

KEY THOUGHTS ON HOSPITAL/PHYSICIAN ASC JOINT VENTURES

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May 20, 2011



Why Partner With a Hospital ?

- Significantly higher payments for cases with the hospital model versus the independent ASC model
- A strategic alliance with a hospital in concert with the aims of the Patient Protection and Affordable Care Act
- Part of the strategic outcomes of the development of accountable care organizations
- Hospitals are now buying practices again and acquiring or developing ancillary services of which ASCs are a primary target
- Provides a wonderful hedge against shrinking surgeon reimbursements in their practices and at their ASCs
- Competitive advantage over independent ASCs

The ASC Market In The U.S.

- There are approximately 5200 ASCs in the U.S.
- 90% of all ASCs have some degree of physician ownership
- About 20% of ASCs have a hospital partner
- While some ASC specialties are being paid better by Medicare, many others are not and, most importantly, the independent ASCs are paid less than 60% of what a hospital is paid for the same outpatient surgeries
- Most locations in the U.S. are saturated with ASCs and, for the first time in recent history, net growth of ASCs has almost stopped
- Payors are all but eliminating most out of network reimbursements, thus reducing the profit margin of most ASCs

Introduction Of The Hospital As A Serious and Fair Partner

- The Earth is round for a reason
 - What comes around, goes around
- The emergence of the physician owned ASC model resulted from surgeons leaving hospitals in droves the past 15 plus years for numerous reasons such as:
 - Control over management and operations
 - Profits
 - They really wanted to get away from the hospitals
- Most hospitals only wanted to partner with surgeons if they could own most of the ASC , control it and, worse, manage it

Introduction Of The Hospital As A Partner

- Today, hospitals have already felt the economic reduction of profitable outpatient surgeries and are more willing to share control and profits than before
- With healthcare reform just beginning and reform that favors strategic alliances with hospitals and physicians, forward-thinking hospitals and surgeons have already implemented this strategy or are planning for it
- Hospitals have come to the realization that they cannot operate outpatient centers themselves. They are too inefficient and have come to almost insist that professional surgery center management is required to implement these models
- Outside management acts as a buffer between surgeons and hospitals

The Economics of a Surgeon/Hospital/Outside Management model

- Medicare will pay the ASC the same per case regardless whether the ASC is independent or not
- The average reimbursement for independent ASCs by payors is about \$1200-\$1700 per case
- The average reimbursement by payor for hospital-affiliated ASCs are about \$2200-\$3000 per case
- The differences between hospital affiliated ASCs and independent ASCs are very significant financially, resulting in profits that can be 200-300 percent greater, especially if the independent ASC cannot achieve OON payments and is not primarily orthopedic based

Different Ownership Models Exist Depending On Goals

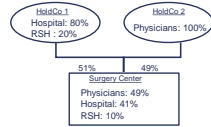
Classic Hospital Controlled ASC



Structure

- Hospital has 2 board seats, Physicians have 2 seats and Regent has 1 seat
- Compelling negotiating position with payors
- Carve-out rights can be structured on operational decisions

Hospital Contracting Model

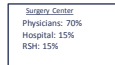


Structure

- Hospital has 2 board seats, Physicians have 4 seats and Regent has 1 seat
- Physicians are Class A shareholders and Hospital and RSH represent Class B shareholders
 - Hospital controls Class B and majority vote
 - Physicians retain voting control on clinical issues
- Maximizes physician financial upside while maintaining hospital's earnings consolidation ability

Hospital Interest Can Span Ownership Spectrum

Minority Interest Model



Structure

- Physicians have 4 board seats, RSH and Hospital each have 1 seat
- Physicians have control over key operational and clinical decisions

HOPD Model



Structure

- Hospital owns 100% of ASC, enabling HOPD rates
- Surgeons and management company engaged to provide operational and clinical oversight

Our Recommended Model

- Hospital and management company develop or acquire ASC
 - Hospital and management company own 51%
 - Doctors own 49% or less
- Two classes of shares
- Hospital has certain rights which enable it to
 - Control ASC
 - Meet its charitable objectives
 - Obtain hospital contract rates
- These rates are oftentimes a discount of HOPD rates that payers provide
 - Usually 30-40% discounts, but typically much higher than independent contract rates

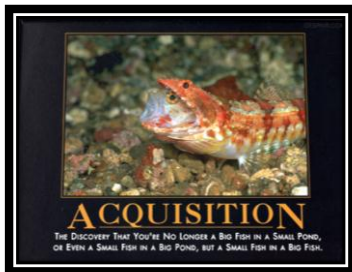
Our Recommended Model (cont.)

- The operating agreement describes the hospital's controlling rights, typically focusing on
 - Budget
 - Capital
 - Debt
 - Sale price
 - Issuance of shares.

Recommended Model

- Doctors can control Management and Clinical Operations thru board of director votes; 4,2.1
- Doctors select Anesthesia Coverage
- Doctors have votes to determine which doctor partners to allow into partnership

Our Recommended Model



When Is It Best To Use Our Recommended Model?

- When the doctors trust the local hospital and the local CEO has job security
- In an over-saturated competitive ASC market
- In a community where payors squeeze the independent ASCs on price
- In a market where the hospital of choice is accustomed to joint ventures with doctors
- Where hospitals fully embrace accountable care organizations and would be inclined to partner with doctors
- In a market where the hospital has a strong track record of negotiating favorable contract rates

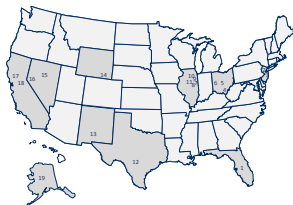
When Is It Best To Use This Model (cont.)

- If an existing ASC, when the ASC has matured and/or does not see a significant increase in profits over the past
- If the local surgeons can utilize this model to form a strategic alliance with the local hospital of choice

About Regent Surgical Health

- 20 facilities – 10 hospital partnerships
- Hospital partnerships in: Reno, Nevada (2); Columbus, Ohio; Marietta, Ohio; Dayton, Ohio; Chicago, Illinois (2); Sycamore, Illinois; New Brunswick, NJ (in development); Lodi, Ca
- All facilities are profitable
- Most new facilities have hospital partners
- Own 10-20%; always manages and owns
- Headquarters in Chicago (suburb)
- Regional offices in Birmingham; Northern and Southern California
- Proprietary case - costing software
- RISE proprietary program

RSH's Current Facilities and Hospital Partnerships Span the Country



1. Surgery Center of Mount Dora
Mount Dora, FL
2. Piedmont Ambulatory Surgical Center
Birmingham, AL
Partnership with Bayview Medical Center
3. Robert Wood Johnson ABC
New Brunswick, NJ
Partnership with Robert Wood Johnson University Hospital
4. MetLife Surgery Center
Mentaire, OH
Partnership with MetLife Hospital/HealthNet
5. Kingsbridge Surgery Center
Columbus, OH
Partnership with Columbus
6. Medical Center at Elizabeth Place
Dayton, OH
Partnership with Health System
7. Park-Surgery Center
Pittsburgh, PA
Partnership with Park Community Hospital
8. Midland Surgical Center
Smyrna, IL
Partnership with Midland Community Hospital
9. St. Joseph's Medical and Orthopedic Surgery Center
Morton Grove, IL
10. North Wing Surgery Center
Greenville, SC
11. Swedish Covenant ASC - Under Development
Chicago, IL
Partnership with Swedish Covenant Hospital
12. The Center for Special Surgery of TCA
San Antonio, TX
13. SouthernNew Mexico Surgery Center
Alamogordo, NM
14. Chesapeake Surgical Center
Chesapeake, WV
15. Summit Surgery Center at Saint Mary's Medical Center
Buffalo, NY
Partnership with Catholic Health System
16. Surgery Center of Reno
Reno, NV
Partnership with Catholic Health System
17. Advanced Surgery Institute
Santa Rosa, CA
18. Los Angeles Surgical Center
Lodi, CA
Partnership with Lodi Medical Hospital
19. Surgery Center of Anchorage
Anchorage, AK

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