

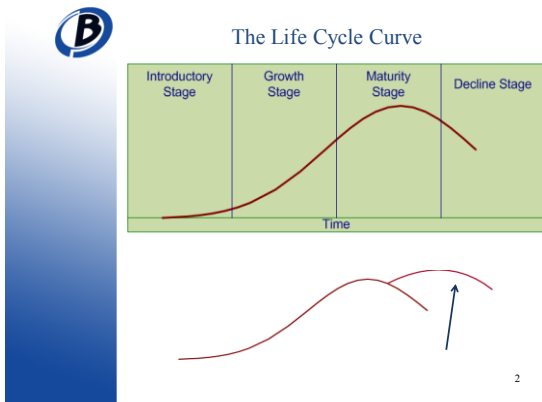



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Business Planning for Orthopedic and Spine Driven Centers

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Trends & Drivers: Our View

- Significant opportunities
- Minimally invasive surgery advances will shift even more spine surgery to outpatient
- Shortage of select specialty physicians will continue
 - Income pressures are squeezing private practice surgeons
 - 20% fewer neurosurgeons today than in 2000
- Neurosurgeons and Orthopedic spine surgeons will converge

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Trends & Drivers – Clinical

- Evolution, improvement of minimally invasive procedures, techniques
- Better anesthesia
- Improved imaging = more precision in diagnosis and therapy
- New technology (artificial discs, bone growth stimulation, new implants, etc.)
- Study data is clear: no increased complication

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Trends & Drivers – Demographic

- Baby-boom bubble:
 - Overweight = increased potential of spine problems
 - Desire for “active” lifestyles
- Growing acceptance of outpatient surgeries
- Spine surgeon population remains relatively flat

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Trends & Drivers – Surgeon View

- Improved productivity
- Feelings of control (e.g., staffing, schedule)
- Ancillary income
- Potential to create high-value asset
- Tools to support focus on care
- Patient satisfaction
- *Surgeons want to “get a grip” on their lives – both personal and professional!*

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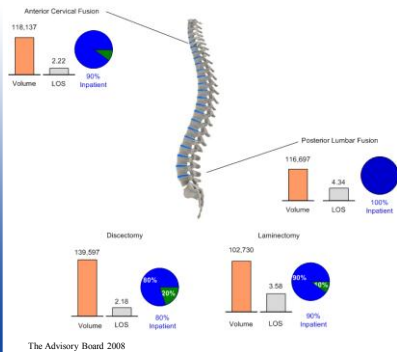
Trends & Drivers - Financial

- Declining physician reimbursement
- MRI and CT facility reimbursements falling
- Surgical Hospital development is dead
- Minimal regulatory risk - large number of ASC operating rooms across the country difficult to replace and....Medicare supports transition to ASCs
- ASC cost effective vs. hospital
- Solid profit margins on spine procedures

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Common Spine Surgery Procedures



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Best Practices – Clinical

- Best procedures at the moment.....
 - 63030 Single level lumbar laminotomy &/or excision of intervertebral disc
 - 63075 Single level ACDF
 - 63047 Lumbar laminectomy, facetectomy and foraminotomy
 - 63042 Redo One level lumbar laminotomy &/or excision of intervertebral disc
 - 63020 Single level cervical laminotomy &/or excision of intervertebral disc

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Seizing the Opportunity

- Recognize the challenges
- Understand the right procedures
- Solve the case volume/case mix equation
- Nail the contracting (tricky but doable)
- Be creative in business model
 - Hospital JVs
 - Spine COEs
 - Integrate with existing ASC
 - Add pain management
 - Holistic approaches: 1-800-SPINE
 - Musculoskeletal

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A quick case study

- Orthopedic ASC, 3 years old, no profit distributions
- 12 Orthopedists, 2 Pain physicians and.....2 Ortho Spine surgeons
- Added two Neuro Spine + potentially 4 more Neuro and the 2 Ortho Spine above
- Inventory and case costing
- Additional equipment and attention to detail
- Contracting strategy – OON for awhile

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A Better Model for Healthcare?

Yesterday's Model ?

600 bed hospital



- All things to all people
- 24/7
- Workshop for nearly all community physicians
- To replace and operate:
 - \$1m/bed
 - \$5,555/discharge

VS.



- 300 Bed "Resolving" Hospital
- 24/7 for the critically ill
- > \$1m/bed
- \$\$\$/discharge



- 200 Bed Hospital (integrated and standardized)
- Closed on weekends
- > \$500k/bed
- \$\$\$/discharge



- 200 Bed Community Hospital
- 24/7
- Low intensity
- > \$500k/bed
- \$\$\$/discharge



- Ambulatory Network
- Scheduled hours
- Outpatient activities
- Leased
- \$\$/discharge

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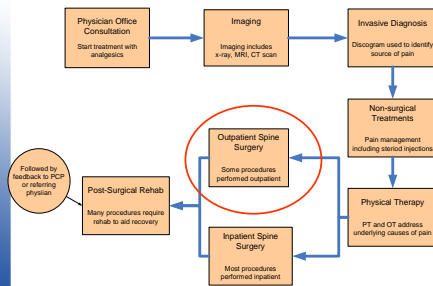
Niche, focused, specialized programs

- Spine Centers of Excellence
- Focused, niche surgery centers
 - Weight loss surgery centers
 - Surgery Centers for Women
 - Spine Surgery Centers
- Adding spine to a multi-specialty ASC can be done, but it is a challenge

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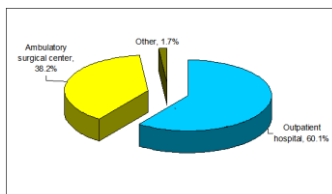
Full Spectrum of Spine Care



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Percutaneous Discectomy Procedures by Site of Care



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Nucleus Replacement

- Nucleus replacement is an intriguing technology that could potentially fill part of the gap in the spine continuum of care.
- Nucleus replacement products are designed to treat early stage degenerative disc disease, which is one of the most common spine disorders in the population under 65 years of age.
- This, combined with an increasing desire to move away from invasive, motion limiting procedures such as fusion, and a growing patient base in an aging population, may propel this technology to the forefront of spine.
- Nucleus replacement could help redefine the continuum of care by broadening the focus to include not only early diagnosis of degenerative disc disease, but also a reduction in the need for surgical procedures performed further down the continuum of care.

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Single Level Versus Multilevel Vertebral Augmentation Procedures

Site of Care	Kyphoplasty		Vertebroplasty	
	Single Level	Multilevel	Single Level	Multilevel
Inpatient	52%	61%	24%	31%
Outpatient	45%	37%	59%	57%
ASC*	1%	1%	4%	1%
Office	2%	1%	13%	11%

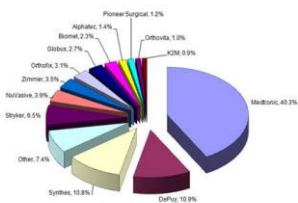
Source: PearlDiver Patient Records Database 2008

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Challenges

- More difficult Reimbursement Policies
- Implants, supplies and instrumentation



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Questions and Discussion



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