TRAUMA SL.
- (48) HOSPITAL pays DO H for services rendered to the TRAUMA SL.
- (49) ED GROUP provides certain administrative services to the TRAUMA SL.
- (50) HOSPITAL pays ED GROUP for services rendered to the TRAUMA SL.
- (51) ED GROUP OWNERS own the ED GROUP.
- (52) ED GROUP OWNERS receive the economic benefits of owning ED GROUP.

