PRESENTATION TO THE BOARD OF DIRECTORS
KNAPP MEDICAL CENTER
August 17, 2011

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Charting A New Course In Healthcare Management

PRIME HEALTHCARE SERVICES, INC.

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Presentation Objectives

1. The Prime Healthcare Story
2. Key Management Introduction
3. Case Studies of Turnaround of Hospitals
   (a) Chino Valley Medical Center
   (b) Centinela Hospital Medical Center
4. Initial Concepts for KNAPP Medical Center

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Key Management

- Prime Healthcare Services had build a management team second to none providing unparalleled support to our system hospitals
  - Dr. Prem Reddy – Chairman
  - Lex Reddy, MBA, MHA, CEO
  - Roger Krissman MBA, CFO
  - Suzanne Richards, RN,MBA, Chief Clinical Officer
  - Mike Sarrao, Esq, VP - General Counsel
  - Lloyd Wilensky, VP Health Plan Operations
  - Pat Silvestri, Chief Facilities & Development Officer
  - Mary Ransbury, Director, Wound Care & Infection Control
  - Craig Ohira, Director, Clinical Laboratory
  - Seetha Reddy, Director, Imaging Services
  - Harsha Upadhyay, Director, Performance Improvement
  - Sreekant Gotti, Director of IT Services
  - Ann Abe, Director, Food & Nutrition
  - Ajith Kumar, Director of Reimbursement Mgmt.
  - Ken Wheeler, Director of Patient Financial Services
  - Lisa Ottem, Director, Supply Chain Management
  - Aman Dhuper, Operations Analyst
- Out team is stratified into operational, financial and discrete clinical roles

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Mission Statement

Our mission is to provide comprehensive, quality healthcare in a compassionate, convenient, and cost-effective manner.

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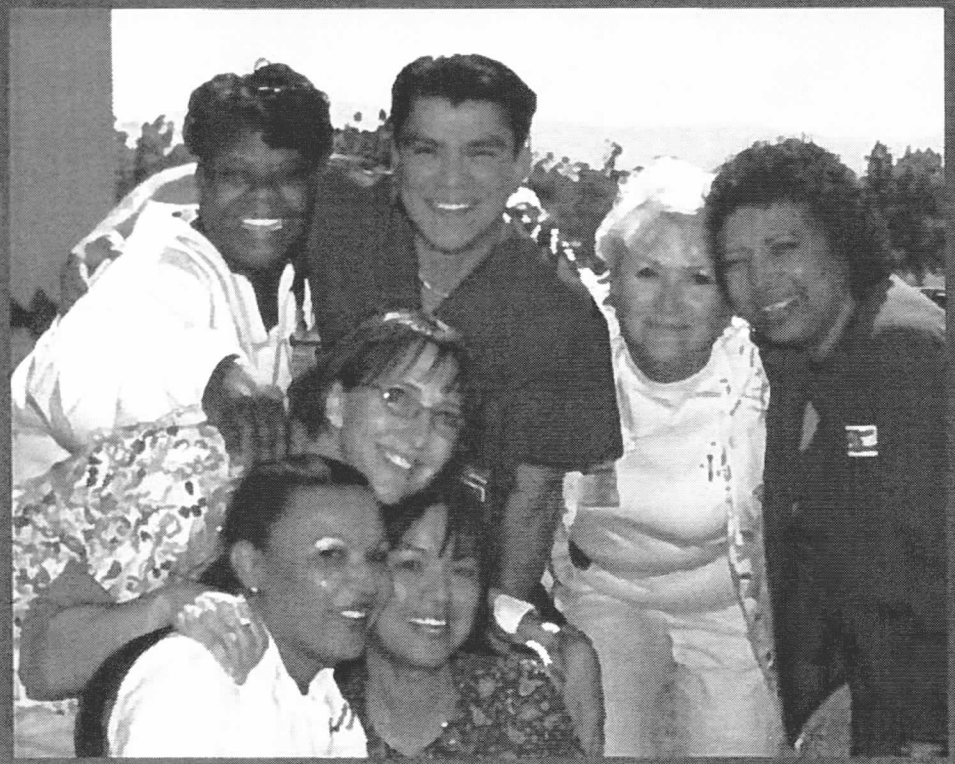
The Prime Healthcare Story

A legacy of compassion, operational and clinical excellence and a vision for the future – that is what separates us.



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Prime at a Glance

A diversified healthcare management company headquartered in Ontario, CA

Charting a new course in hospital management that is physician-driven and patient-focused

Founded by Prem Reddy, MD, FACC, FCCP, a cardiologist and healthcare entrepreneur

In an industry of retraction and consolidation, Prime continues to thrive as evidenced by our growth and outcomes

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The Prime Model for Effective Healthcare Delivery

- **Physician-Driven Management**
- **Patient-Focused Pathways**
- **Outcome Oriented Protocols**
- **Willingness to Invest and Infuse Capital in the Pursuit of Treating More Patients, More Efficiently, With Better Outcomes**

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Basic Ingredients

- Patient/Physician Driven Health Care
- Focus on patient care quality and achieving 100% of CMS Core Measure Initiatives
- Significant Access to Capital for Facility Investment
- Reduction in Unnecessary Length of Stay (LOS)
- Improve ER efficiencies (goal – average time is 2 hours)
  - Decrease in saturation/diversion time and LWOBS
- Operational Efficiencies
- Improve Facility Aesthetics

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Recognized for our Quality Standards

- Top 10 Health System in 2009 by Thomson Reuters, the only recipient west of Mississippi
- Desert Valley Hospital, PHS' first hospital received:
  - Coveted accreditation with "commendation" from Joint Commission in first year of operation
  - Top 100 Hospital™ in the Nation Five times, in
  - 2003, 2005, 2006,2008 & 2009
  - Top 1% in the Nation, Premier/ CareScience Select Practice National Quality Leader, 2007
  - Highest scores from Joint Commission and HFAP surveys

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Improvement Highlights

- Expansion or construction of new service areas (Emergency Services, Cath Lab & Surgery, POC Labs, etc.)
- State-of-the-art digital (filmless) radiology (PACS)
- New supply and pharmacy automation system (Pyxis)
- Patient monitoring systems and patient care equipment (beds, IV pumps, Telemetry, etc.)
- New or upgrade equipment (radiology, lab, etc.)
- Employee and patient safety equipment (security systems, lifting equip., etc.)
- Enhancement or new health information systems

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Putting New Life into California Hospitals

Acquiring financially distressed and independent hospitals with limited scale and turning them around with superior results in California.

Such hospitals include:

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Desert Valley Hospital

- 83 bed acute care facility, built in 1994
- Awarded coveted "Accreditation with Commendation" from the Joint Commission, in its first year of operation.
- AOA Accreditation with 99.5% (2004) and 99.8% (2005) of achievable scores
- Recognized Five Times as 'Top 100 Hospital' in the Nation by Thompson Healthcare/ Modern Healthcare Magazine, in 2003, 2005, 2006, 2008 & 2009
- Recognized as 'Top 1% of Hospitals' in the Nation by Premier|CareScience, 2007
- No.1 of Top 10% of PacifiCare's Quality INDEX survey (2004)

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Chino Valley Medical Center

- 126-bed Acute Care Facility in Chino, CA
- Open staff community hospital
- ED with over 100 patient visits per day – paramedic base station
- Accredited teaching facility for Family Practice Residency training program affiliated with Osteopathic medical schools
- Free Community Healthcare Centers for the Indigent patients located in Montclair and Chino

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Sherman Oaks Hospital

- 153-bed acute care facility located in Sherman Oaks, CA
- A top performing Hospital in the Nation in a survey by The Commonwealth Fund for CMS/Medicare in Hospital Quality Index (Core Measures)
- Open staff community hospital with prestigious medical staff that are on the faculty of UCLA/ USC Medical Centers

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Montclair Hospital Medical Center

- 102-bed Acute Care Facility in Montclair, CA
- Open staff community hospital with basic emergency care
- Centers of excellence in women and maternity care
- Free Community Healthcare Centers for the Indigent patients located in Montclair and Chino

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Huntington Beach Hospital

- 144-bed Acute Care Facility in Huntington Beach, CA
- Open staff community hospital with advanced surgery facilities
- Emergency Department that serves as paramedic base station

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West Anaheim Medical Center

- 219-bed Acute Care Facility in Anaheim, CA
- Open staff community hospital with newly expanded emergency room
- Multi-specialty hospital with open heart surgery, psychiatry care, etc.

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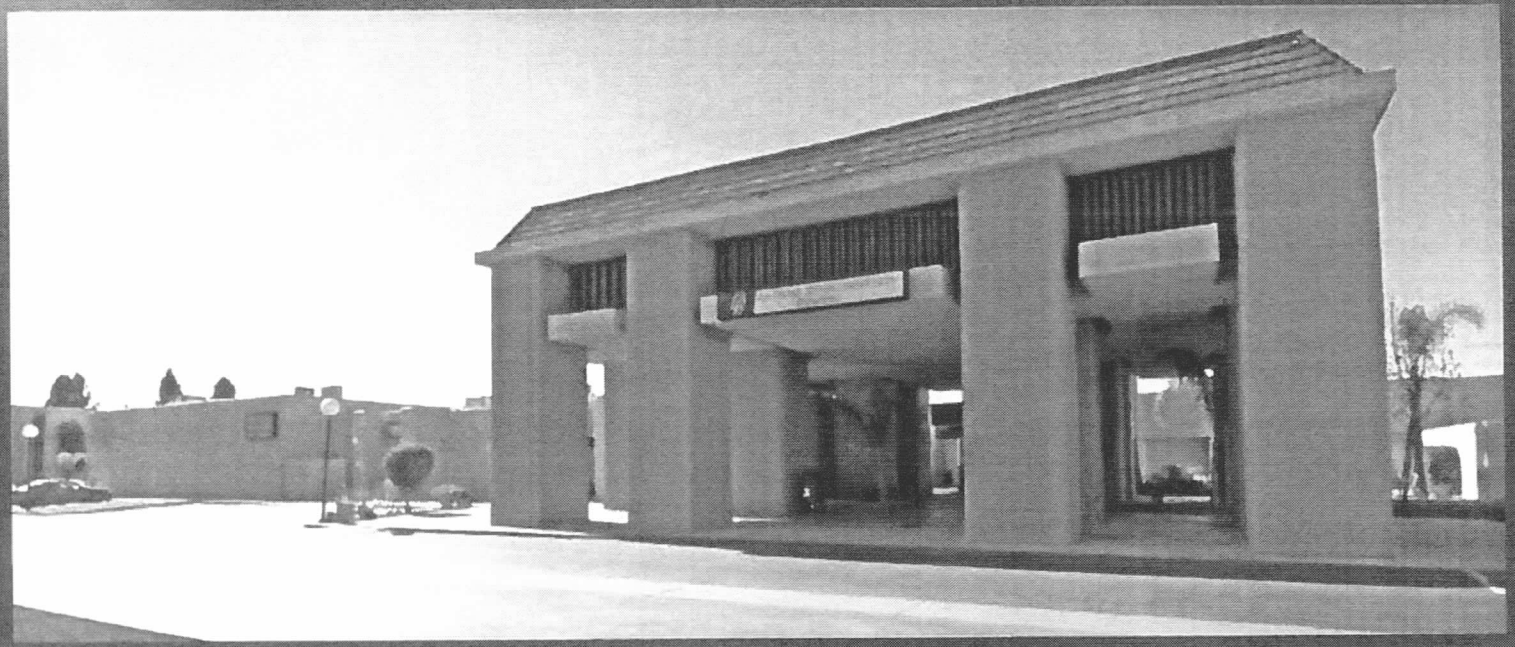
La Palma Intercommunity Hospital



- 131-bed Acute Care Facility in La Palma, CA
- Open staff community hospital with basic emergency care
- Centers of excellence in women and maternity care
- Cardiac Cath Lab, psychiatry care, etc.

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Paradise Valley Hospital

- 104 year old, 301-bed Acute Care Facility in National City, CA
- Open staff community hospital with basic emergency department
- Centers of excellence in rehabilitation medicine
- Largest behavioral health care provider in South Bay area
- Cardiac Cath Lab, 64 Slice CT, psychiatry care, etc.

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Centinela Hospital Medical Center

- 370-bed Acute Care Facility in Inglewood, Los Angeles
- Open staff community hospital with busy emergency department serving underprivileged communities in Los Angeles
- Centers of excellence in orthopedic care, neurosurgery, rehabilitation medicine, etc.

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Encino Hospital Medical Center

- 151-bed Acute Care Facility in Encino, Los Angeles
- Open staff community hospital
- Centers of excellence in orthopedic care, rehabilitation medicine, etc.

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San Dimas Community Hospital

- 93-bed Acute Care Facility in San Dimas, CA
- Open staff community hospital
- Acquired in July, 2008 from Tenet Healthcare

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Garden Grove Hospital

- 167-bed Acute Care Facility in Garden Grove, CA
- Open staff community hospital
- Full-service state-of-the art Obstetrics program
- Acquired in July, 2008 from Tenet Healthcare

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Shasta Regional Medical Center

- 246-bed Acute Care Facility in Redding, CA
- Open staff community hospital
- Premier Centers of excellence in Orthopedic Care, Wound Care, Cardiology etc.

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Alvarado Hospital

- 306-bed Acute Care Facility in San Diego, CA
- Open staff community hospital
- Premier Spine Center in San Diego
- One of the largest acute and outpatient rehabilitation centers in the region

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CASE STUDY OF
CHINO VALLEY MEDICAL CENTER

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CHINO VALLEY MEDICAL CENTER
The Overview

- 126-bed Acute Care Facility in Chino, CA
- Open staff community hospital
- ED with over 100 patient visits per day – paramedic base station
- Accredited teaching facility for Family Practice Residency training program affiliated with all Osteopathic medical schools
- Free Community Healthcare Centers for the Indigent patients located in Montclair and Chino

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CHINO VALLEY MEDICAL CENTER
Acquisition by Prime

- CVMC was owned and operated by HCA/Columbia until 2001
- Acquired by a local group of thirty physicians in 2001
- Managed by Physician Group from 2001 to 2004
- Filed for Bankruptcy protection in 2004 following three consecutive years of operational losses
- PHS bid successfully against Kaiser Foundation in US Bankruptcy Court and was appointed as the manager of CVMC in September 2004
- CVMC successfully emerged out of bankruptcy in June 2005 under PHS Management

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CHINO VALLEY MEDICAL CENTER
Prime's commitment

PHS re-financed existing Accounts Receivable debt of CVMC with about 20% reduction in APR interest

PHS funded working capital line at 6% APR

PHS kept it's commitments made in the Bankruptcy court.

PHS financed new equipment upgrades of over $10 million:

Radiology	$ 2.8 M
Facility Renovation (incl. PACS)	$ 2.2 M
Cath Lab	$ 1.7 M
Information System/ PYXIS	$ 1.5 M
Cardiac monitoring	$ 1.5 M
Other Clinical Support	$ 1.5 M

PHS upgraded Emergency Department capacity/operations and continued all the existing clinical services of the hospital

PHS negotiated better health plan/vendor contracts resulting in better reimbursement and reduced costs through the synergies

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CHINO VALLEY MEDICAL CENTER
The Turnaround

- CVMC emerged out of Bankruptcy in less than expected time (9 mos) in June 2005
- Clinical and Financial outcomes improved
- Emergency Department posted least amount of saturation hours and average wait time compared to any hospital in the Inland Empire
- Improved patient outcomes with implementation of proven critical pathways, physician response times and average length of hospital stays
- Community involvement in the Governance (the Board of Directors included the City Manager, the Chief of Fire Dept., and Police)
- Increased commitment to the community with free clinics for the indigent poor in Montclair and Chino, and participation in nurse training programs with area nursing schools
- Improved collections/cash flows by 77% due to improved third party contracting and information and management systems

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FREQUENTLY ASKED QUESTIONS

- WILL PRIME CLOSE DOWN THE EMERGENCY ROOM?
- WILL PRIME CLOSE DOWN SERVICES?
- WILL PRIME CANCEL ALL CONTRACTS?
- WILL PRIME TERMINATE THE MEDICAL STAFF/ PHYSICIANS?
- WILL PRIME INVEST IN THE INFRASTRUCTURE?

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CLOSING DOWN OF EMERGENCY ROOM?

- DATA SHOWS THAT MAJORITY OF THE HOSPITAL ADMISSIONS ARE THROUGH EMERGENCY ROOMS, AS HEALTH PLANS/IPAs/MEDICAL GROUPS HAVE SHIFTED OUTPATIENT VOLUMES TO SURGERY CENTERS, DIAGNOSTIC CENTERS, LEAVING ACUTELY ILL TO BE CARED FOR AT HOSPITALS.
- PRIME IS COMMITTED TO MAKING ERS MORE ACCESSIBLE AND MORE EFFICIENT IN PROVIDING EFFICIENT MEDICAL MANAGEMENT IN ALL OF ITS MARKETS

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CANCEL ALL CONTRACTS?

- PHS HOSPITALS CONTRACT WITH AETNA, BLUE CROSS, BLUE SHIELD, CIGNA, IVHP, HEALTH-NET, PACIFICARE (UNITED HEALTHCARE), AND OTHER MAJOR PAYORS.
- PHS HAS CONTRACTS WITH HEALTH-NET, AETNA, INTER-VALLEY HEALTH PLAN.
- RECENT ACQUISITIONS - SAN DIMAS AND GARDEN GROVE MAINTAINED OR RENEGOTIATED MANAGED CARE CONTRACTS AND CONTINUE TO WORK WITH IPAs AND MEDICAL GROUPS IN THOSE MARKETS.
- PRIME ENTERS INTO CONTRACTS WITH HEALTH PLANS THAT OFFER FAIR AND REASONABLE REIMBURSEMENT RATES.

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PRIME WILL TERMINATE MEDICAL STAFF?

- MEDICAL STAFF IS AN AUTONOMOUS BODY PER STATUTES AND REGULATIONS.
- MEDICAL STAFF IS AN INTEGRAL PART OF THE SURVIVAL OF THE HOSPITAL, AS THERE IS NO CORPORATE PRACTICE OF MEDICINE IN CALIFORNIA AND TEXAS.
- PRIME HAS NOT TERMINATED ANY PROVIDER FROM MEDICAL STAFF IN ANY OF PRIME'S FACILITIES.
- MEMBERS OF MEDICAL STAFF ARE REPRESENTED ON THE GOVERNING BOARDS.
- MEDICAL EXECUTIVE COMMITTEE DEALS WITH ALL MEDICAL STAFF RELATED ISSUES.

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PHCS /KNAPP

Community Commitments

PHCS, in addition to the financial proposals outlined below, will commit to the following:

- **PHCS** will continue to operate KNAPP as an acute care facility.
- **PHCS** will continue to operate the Emergency Department of KNAPP.
- **PHCS** commits the Governing Board of the hospital consisting of 50% medical staff and 50% community leaders as in all PHS hospitals.
- **PHCS** will maintain open community medical staff.
- **PHCS** commits to provide charity care and establish Charity Care Policies consistent with requirements from Regulatory Agencies.

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Benefits to the Community

- Guaranteed Investment in Infrastructure and State of the Art Equipment
- Reduction in ER Saturation Hours - Results in improved access to all members of the community and increased charity care.
- Potential for Expanded Services at KNAPP
  - Expansion of OB Services
  - Establishment of Cath Lab
  - Establishment of Wound Care Clinic

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PHCS / KNAPP

Community Commitments

- PHCS, in conjunction with Prime Healthcare Charitable Foundation, will provide community benefit services including health education, student scholarship program, community medical resource library, nursing and allied health education programs, community oriented disease management programs, improved community health awareness programs.

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PHCS / KNAPP

Medical Staff Commitments

- PHCS is committed to providing an ownership vehicle in the hospital with medical staff members desiring to participate. Given new regulation in healthcare physician ownership, physician syndication in the operating performance is no longer viable. However, PHCS has created a unique structure allowing physicians to participate in the real estate portion of the hospital. Such participation anchors physician loyalty to the local service area, while providing a lower risk, annuity investment. PHCS will formalize a mutually agreed upon proposal with Knapp's BOD for medical participation in Knapp's real estate.

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PHCS / KNAPP

Unique Features of PHCS's Offer

- **Unmatchable synergies: PHCS/KNAPP** joint operations will yield unmatchable synergies in the management, clinical services, resource allocation of healthcare delivery in the Local Community

- Ob-Gyn/Pediatric program could be improved at KNAPP as a Center of Excellence

- Health Plan/Managed Care contracting and utilization can be optimized
- PHCS will seek additional investment/acquisition opportunities in the local market to provide additional local scale

- Purchasing can be better leveraged with the economies of scale - GPO

- Combined resources can be better allocated to improve the healthcare needs of the community (i.e., the Trauma Center)

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Review of Attorney General Factors

Effects On Availability/Accessibility of Health Care Services

- Essential Services
  - PHCS will maintain all essential services including, but not limited to, emergency services, medical surgical services, surgical services (operating rooms), labor and delivery (OB) services, and other ancillary services.
  - PHCS will also consider expanding labor and delivery (OB) services, establishing a cardio cath lab, establishing a wound care clinic, and the reopening of behavioral health program including services directed towards seniors (Gero-Psych).
- Material Contracts
  - PHCS will maintain Medicare Provider Agreement and Medi-Caid Provider Agreement. At this time, PHCS has not had access to all material contracts and as such, is not in a position to further respond to this question.

Inurement

- PHCS has not made any promises to any Board members or management employees.

Competition

- The transaction will have a positive effect on competition. KNAPP will have the financial resources to upgrade equipment and infrastructure in order to attract physicians and patients and compete with other facilities in the High Desert and San Bernardino County.

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Review of Attorney General Factors (cont.)

Public Interest

The transaction is in the public interest for several reasons:

- PHCS will maintain KNAPP as a non-profit hospital governed by an independent Board of Managers and a local governing board which will include community representatives and members of the medical staff. PHCS is a public charity which is subject to the reporting requirements of the IRS and Attorney General's Office.
- PHCS will bring financial stability and expanded access to capital to KNAPP.
- PHCS will spend no less than $25 Million to improve KNAPP in terms of equipment, infrastructure, information technology, etc., which will lead to improved patient care and improved access to care for all members of the community over a 5 Year Period.
  - Example – ER Saturation

Seller's Charitable Trust

- PHCS understands that KNAPP's charitable trust is to operate a non-profit hospital in the Mid-Valley. PHCS will continue to operate KNAPP as an Acute Care hospital in the community and will include community members, with input from KNAPP Board, on all governing boards.

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Review of Attorney General Factors (cont.)

Effect on Patients

- The proposed transaction will have a positive impact on patients:
  - Increased access to care
  - Improved care
  - Increased charity care
  - Better equipment and infrastructure
  - Potential for expanded services
  - Availability of Best Practices and the resources of a Top 10 Health System and Top 100 Hospitals
  - Educational opportunities through Dr. Prem Reddy Family Foundation

Effect on Employees

- The transaction will have a positive impact on employees:
  - PHCS will hire substantially all of the employees and honor paid time off obligations
  - New equipment and better working conditions
  - Financial Stability
  - Accessibility to a team of experts and the resources of a Top 10 Health System and Top 100 Hospitals

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Review of Attorney General Factors (cont.)

Effect on Physicians

- The transaction will have a positive impact on physicians:
- No changes to medical staff. Medical staff will remain open and independent
- Improved equipment
- Improved clinical outcomes
- Access to improved technology for better patient care

Effect on Suppliers & Vendors

- The transaction will only have a positive impact on suppliers and vendors and PHCS has a track record of paying its bills and working with local vendors whenever possible. In addition, equipment suppliers will receive millions of dollars in new business.
- KNAPP will be part of a GPO which enhances access to suppliers and vendors.

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Review of Attorney General Factors (cont.)

Financial Information

- PHCS will provide KNAPP, the Creditors' Committee, and their advisors with complete access to financial information including:
  - Audited & Unaudited Financial Statements
  - Tax Returns
  - Bank Statements
  - Access to Executives at City National Bank To Confirm Funds

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Thank You
For The Opportunity

We Look Forward to Next Steps

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