

The Amerinet logo features a stylized 'A' with three red curved lines above it, followed by the word 'Amerinet' in a black serif font. The 'net' portion of the word is in red. A registered trademark symbol (®) is located at the top right of the word.

Amerinet[®]

Amerinet Clinical Advantage Program[®]

(ACAP)

*The Impact of Implant Consumer
Marketing – Is Your Facility Prepared?*

*Healthcare Materials Management Society of New Jersey
November 1, 2006*

Amerinet – A Legacy of Industry Leadership

- Core values
- Full-line portfolio
- Compliance and commitment contracting
- IDN support
- Supply chain management
- Data management support





Value Drivers – Network of Solutions

Competitive contract portfolio

- 12 comprehensive program areas
- Amerinet Choice[®]

Custom Contracting

- Clinical preference
- Amerinet Options[®]

Data-Driven Savings

- Diagnostix[™]



Amerinet Executive Solutions

*Providing Unique Pathways to
Margin Improvement*

Margin Improvement Solutions

Partnership

**Total
customer-
focused
portfolio**

**Supply chain
management**

**Clinical
consulting**

**Revenue cycle
management**

**Information
and education**

Physician Preference Management

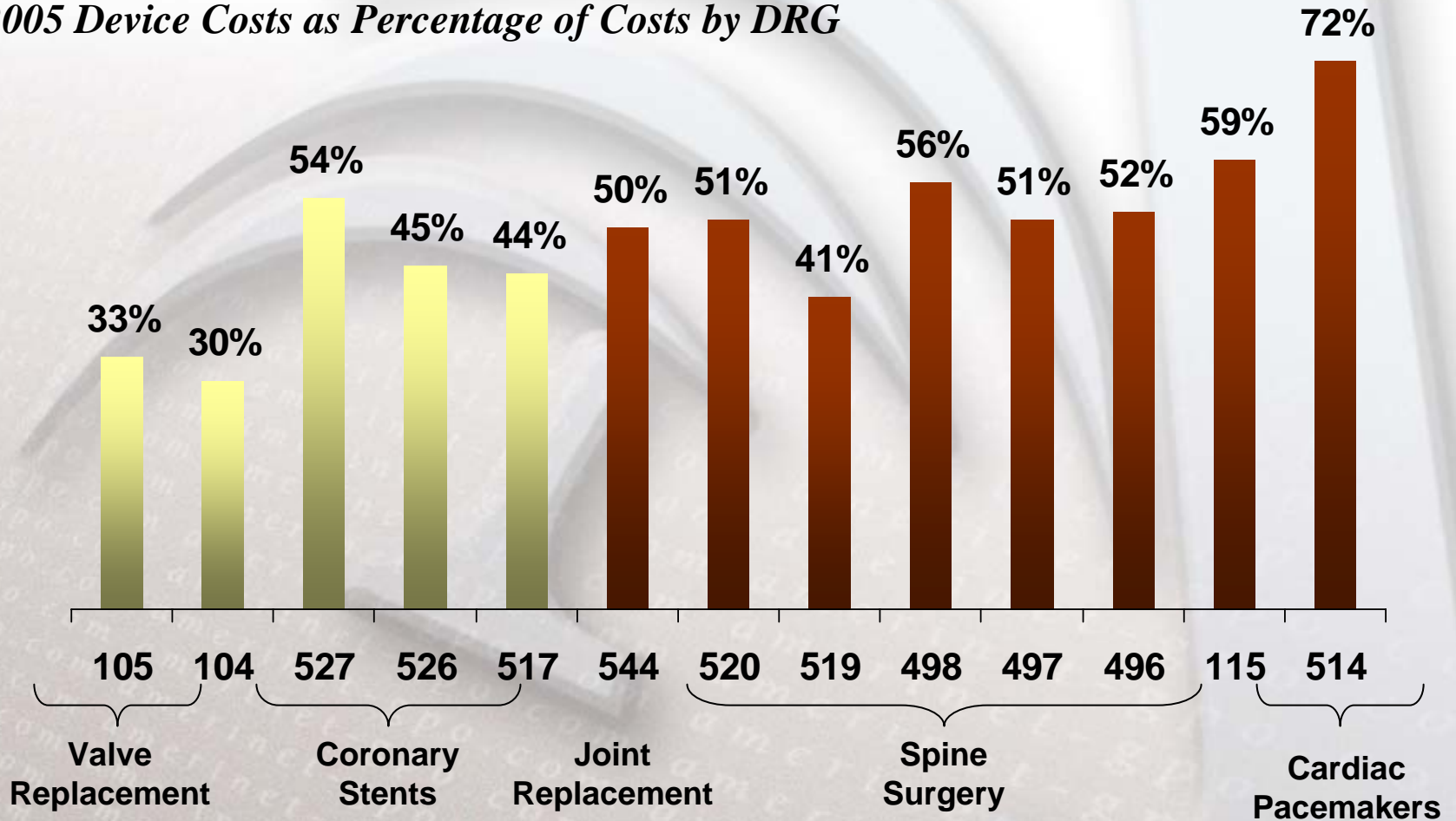
Overview of Trends

Hospitals need to improve operating margins, but

- Significant portion of operating costs determined by private practice physicians
- Excess costs come directly out of operating margin
- Rising costs of new technology
- Direct-to-consumer advertising increases demand for high-price treatments
- Fixed payment rates

Operating Costs Determined by Private Practice Physicians

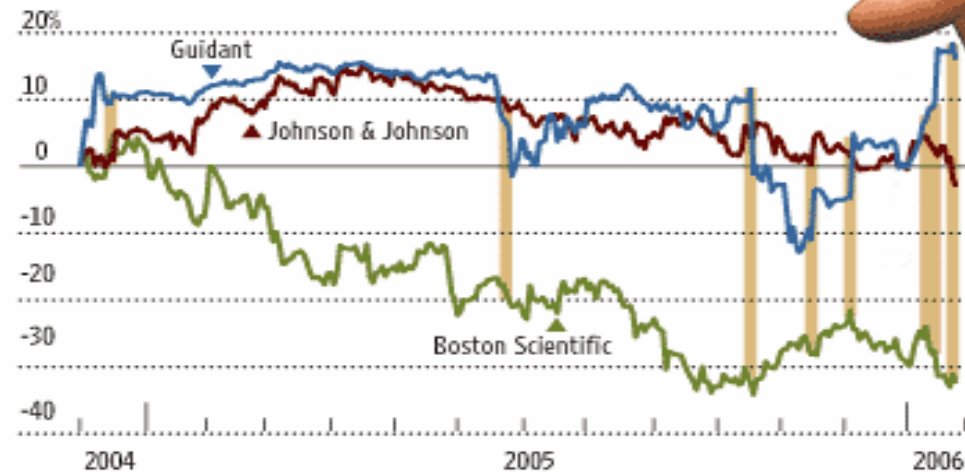
2005 Device Costs as Percentage of Costs by DRG



Market Trends: Consolidation of Implant Suppliers

Winner Take All

Boston Scientific emerged triumphant, outbidding Johnson & Johnson for Guidant. Key dates in the takeover dance.



*A doctor holds a **Guidant** Contak Renewal 3 defibrillator*

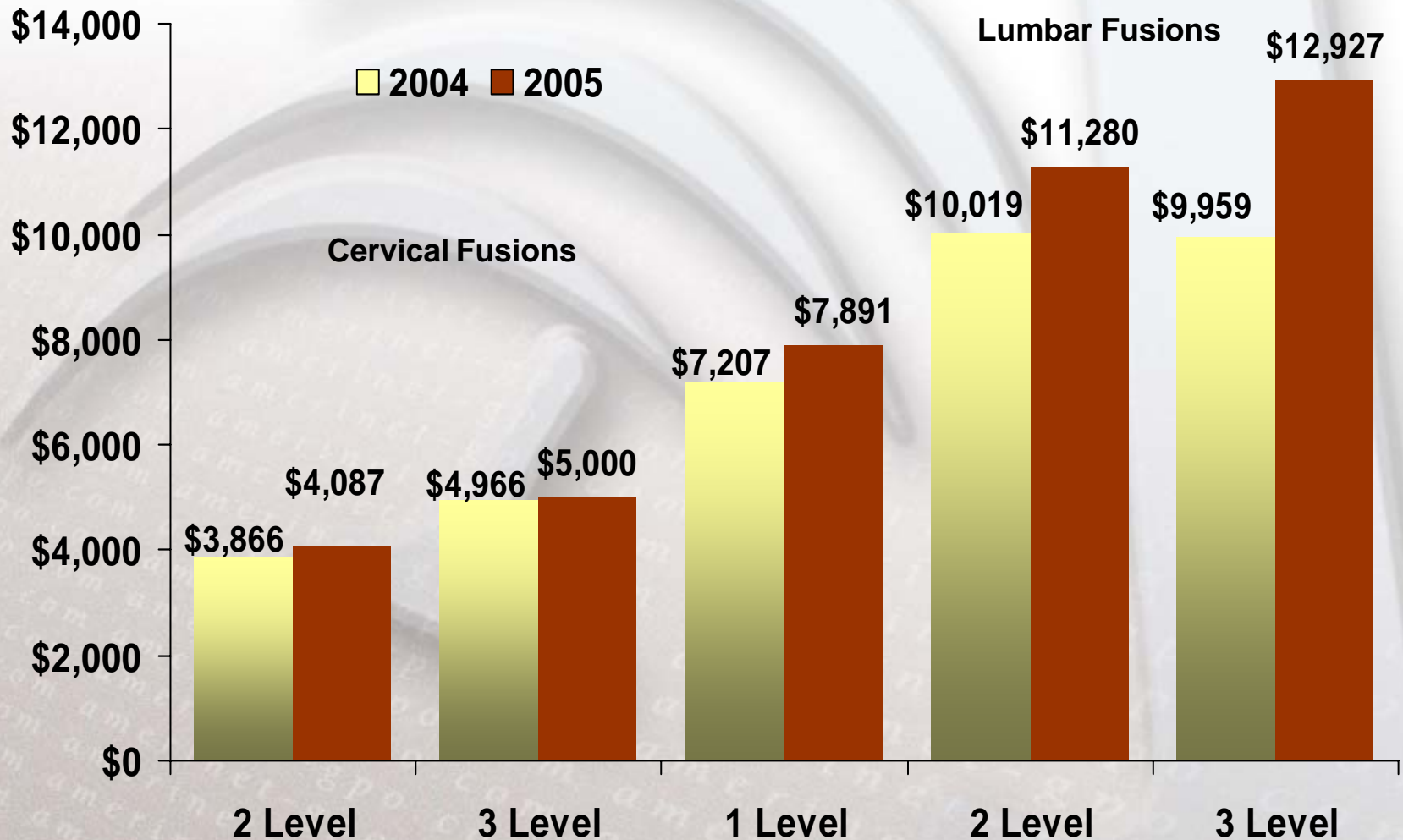
Performance since December 2004

Guidant Corp. up 16%	Johnson & Johnson down 3%	Boston Scientific down 32%
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Dec. 15, 2004	June 24, 2005	Oct. 18	Nov. 15	Dec. 5	Jan. 11, 2006	Jan. 17	Jan. 25
J&J makes \$25.4 billion stock-and-cash offer	Guidant pulls five defibrillator models from market	J&J signals deal could be in jeopardy	J&J deal revised for \$21.5 billion	Boston Scientific offers \$25 billion	J&J offers \$23.2 billion, Guidant accepts	Boston Scientific bids about \$27 billion	Guidant accepts Boston Scientific bid

Sources: FactSet; WSJ research; WSJ Market Data Group

Market Trends - Rising Spine Implant Costs



Financial Impact of BMPs in Spine Care

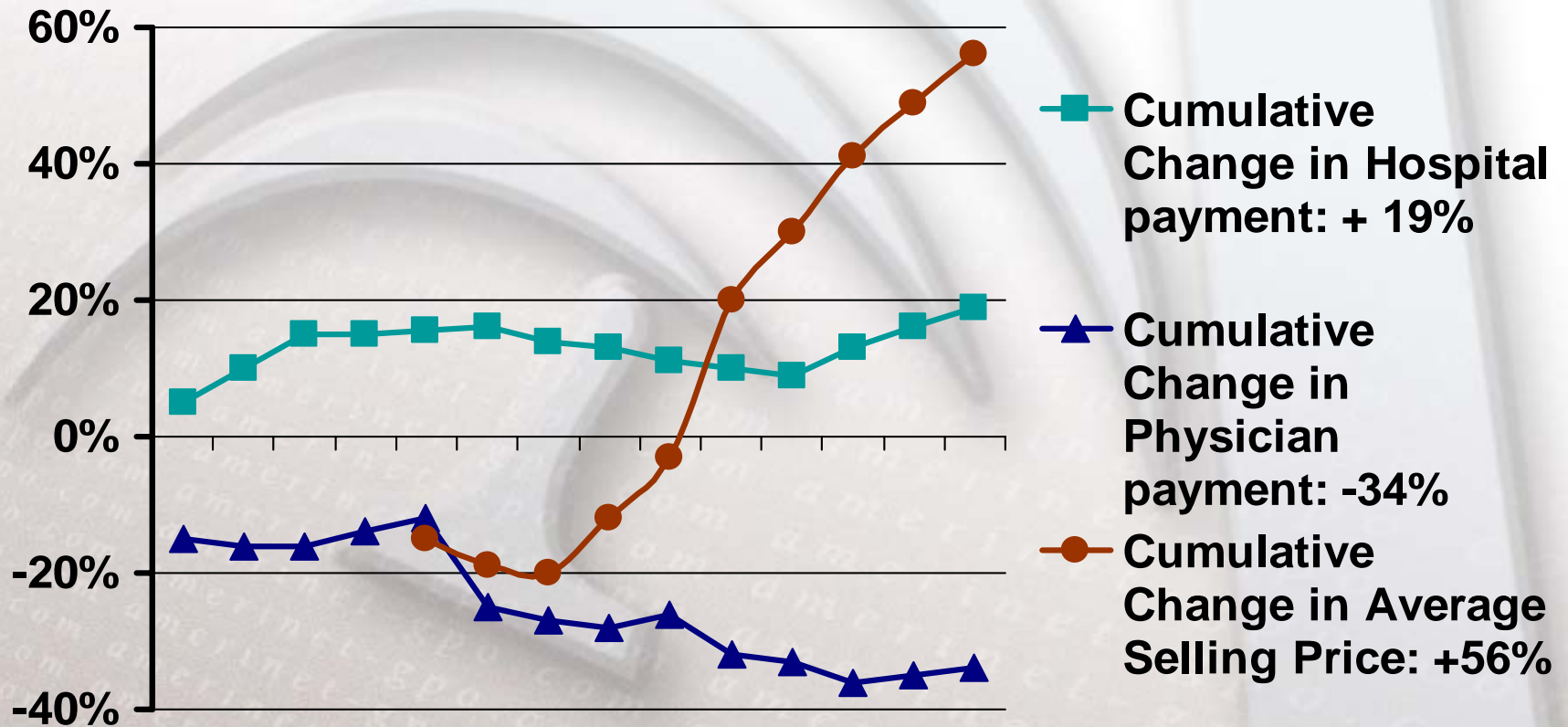
DRG	FY2003		FY2004		FY2005		FY2006	
	497	498	497	498	497	498	497	498
INFUSE® + LT Cage Average Cost per Case*	\$9,684	\$9,684	\$11,362	\$11,362	\$12,498*	\$12,498*	\$13,747*	\$13,747*
Reimbursement	\$15,808	\$11,523	\$16,480	\$12,252	\$17,526	\$13,188	\$18,402	\$13,847†
Add-on Payment	\$0	\$0	\$4,450	\$4,450	\$1,995	\$1,995	\$0	\$0
Technology as % of Reimbursement	56%	77%	43%	53%	64%	74%	74%	99%

*Estimated 2005 and 2006 average cost based on 10% increase

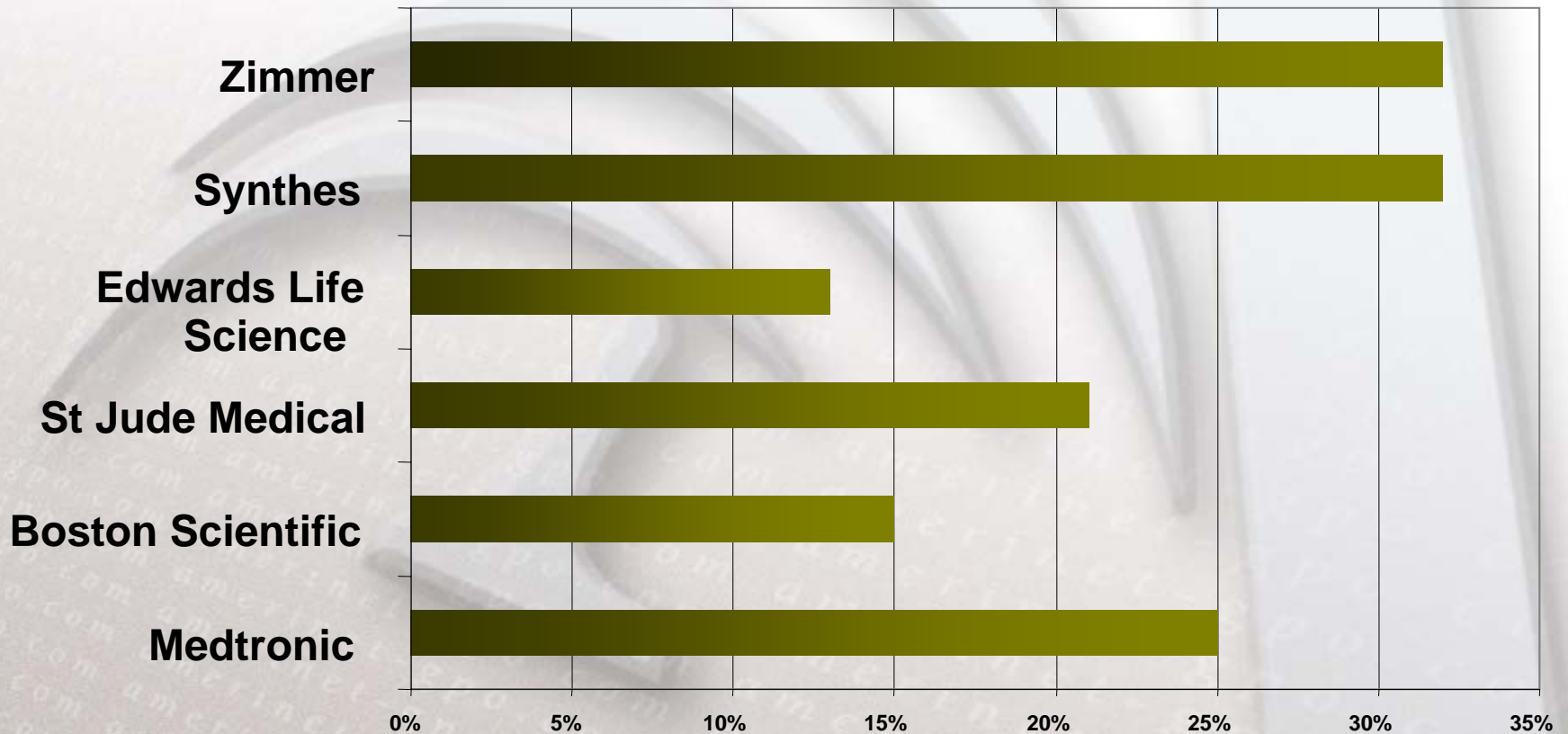
† Estimated 2006 average Medicare reimbursement based on 5% increase

Market Trends

Orthopedic Implant Expense Inflation 1991-2005 DRG 544 Total Joint Reimbursement

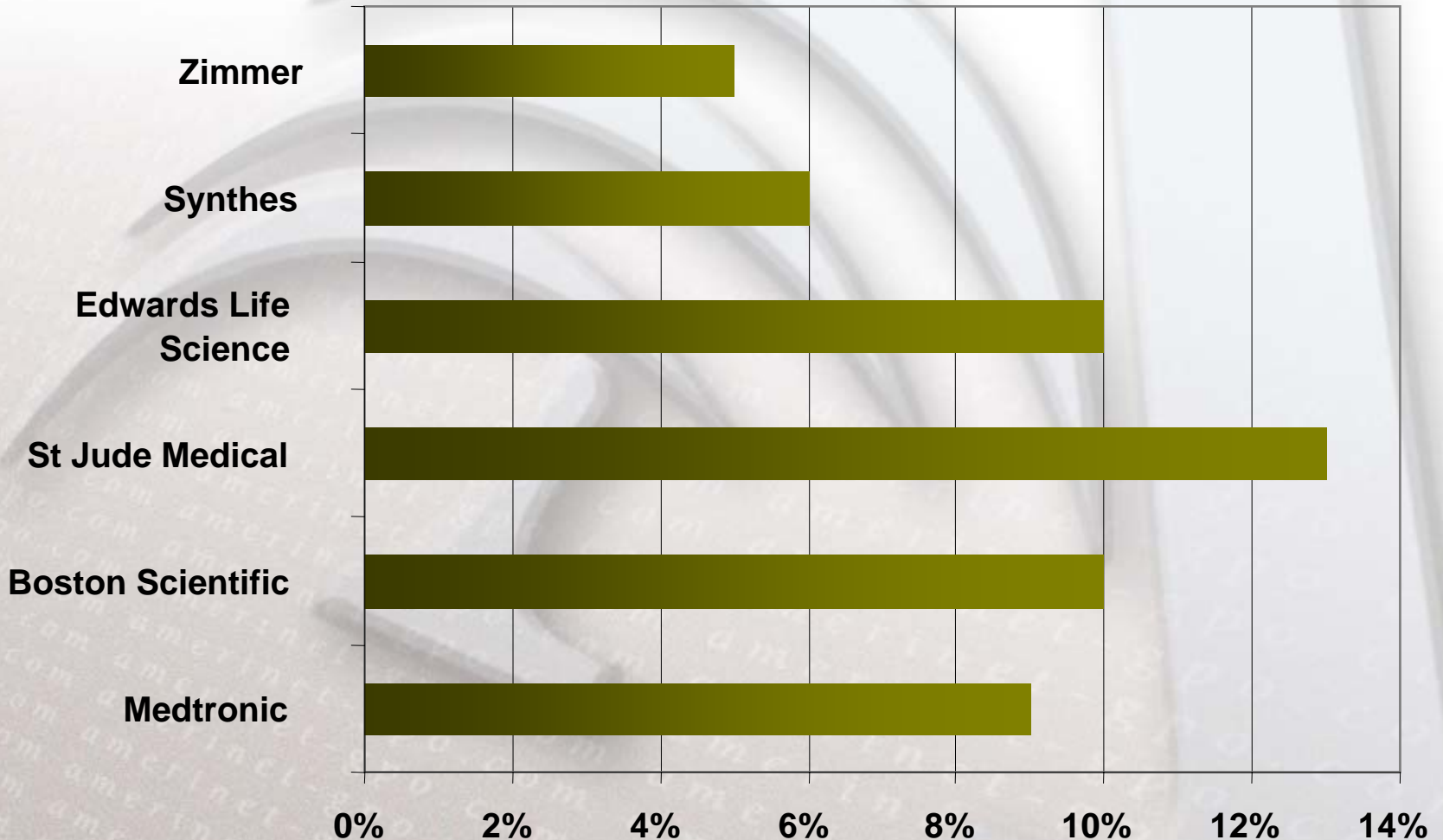


Operating Profits of Medical Device Companies: Average 23%



Data pulled from public company financials. Operating profit excluded taxes, interest, and special charges 2005

R&D Spend Of Medical Device Companies as a Percent of Revenue: Average 9%



The Shifting Economics of Joint Implants Youth Technology

Average Implant Cost, Surgeons Fees and Sales Commissions for High Demand Hip Implants, U.S. Market, 2004-2005

High Demand (ceramic) implant	\$7,988
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Medicare physician payment for total hip replacement	\$1,452
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Sales commission for high demand hip implant	\$1,579
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Market Awareness

The New York Times

The New York Times
nytimes.com

September 22, 2005

Possible Conflicts for Doctors Are Seen on Medical Devices
By REED ABELSON

As an assistant professor at the Louisiana State University Health Sciences Center in Shreveport, Dr. William Overdyke oversaw operations to replace worn-down knees. From 2000 through the middle of 2001, whenever a patient needed an artificial knee, he or the residents he supervised implanted one made by Sulzer Medical, state documents show.

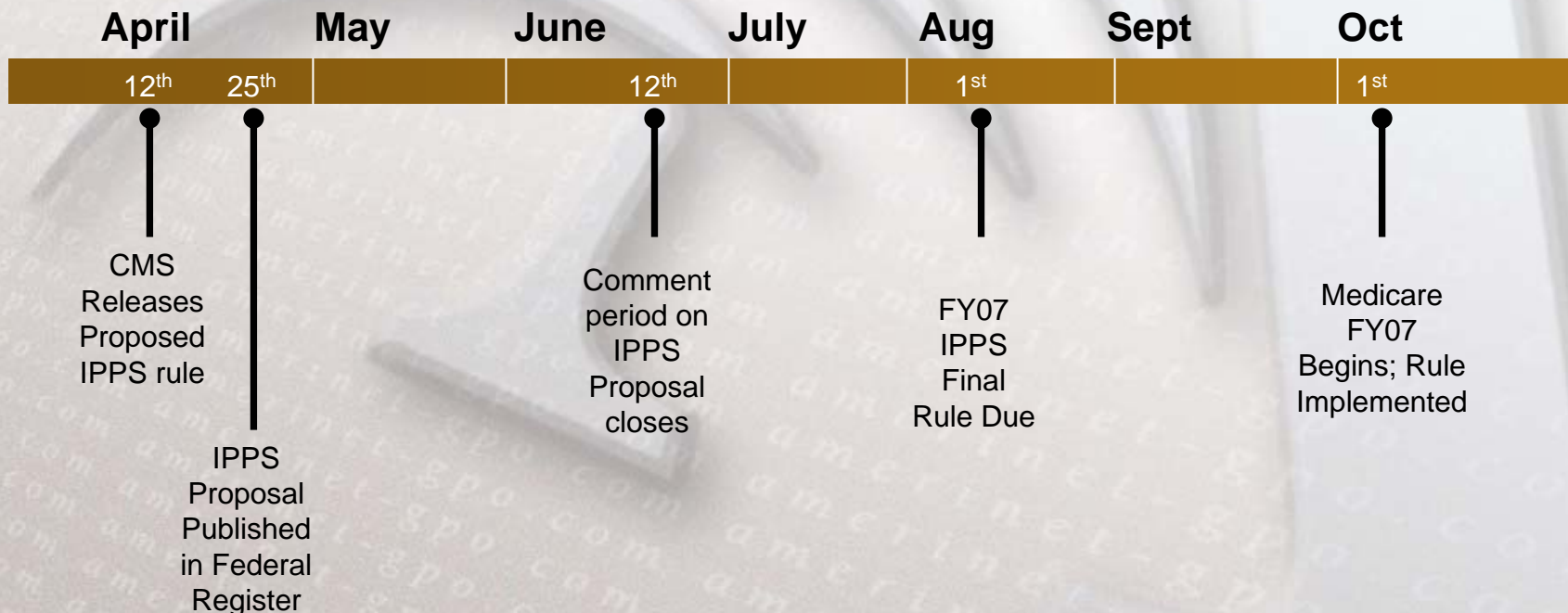
Dr. Overdyke has said that he used the Sulzer implant because it was the best available. But Louisiana state officials say he had another incentive as well: the \$175,000 a year that he stood to make from contracts with the company. The contracts called for him to consult on product design and "promote and educate other surgeons" on the virtues of Sulzer products.

Before signing with Sulzer, Dr. Overdyke said, he had never used the company's artificial knee. Earlier he had a contract with another company, Wright Medical. And during that time, he and his residents largely used Wright's artificial knees.

Dr. Overdyke paid \$10,000 in fines after investigators determined that his consulting arrangements with Sulzer were a conflict of interest under the state ethics code. Hospital officials said they had been unaware of his previously unseen ties to device makers. And those ties were part of the upward cost spiral of

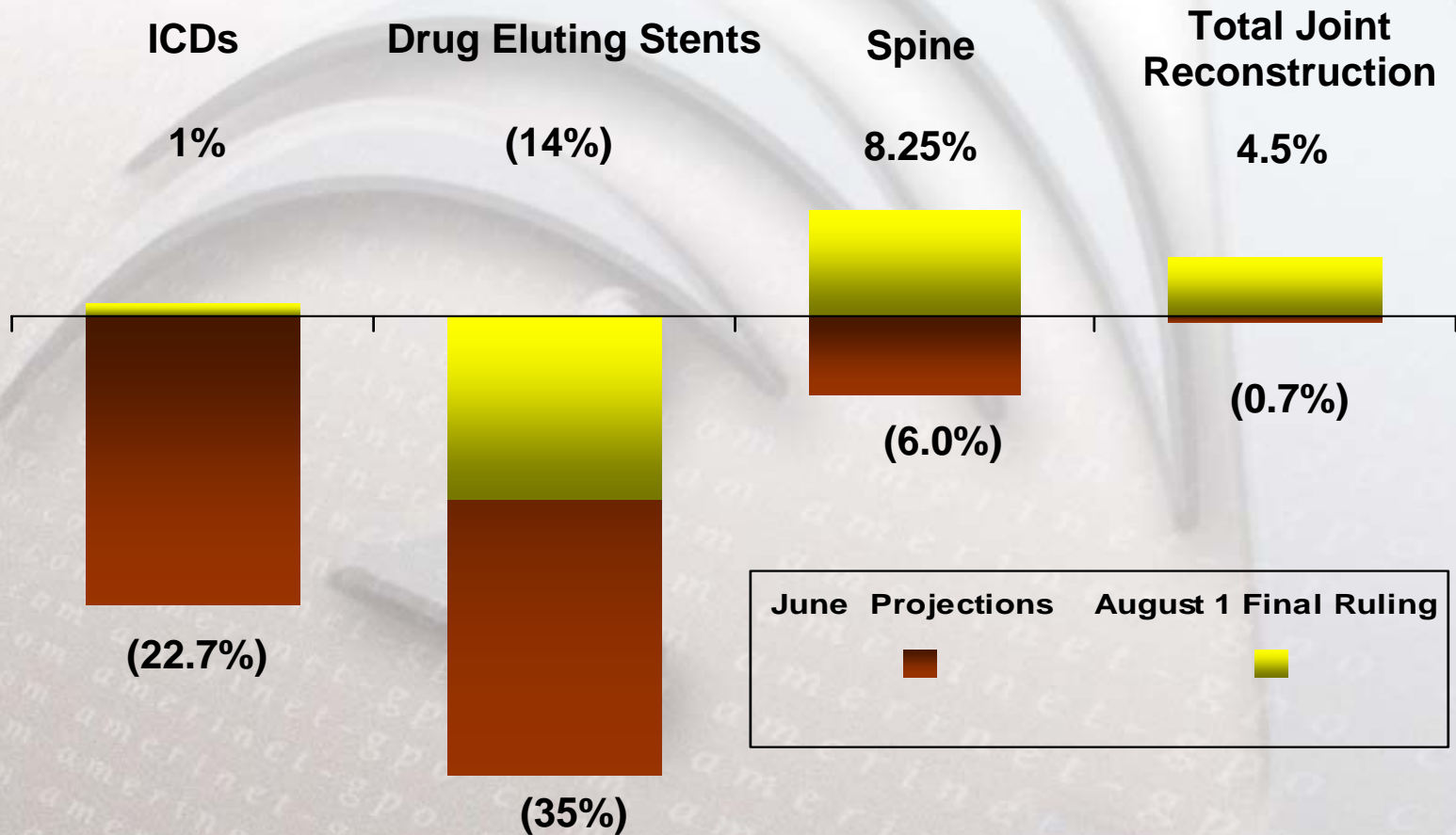
Market Trends: Further Reductions in Reimbursement on the Horizon

IPPS Proposal & Implementation – Key Dates



Implant Procedures Sample Reimbursement Changes

June Projection Versus August 1 Ruling



Amerinet's Clinical Advantage Process

Partner with Hospital on Projects

- Provide data collection
- Obtain corporate suite “buy-in” and support
- Obtain physician engagement in process
- Provide reimbursement trends
- Monitor the program and achievable savings

*Success of Controlling
Device Costs Relies on Engaging
the Physician*

Engaging Physicians Requires Credible Data

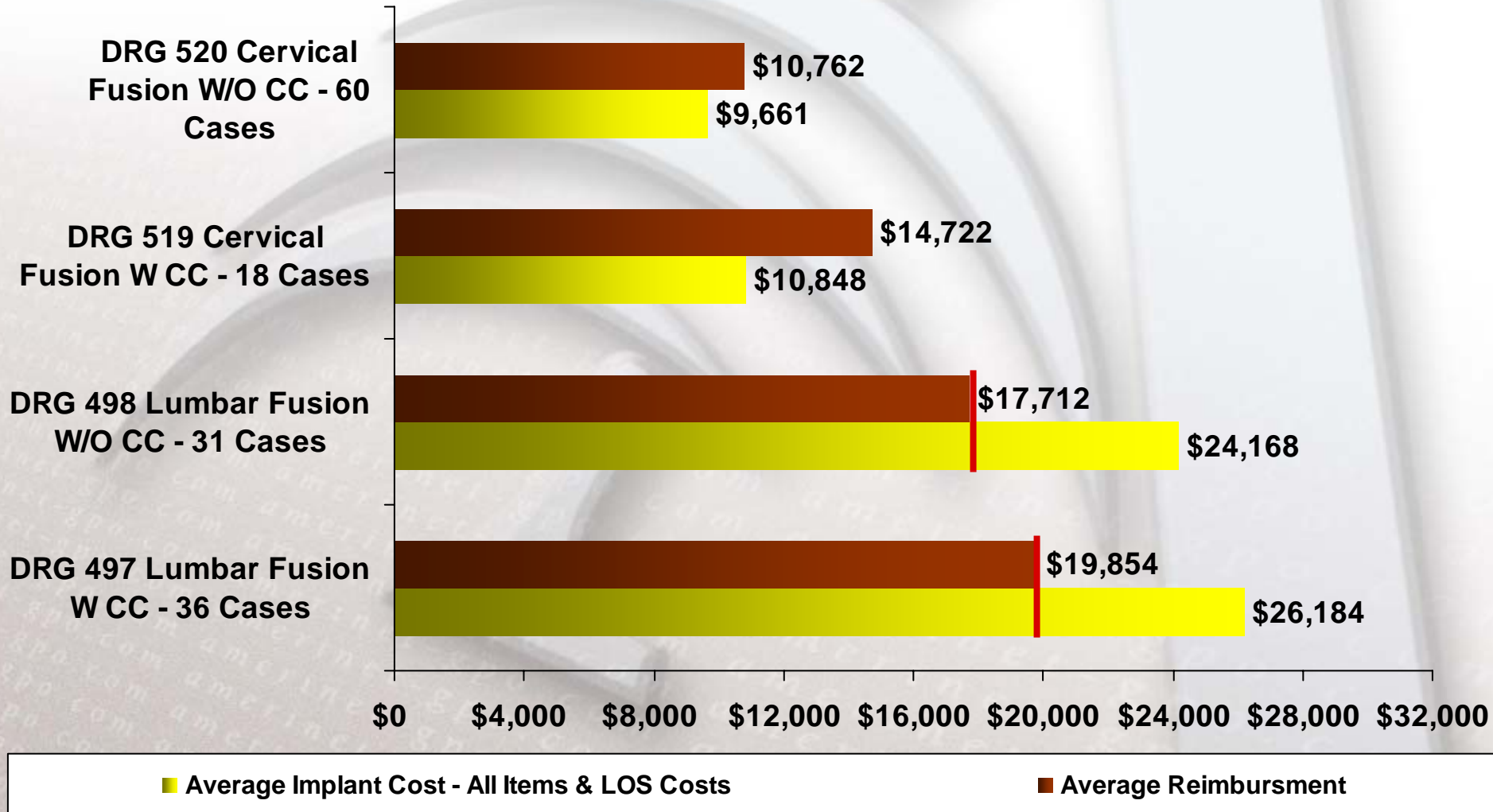
- The measurement of true costs within surgery or any clinical department can be challenging
- Discovery of true fixed and variable costs can often be difficult to decipher

Data is “Power”

The Foundation of the Partnership

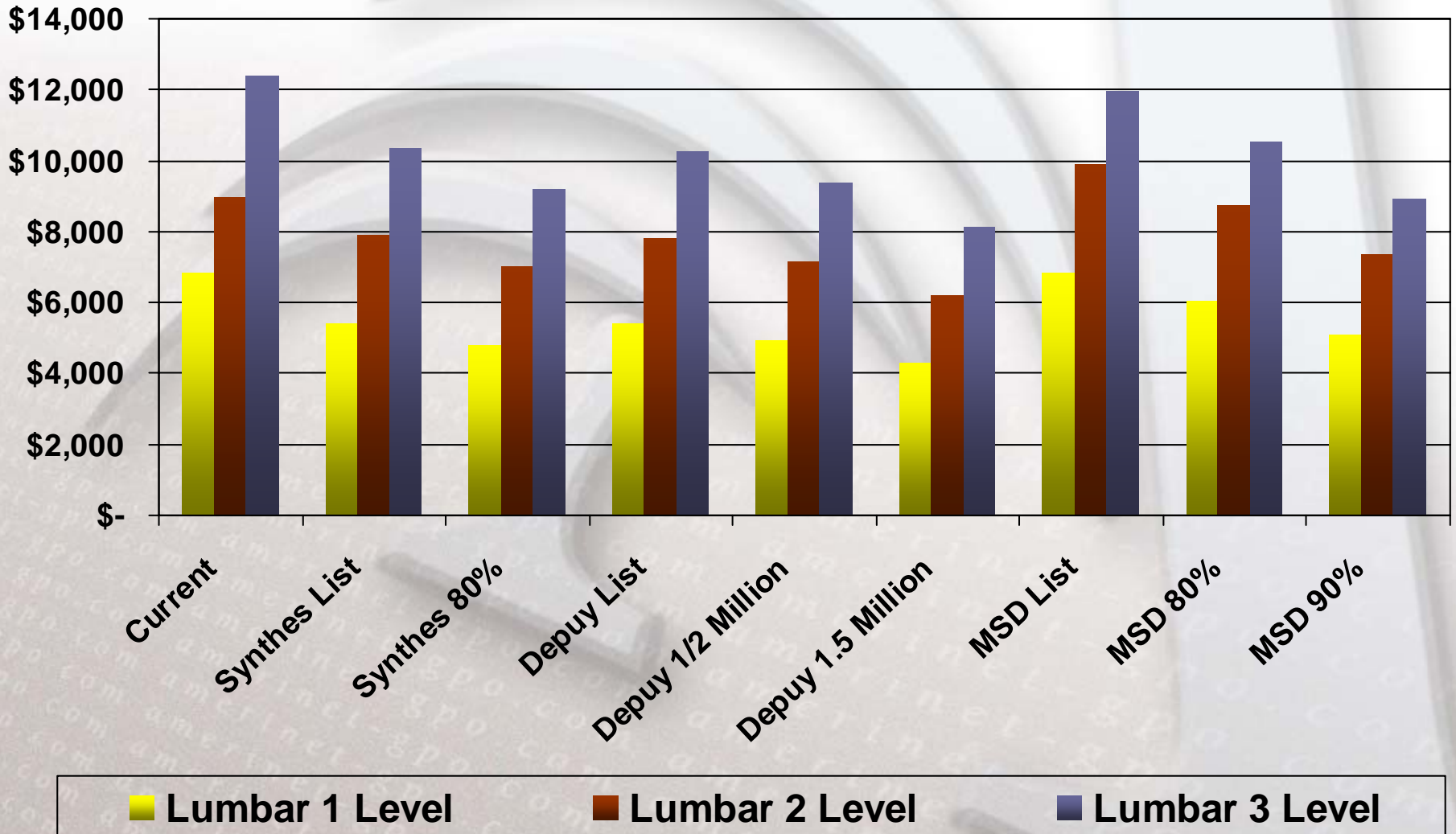
- Collect accurate cost and reimbursement data and determine historical device mix utilization
- This data will provide Corporate Suite “buy in” and support
- **Determine the maximum price the organization can pay for a device**
- Provide hard data to physicians and vendors to show the cost basis

*Sample Facility Spine
Average DRG Reimbursement
Compared Against Total Variable Costs*

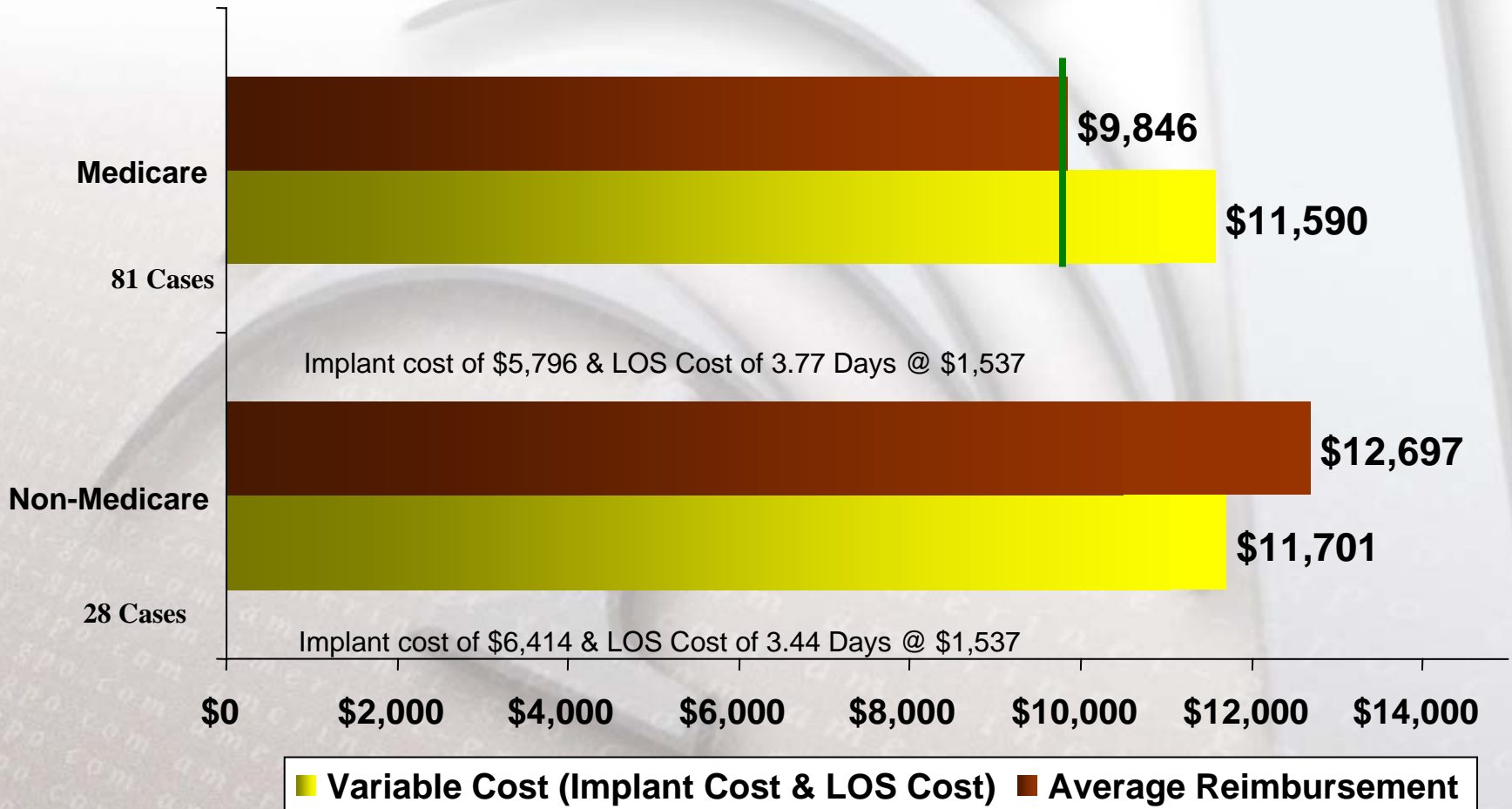


Based on reimbursement for DRG 497, 498, 519 & 520. Excludes Procedures with zero reimbursement

Sample Spine Facility Estimated Lumbar Constructs



Sample of Variable Cost Compared to Reimbursement Primary Total Hips



*2 Zeropay hip procedures were removed from reimbursement, average cost and LOS calculations

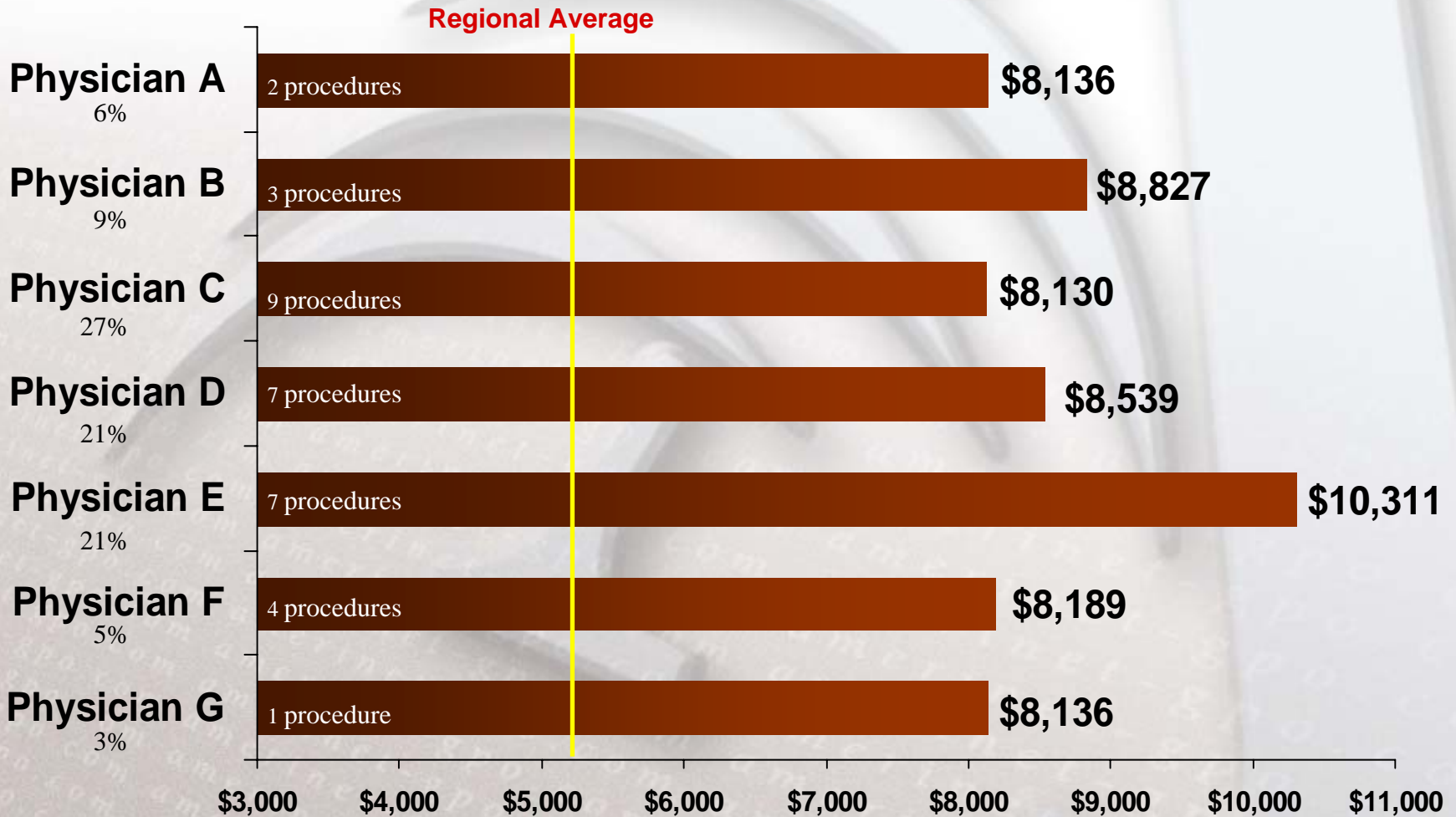
*Calculations based on data "Implantable Devices Report"



Sample Facility

Average Primary Total Hip Implant Cost by Physician

12/05 – 4/06

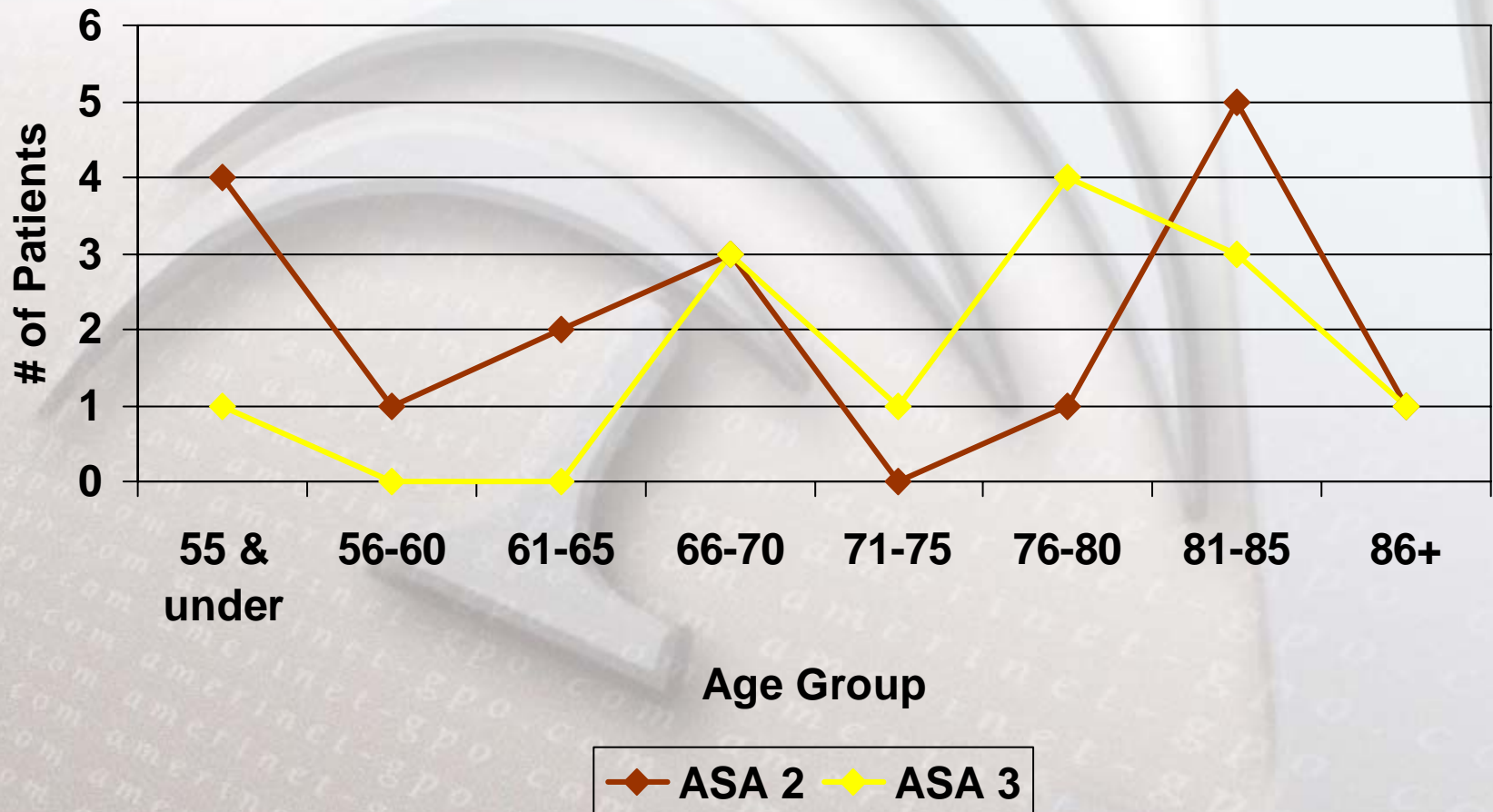


Sample Facility

Estimated Savings - Knees

Suggested CAP Code	Current 4 Mo. Usage	Current Average Price	New CAP Price	Savings
Standard Knee - Cement	0	--	Not disclosed	Not disclosed
Standard Knee	40	\$7,268	Not disclosed	Not disclosed
Increased Motion Knee	32	\$8,239	Not disclosed	Not disclosed
Pressfit Uni Knee	4	\$5,186	Not disclosed	Not disclosed
Cemented Uni Knee	1	\$3,659	Not disclosed	Not disclosed
Annualized Savings				\$557,913

*Patient Demographics:
Dr Smith High Demand Hip Procedures*



Reaching Physician Consensus: **Recommendation for a Product Committee Evaluation Committee (PEC)**

- The basic format consists of a physician-based committee that reviews new technology before it reaches the department and determines which new technology is worth the price and whether it fits within the department's inventory and expense budget.
- This committee should also include the department head and the director or assistant director of materials management.

Premium Implant Request Form

Category	Yes	No
1. Patient \leq 60 years and / or with a 30 – year life expectancy	_____	_____
2. Excellent physiological health with the absence of major co-morbidities, i.e., diabetes, cardiac or stroke history, or morbid obesity	_____	_____
3. ASA score < 2 (using definitions below)	_____	_____
4. Non-smoker	_____	_____
5. Non substance abuse	_____	_____
6. Physically active	_____	_____

The surgeon must submit this form a minimum of two weeks prior to the surgical date to the Director of Surgical Services. Please include copies of the patient's history and physical or chart notes.

ASA Score Definitions:	ASA Score I	A normal healthy patient
	ASA Score II	Patient with mild systemic disease, not functional limitations
	ASA Score III	Severe systemic disease, definite functional limitations
	ASA Score IV	Severe systemic disease that is constant threat to life
	ASA Score V	Moribund not expected to survive 24 hours without surgery

Date: _____

Physician Signature: _____

Patient Name: _____

Date of Surgery: _____

Custom Contracting Strategies

- There are two options for cost reduction on orthopedic implants:
 - Better matching of patient requirements with appropriate demand levels
 - Reducing acquisition cost
- Limit suppliers
- Discount off list
- Tiered pricing
- Capitated pricing
- Risk share

Methodology Necessary to Implement an Effective Partnership Program with Physicians

Hospital and physicians need to agree that there is something to be gained by each party.



Gainsharing: Engaging Physicians- Aligning Incentives

Reward cost-effective quality outcomes

- Efficiencies
 - Reinvest savings into specific program development
 - Provide operational concessions/efficiencies to improve physician workflow
- Cash
 - Share savings directly with physician group(s)

Samples of Recent Programs

- **Community Hospital, Non Profit, 250 Bed**
 - Ortho Savings: \$1.3 million, year one tri to dual source
- **Community, Non Profit, 350 Bed**
 - Ortho Savings: \$750,000 year one, renegotiated year two \$858,000 savings multi to dual source

Samples of Recent Programs

- **University Setting**
 - Ortho Savings: \$520,000, year one
 - Cardio Savings: \$480,000 year one, multi-source to dual source
- **Community, Non Profit, 300 bed**
 - Cardio Savings: \$435,000 tri to dual source
 - Ortho Savings: \$237,000 year one, renegotiated year two \$372,000 savings multi to dual source

Controlling/Reducing Implant Cost Through Amerinet's Clinical Advantage Process

- Partner with your facility
- Gather, benchmark data and present findings to the Healthcare Leadership & Physician Champion
- Engage Physicians
- Seek input from specialty committees on contract criteria
- Bid process and award contract(s)
- Follow-up/Implementation, six month review

Amerinet's Solution

Amerinet Clinical Advantage[®]

- Balancing:
 - Financial rewards
 - Patient outcomes
- Clear clinical, financial objectives
- Post-project reporting and measurement
- Partnership with facility

Margin Improvement Solutions

Partnership

**Total
customer-
focused
portfolio**

**Supply chain
management**

**Clinical
consulting**

**Revenue cycle
management**

**Information
and education**

Thank you for your time today