Medical Staff Update

Many of you have asked us to keep you informed regarding our current negotiations --

You may also know, several of our administrators have emphasized how pleased they have been with the performance of InPhyNet / MedPartners in the ED on the Grant Campus. We're not convinced that its wise for any of us to partner more closely with this company at this time. We have several ongoing concerns about this group.

MedPartners has wanted the RMH ED contract for quite some time. They still have deep pockets and must be making some big promises in order to make themselves look so attractive. We believe it is appropriate to ask whether InPhyNet / MedPartners will be able to live up to promises currently being made. After losing $840 million, and restructuring their top leadership, the MedPartners of 1999 will not be the same company that performed so well at Grant in 1997.

Given these economic realities, and their demonstrated willingness to renegotiate their physician contracts, we remain doubtful that InPhyNet / MedPartners will be able to retain quality physicians here in the RMH ED.

- submitted for your consideration

The Members of the Department.
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MedPartners Loss Exceeds Its Forecast

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Staff Reporter

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MedPartners Inc. posted a much larger than forecast fourth-quarter loss and said it is bringing in Mac Crawford, formerly head of Magellan Health Services Inc., as its new president and chief executive.

The Birmingham, Ala., physician-practice-management company reported a loss of $840.8 million, or $4.47 a diluted share compared with a year-earlier profit of $29.9 million, or 17 cents a share. MedPartners took $646.7 million in charges in the latest fourth quarter, mostly related to a writedown of goodwill associated with acquisitions. In addition, MedPartners said its clinic expenses soared 71% to $1.21 billion from $706 million a year earlier.

MedPartners said revenue in the quarter climbed 22% to $1.69 billion from $1.38 billion a year ago.

The company warned shareholders in January that it would take a quarterly charge of $145 million associated with overutilization of its clinics in southern California and additions to medical-claim reserves; it said at that time that its loss could be as much as 25 cents a share. That news battered MedPartners' stock price and paved the way for ***the departure of co-founder Larry House as chairman and chief executive***. Richard **Scrushy**, a major MedPartners shareholder and head of HealthSouth Corp., took over as chairman and acting chief executive.

The news of the big loss came after the stock market had closed for the day. In New York Stock Exchange composite trading, MedPartners shares finished at $11.875, down 12.5 cents.

Stock market analysts, who speculated that MedPartners would load as many charges as possible into an already-ugly quarter, had been braced for a massive fourth-quarter loss. Mr. **Scrushy**, for his part, had been hinting to the investment community that the loss might be much bigger than expected.

Mr. **Scrushy**, in an interview late yesterday declined to address the outlook for. the first quarter, but said, "We're making progress; the company is definitely turning. We don't anticipate these kinds of write-downs in the future." "Frankly, the bigger the number for the fourth-quarter loss, the more likely they've got the problems contained," said Piper Jaffray analyst Brooks O'Neil.

MedPartners said it is in the process of closing 84 clinics affecting 238 physicians, leaving the company with 13,531 affiliated doctors. Mr. **Scrushy** said the company merged some clinics that were near one another and ***closed clinics in certain cases where the doctors were unwilling to renegotiate their contracts***. Mr. **Scrushy** called the clinic closings "nonstrategic" and said they primarily involve smaller facilities. "This company is not up set up to manage little onsie and twosies," he said. "It's difficult to attract managed care contracts when you don't have any coverage" in an area, he added.

MedPartners is hoping that by bringing in Mr. Crawford, who transformed Magellan Health Services from a beleaguered psychiatric hospital company into a managed care concern, it can get a better grip on some of its managed care contracts. The company, according to some people familiar with the situation, entered into some contracts in Southern California which encouraged overutilization of its clinics without bringing in enough revenue to cover medical claims.

"They may not be bad contracts," said Mr. O'Neil, but as MedPartners aggressively snapped up clinics and physician-practice companies in recent years, "things fell between the cracks," he said.

Some investors and analysts have been clamoring for MedPartners to spin off some of its sprawling businesses, particularly its large pharmacy-benefit management unit. Mr. Crawford doesn't rule out such a possibility. "Could that be considered? Sure," he said in an interview. Mr. **Scrushy** reiterated, however, that the company isn't in talks to sell itself or any of its divisions.

Some shareholders have been betting that Mr. **Scrushy**, who remains chairman of MedPartners, would quickly move to shore up investor confidence and boost the company's stock price.

Indeed, FMR Corp., parent of the Fidelity mutual-fund company, this year added about 19 million MedPartners shares to the shares that it owned at the end of 1997 and now controls about 11% of the company. An FMR spokeswoman said the company doesn't comment on individual holdings. Separately, Atlanta based Magellan said it named Henry T. Harbin as new president and chief executive. Dr. Harbin was a founder of Green Spring Health Services, in which Magellan bought a controlling interest in 1995.

** Memo written and circulated in 1998, color highlights added later.*

"Scrushy Warning Memo," written on behalf of Riverside Emergency Physicians in 1998.