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Health Insurance Carrier Financial Information: Visit www.cahcnews.com

Recapitalization in the Healthcare Industry: We’ve Only Just Begun

By Wiley P. Kitchell
Managing Director
Moss Adams Capital LLC

The extraordinary impact of the ongoing national economic crisis has profoundly affected most sectors of the healthcare industry. Today one of the major issues confronting mid-size hospitals, and other investor-owned or not-for-profit facilities, is the ability to identify sources of reasonably priced, and structured, debt and equity capital. This financial constraint includes equity and debt for new capital projects or to help strengthen current balance sheets; debt to refinance and extend the maturity of bonds or other outstanding senior debt; and even the level of capital needed to support the continuation of operating lines at their current levels.

As the economic landscape has shifted dramatically, it is increasingly important for senior healthcare professionals to understand as many of the available financing options as possible. In many cases, the choice and availability of financing options is now a leading factor in a healthcare company’s long-term strategic planning process.

The Financing Landscape has Shifted

Prior to the middle of 2007, capital was readily abundant and healthcare facilities of all types were characterized by large investments in buildings and related medical equipment. With ready access to cheap capital, the operators of healthcare facilities were able to easily separate their strategic planning and strategic decisions, from the relatively simple task of raising capital.

Limited Access to Capital Threatens Quality of Care

During the past eighteen months, many healthcare facilities encountered tightening credit and restricted access to capital. Over the short term, most companies were able to survive by tightening their spending, cutting back on capital investments and using up their reserves. Today the recession is lowering patient counts and causing people to defer their care. Eventually quality of care will decline in those facilities that are not able to secure additional capital.

Tough Conditions will Persist

In March, Moody's Investors Service predicted that investor-owned hospitals will continue to deteriorate financially throughout 2009. Moody’s cites problems with the economy, lower patient volumes and growing bad debt costs. And in July, Moody's lowered credit

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Letter from the Publisher and Editor

Dear Reader,

We would like to invite those of you that have never visited the California Healthcare News web site to check it out. The site URL is www.cahcnews.com and contains the following helpful information:

- All articles in our hard copy publication are available for download in high resolution PDF files. This allows you to share articles with others or just save them on your PC.
- Our job board has the most exciting high level opportunities on the West Coast. Many of these job postings are unavailable anywhere else.
- The Consultant Marketplace provides contact information for consultants and vendors serving the healthcare industry.
- Our Archive lets you download full versions of prior California Healthcare News editions.

All information on the site is free and there’s no requirement to sign up for anything. We hope our site helps contribute towards your success.

David Peel, Publisher and Editor
Bernard Madoff is now our guest at a Federal institution for the next 150 years. The litany of abuse and tales of woe will be told for years to come. And it didn’t have to happen. Many knowledgeable professionals knew Bernie’s results were unreasonably high and unsustainable. Harry Markopolos, an investment professional in Boston, began his effort to uncover the Madoff scam in 1999.

It took almost ten years for the Madoff pyramid to be brought down. Not by the Securities Exchange Commission (which ignored Harry’s repeated efforts) but by a market melt-down and redemption demands from offshore investors. The house of cards collapsed upon itself – not through the efforts of our regulators and criminal justice system, but through simple greed and gravity.

My former employer (an old-line, blue-blood New England investment consulting firm) maintained a “hands off” policy on Bernie and for good reason. Our analysts’ internal documents made very clear our own opinion of his firm as some kind of hustle. It was too good to be true and the parts didn’t fit together.

We were in Fairfield County Connecticut – the homeland of hedge funds and investment consultants. It was hard to tell people that we wouldn’t support them as clients if they insisted upon using Madoff.

It’s also hard to lose business or be rejected for trying to do the right thing. Ask Harry Markopolos. Better yet, read his memo to the SEC in 2005 begging the Commission to investigate Madoff; or his 2009 testimony before Congress. (I have copies and would be happy to share if you will send me an email.)

**How to Avoid the Next Bernie?**

Usually, the malfeasance of retirement plan consulting and asset management sales is not about outright theft or conversion. It’s a more genteel and gradual leeching of plan and participant assets. So how do you avoid the gentle theft of plan assets through ineffective, overpriced or inappropriate plan consulting or investment advisory services?

1. **Competence** – Find a person and a firm that has a clearly proven history of getting the job done: on time, on budget, on specification for the project or retainer relationship. Make them prove their worth, check references, ask questions. Personal referrals and endorsements are always best, but don’t stop there (remember how adored Bernie was among his social and business network). Over the last twenty years, our team has managed or participated in over 200 request for proposal (RFP) projects. It’s never easy, but the process is critically important to good decision-making for retirement plan management.

2. **Trust** – Find a person and a firm that you can trust, people who are honest. Not just cashbox honest but also honest with themselves about their abilities and capacities. You might be the biggest and most complicated new client the advisor will see in a while. Suggestion: “Trust But Verify.” Confirm that staff resources and time exist to actually deliver as promised. Remember, it’s your reputation and credibility at risk.

3. **Communication** – Does the candidate advisor or vendor speak in ways you can easily understand? Does he understand your business objectives, preferences and priorities? If
ratings for not-for-profit hospitals and health systems for the third consecutive quarter. Factors that contributed to the downgrades include weak operations, dwindling cash reserves and looming maturities of debt.

Most not-for-profit hospitals and facilities rely upon variable-rate bonds that depend upon local banks for underlying guarantees. Now weakened banks either can’t maintain credit ratings, or won’t renew their letters-of-credit. Without the credit support, the healthcare facilities are threatened by rising interest rates.

Know the Alternatives

When facing the decision of refinancing or recapitalizing, it is critical to identify all available alternatives and to then clearly analyze each option. In the shifting landscape, non-traditional sources of capital will emerge and, in many cases, may offer strategic advantages to the professionals who are first to embrace the new sources. Some alternatives include:

• Government funding and support. There will continue to be government support for debt financing, and this will be an important financing alternative. For example, the federal government is trying to make it easier for not-for-profit hospitals to refinance their tax-exempt debt by relaxing certain HUD requirements. With HUD insurance, a facility may be able to refinance debt as long-term bonds with fixed interest rates.

• Private debt. In addition to banks, there are numerous sources that provide both short-term and long-term debt. Looking beyond the banks and understanding the criteria and attributes of each form of debt is an important step in evaluating alternatives.

• Private equity. Healthcare has always been an attractive market for private equity investors. Today some private equity firms are broadening their reach into investor-owned and not-for-profit facilities and healthcare projects. In the future, private equity offers a unique ability to participate in the recapitalization of select healthcare systems.

• Existing debt presents an M&A opportunity. When a seller has assumable debt, and a buyer does not need to obtain new financing, there is an opportunity to approach strategic buyers. If the debt is in place and has a known interest rate, a buyer can approach the potential acquisition more aggressively, than if financing is uncertain.

Plan Ahead. Be Prepared.

There are huge debt balances supporting thousands of mid-size hospitals and health facilities on the West Coast. Refinancing and recapitalizing these organizations is a significant challenge. The decision is strategic, and business models will adapt to the capital that is available. With such important consequences, adherence to a rigorous corporate finance process is critical to a hospital or health system’s ability to access capital.

Mr. Kitchell is a Managing Director of Moss Adams Capital LLC. He has more than 20 years of investment banking experience working with privately owned companies headquartered in the western United States. He commenced his investment banking career with Goldman Sachs, in New York.

Kitchell received a B.A. degree in Economics and Anthropology from Duke University, and an MBA in Finance from Northwestern University. He can be contacted at wiley.kitchell@mossadams.com.

The Bottom Line?

Plan sponsors can protect their organizations and participants through objective due diligence in selecting advisors, vendors and asset managers. Ethics, common sense and the courage of your convictions are also quite valuable.


Ward Harris is Managing Director with McHenry Partners, a national investment consulting firm. He can be reached at 1-800-638-8121 or ward.harris@mchenrypartners.com.
Closing the Physician Retirement Gap

By James T. Dorigan, Jr.  
Regional Operating Officer and Senior Vice President  
The Doctors Company

The Doctors Company, which insures over 20,000 physicians in California and nearly 2,000 in Washington, will pay out over $1 million in Tribute Plan Funds this month. Physician-owned and physician-led, The Doctors Company was founded to defend, protect and reward doctors who advance the practice of good medicine.

The Tribute Plan was launched in 2007 as a way to reward physicians who dedicate themselves to superior patient care and keeping claims low.

Recent studies indicate that the Tribute Plan may work to counter a troubling trend. According to a study commissioned by The Doctors Company and conducted by Watson Wyatt (See chart below), physicians are increasingly unhappy with their retirement choices. Physician satisfaction dropped by 18 percent between 2006 and 2009. At the same time, employees in healthcare and throughout other sectors expressed increasing satisfaction with retirement options.

For practice managers and leaders of health systems, the Tribute plan is an ideal way to address this growing dissatisfaction. As one physician member told us “The Tribute Plan is a nice added bonus that I can look forward to when I retire.”

Here is how the Tribute Plan works:

Dr. Taylor is an internist whose medical group is covered by The Doctors Company. His $20,000 annual premium will result in an estimated Tribute Plan balance of $81,000 when he retires with The Doctors Company in 35 years.

Dr. Smith is a cardiologist who joined The Doctors Company in January 2007. Her annual premium is $25,000. She can expect her Tribute Plan balance to be over $30,000 when she retires after 15 years.

What is the story behind the Tribute Plan?

The Tribute Plan is a significant reward that underscores The Doctors Company’s mission to advance, protect, and reward the practice of good medicine. As a member-owned, doctor-led organization, we believe that if we work together to promote outstanding patient care and keep claims low, we all win.

Our national medical liability carrier has grown to insure more than 46,000 member physicians, has $2.8 billion in assets under management, and over $1 billion in member surplus. Physicians have responded well to the plan. According to a 2009 survey of The Doctors Company’s members, the Tribute Plan was a nice added bonus that they look forward to when they retire.
Plan is credited for a 43 percent increase in satisfaction for the company’s efforts to reward members for their loyalty. It has also shown to have improved member loyalty, with 97 percent stating that they are likely to renew with the company, and 95 percent likely to stay with the company until they retire.

Overall, doctors are positive about the Tribute Plan. One private practitioner said he was “thrilled that there is a financial award.” Another said “No one else in the industry rewards physicians like The Doctors Company.”

We believe that this higher standard of member rewards empowers us to fulfill our critical mission and to share our success with our members.

For more information on this innovative member benefit visit www.thedoctors.com/tribute.

James T. Dorigan, Jr. is the senior vice president, regional operating officer of The Doctors Company, and the chief executive officer of Northwest Physicians Insurance Company, a wholly owned subsidiary. He is the former chief executive officer of Northwest Physicians Mutual Insurance Company. He is a former board member of the National Federation of Independent Business, The Foundation for Medical Excellence and served on the (Oregon) Governor’s Task Force on Medical Professional Liability Insurance.

<table>
<thead>
<tr>
<th>Physician</th>
<th>Annual Premiums</th>
<th>Estimated Balance at 15 Years</th>
</tr>
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<tbody>
<tr>
<td>Physician A</td>
<td>$20,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>Physician B</td>
<td>$60,000</td>
<td>$72,000</td>
</tr>
<tr>
<td>Physician C</td>
<td>$90,000</td>
<td>$109,000</td>
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</tbody>
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*Projections are not intended to be a forecast of future events or a guarantee of future balance amounts.*

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The Consultant Marketplace, located on the California Healthcare News web site, is where over 65 companies that specialize in providing services or products to healthcare organizations are found.

When using external firms, doesn’t it make sense to use those that specialize in healthcare?

Visit cahcnews.com/consultant to learn how these companies can help make your business more efficient and effective.
Assistant Director of Pharmacy Service
(Req. ID 002478)

Behind every patient success is the dedication of a unique team of skilled and talented individuals who help make USC University Hospital and USC Norris Cancer Hospital, two of the region’s premier medical facilities. As a member of the USC health care team, you will help build upon the university’s exceptional expertise in patient care as well taking advantage of our excellent compensation package that could include shift and weekend differentials, online rewards-based scheduling, and generous educational benefits.

Come be a part of a world-class health care facility and an important member of the Trojan family.

The Pharmacist provides comprehensive pharmaceutical care through integrated drug distribution, clinical services and education.

Requirements
Preference for candidate with two years supervisory experience over a pharmacy or branch of pharmacy operations engaged in parenteral pharmaceutical compounding and dispensing and completion of two years of staff pharmacist experience or completion of a residency program in a hospital setting. Registration with the California State Board of Pharmacy. Doctor of Pharmacy (Pharm.D) degree from a school of pharmacy recognized by the California State Board of Pharmacy. For other requirements contact recruiter.

To apply or learn more contact:
Briana Sosa
Phone: 323-442-9522
Fax: 323-442-8752
Email: briana.sosa@health.usc.edu

Transplant Administrator
(Req. ID 001675)

Behind every patient success is the dedication of a unique team of skilled and talented individuals who help make USC University Hospital and USC Norris Cancer Hospital, two of the region’s premier medical facilities. As a member of the USC health care team, you will help build upon the university’s exceptional expertise in patient care as well taking advantage of our excellent compensation package that could include shift and weekend differentials, online rewards-based scheduling, and generous educational benefits.

Come be a part of a world-class health care facility and an important member of the Trojan family.

Reporting to a designated hospital administrator, the Transplant Administrator is responsible for planning, programming and supervision of transplant workload and staff. Performs in a non-patient care role providing administration and guidance of daily operations, supervision, staffing, personnel administration, goal accomplishment, maintaining managed care payer relations, and unit level budget preparation.

Requirements
To be considered for this position, candidates are required to have a Bachelor of Art Degree/Bachelor of Science Degree and previous transplant administration. It is preferred that candidates have a Master Degree experience. For other requirements contact recruiter.

The University of Southern California values diversity and is committed to equal opportunity in employment.

To apply or learn more contact:
Briana Sosa
Phone: 323-442-9522
Fax: 323-442-8752
Email: briana.sosa@health.usc.edu

Visit cahcnews.com for current career opportunities
Over 9,000 healthcare leaders on the West Coast receive Healthcare News publications each month. As a healthcare organization, doesn’t it make sense to target recruiting to the people most qualified to fill your jobs?

To learn about ways the California Healthcare News can help recruit your new leaders contact David Peel at dpeel@cahcnews.com or 425-577-1334.