

Physician Hospitals Prognosis & Plan

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Industry Profile

282 Licensed and Medicare Certified Physician Hospitals in US

- 55,000 Employees / \$2.4bn payroll
- \$509mm federal taxes paid annually
- ~ 230 have specialty focus
- Generally in non CON states
- Highest concentration in Midwest, West and Southwest

Disruptive Innovators

Despite government and peer reviewed
studies showing superior:

- Quality
- Safety
- Efficiency
- Patient Satisfaction

POH disrupted a \$ trillion industry-
5800 hospitals

Legislative Battle Field

2001- 2009

15 Bills brought against physician ownership of hospitals

2010

Patient Protection and Affordable Care Act

- ◉ Section 6001 harmful to physician hospitals

PPACA

Facilities currently operating with Medicare number or able to obtain number by 12/31/2010

- ◉ Caps aggregate physician ownership percentage as of DOE (Allows for transfers & substitutions)
- ◉ Disallows expansion of hospital beds, operating rooms and procedure rooms
- ◉ Raft of other disclosure & investment provisions

PPACA

Future facilities or facilities under development (Not Medicare certified by 12/31/2010)

- ◉ Eliminates "Whole Hospital Exception" to Stark
- ◉ Will not be eligible for Medicare certification/ number
- ◉ No consideration for phase of development

PPACA Section 6001 Casualties

Construction halted at 30 physician hospitals

Fate of 40 hospitals uncertain regarding
12/31/2010 deadline

PHA Response- Legal

Lawsuit filed in Federal Court
PHA and TX Joint & Spine

- ◉ Alleges unconstitutional violation of Equal Protection Clause
- ◉ Alleges PPACA language is arbitrary, vague and contradictory
- ◉ Alleges unconstitutional retroactivity
- ◉ Unfavorable ruling in district court
- ◉ Appeal has been filed
- ◉ Filed Motion of Supplemental Authority pursuant to Florida decision

PHA Response- Legislative

Ongoing lobbying, fundraising and
presence on Capital Hill

Ultimate goal is repeal of language

PHA Response- Legislative

2 bills aimed at repeal of Section 6001

- HR 1186 Sam Johnson (R) TX
- 16 co-sponsors
- HR 1159 Doc Hastings (R) WA
- 19 co-sponsors
- Fate in House uncertain
- If sent to Senate will likely die

PPACA Prognosis

- Majority of Supreme Court watchers believe PPACA will be upheld
- Likely that PPACA will be widely amended legislatively
- Reduced funding or de-funding of certain components likely
- Repeal of Section 6001 largely dependent on shift in political party majority

Alternative Strategies

Working with counsel to develop viable alternative ownership strategies.
Caution regarding advisory opinions-
“circumvention ploys”

- ESOP
- In-office ancillary
- Real estate
- NFP status
- Employment

POH Mergers & Acquisition Activity

- ◉ Remain constrained -pre and post PPACA
- ◉ Limited private equity interest remains
- ◉ Largely depends on individual facility profile
- ◉ Many POH's have ability to add MD ownership
- ◉ Many POH's have excess OR and IP capacity

Future of Physician Hospitals

Long term viability of model will depend on legislation, the courts and emerging healthcare economics

Thank You
