

July 8, 2014

Dear Board Members, Physicians, and all Caregivers,

It has always been our intent to provide direct, open and honest communication with you at all times. This is especially important as we work through the healthcare challenges of recent months. This letter is the next step in that ongoing process, but first, I would like to briefly reflect on the progress we have made.

Since I began as CEO at Stamford Memorial Hospital in February 2008, the focus has been improving our organization, facilities and both the quality and variety of our healthcare services, responding to challenges of reduced reimbursement, adding physicians to our medical staff (Dr Joplin in 2009 and Dr Gibson in 2011) and preparing the hospital and clinic for an uncertain healthcare future. We have opened Country Elegance assisted living and it is now full, we began the Stamford Walk In Clinic last year, and now folks have an alternative primary care option available. In addition, we have invested heavily in both the quality and availability of our patient care services, updating medical equipment (new CT scanner and Ultrasound equipment) and also our administrative structures such as Electronic Health Records. These enhancements and expansions have been our focus for this time.

Also during this time, we have dramatically improved our patient's experiences and outcomes as we strive to CREATE Outstanding Healthcare. For example, our patient experience ratings are now at the 99th percentile for rural hospitals nationally. Out of hundreds of rural hospitals in the nation our patients rank us in the top 1%.

As all of you know, however, the US healthcare system is facing numerous and significant challenges: Obamacare, federal budget challenges, and increased governmental pressure on reducing hospital admissions have hospitals reeling across the nation. In 2013, 15 hospitals closed in the US, more than the previous 15 years combined! Locally, the lack of Medicaid expansion in Texas and declining population in our area have negatively impacted our patient volumes. Other hospitals across Texas and some nearby have initiated layoffs of employees to respond to this challenging landscape.

To offset the declining patient volume of the past several years, we also must reduce our staffing levels. Salaries account for 60% of our hospital budget and reduction in our budget cannot occur without affecting our salaries.

Listed below are the most substantive changes that are necessary at this time.

- First, as CEO, I am cutting my own compensation by 25%.
- Physician compensation will be reduced by 25%
- The CFO, CNO and all other managers will be reduced to 36 hours/week (10%);
- 2 manager positions will be eliminated;
- All employees' hours will be reduced to 36 hours/week (10%);
- Ancillary medical services will be staffed by on-call employees on weekends;
- Nurse staffing will continue according to our current nurse staffing guidelines;
- Clinic staffing will be reduced to correspond to the current workload;
- Assigned ER nurse staffing will be reduced by 50%.

We will not give up our efforts to CREATE Outstanding Healthcare, and we will continue to support the staff in those roles and programs that position us for future success. Country Elegance assisted living is full, our Home Health program is growing and our new CT scanner has a significant patient volume. We will continue to improve our facilities, expand in ways which cost effectively improve services and access to care, and evaluate existing services for cost effectiveness and community need. In all these changes our goal is to effectively prepare the organization for the uncertain future of healthcare delivery in this rapidly changing and complex environment.

Still there will be 13 employees who are tremendously impacted by a job loss. When even one team member loses a job, it is devastating, and we are very concerned for those people and their families. These employees will be eligible for rehire for any future openings that may occur as they are experienced members of our team.

Hopefully, these changes will be temporary and our patient volumes will increase soon. When that occurs we will be able to resume normal staffing levels.

It is an honor to serve the healthcare needs of this community and these difficult changes will ensure that we can continue to be here, available, capable, and prepared to meet those needs. Thank you for your support and for the privilege of serving you. We will continue to do our best to be worthy of your trust.

Sincerely,

Rick DeFoore, CEO