

Hospital Shared Services, Inc. and Subsidiaries



Consolidated Balance Sheet

| | December 31, 2004 | December 31, 2003 |
|---|----------------------|----------------------|
| Assets | | |
| Cash | \$ 3,078,661 | \$ 3,434,464 |
| Accounts Receivable | 7,589,359 | 7,635,685 |
| Prepaid expenses, inventories, etc. | 1,474,731 | 1,489,698 |
| Current Assets | 12,142,751 | 12,559,847 |
| Property & equipment, net of depreciation | 2,267,304 | 1,983,436 |
| Goodwill | 522,433 | 522,433 |
| Deposits, investments, and other non-current assets | 1,485,434 | 1,065,564 |
| Non-Current Assets | 4,275,171 | 3,571,433 |
| Total Assets | \$ 16,417,922 | \$ 16,131,280 |
| Liabilities and Shareholders' Equity | | |
| Accounts Payable | \$ 369,409 | \$ 433,770 |
| Current maturities of long-term debt | 165,167 | 355,836 |
| Accrued liabilities | 2,815,934 | 3,824,102 |
| Total Current Liabilities | 3,350,510 | 4,613,708 |
| Long-term liabilities | 1,299,542 | 1,001,896 |
| Non-Current Liabilities | 1,299,542 | 1,001,896 |
| Total Liabilities | 4,650,052 | 5,615,604 |
| Minority Interest | 207,901 | 161,356 |
| Shareholders' Equity | 11,559,969 | 10,354,320 |
| Total Liabilities and Shareholders' Equity | \$ 16,417,922 | \$ 16,131,280 |

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Hospital Shared Services Programs

Healthcare Security

Ph. 303-765-3080

Fax 303-871-7103

admin@healthcaresecurity.com

www.healthcaresecurity.com

- Full-Service Security Programs
- TEAM (Techniques for Effective Aggression Management™) Training
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FirstWatch Security

Ph. 303-871-0606

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info@fwsecurity.com

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Fax 303-715-9195

staffing@hospitalshared.com

- Nursing Services
- Mental Health Workers
- Allied Health Personnel
- Radiology, Laboratory, and Ultrasound Technicians
- Medical Office Personnel

Medical Equipment Management

Ph. 303-778-5445

Fax 303-765-2393

medequip@hospitalshared.com

- Medical Equipment Maintenance, including monitors, clinical laboratory equipment, microscopes, respiratory therapy equipment

- On-Site Management Programs
- Capital Asset Shared Savings Management Programs™

Courier Services

Ph. 303-722-4444

Fax 303-722-1695

courier@hospitalshared.com

- 24-Hour Dispatch Center
- Scheduled Service
- Same-Day and Demand Service
- STAT Service

Environmental Health and Safety

Ph. 303-282-4250

Fax 303-733-0253

safety@hospitalshared.com

- Industrial Hygiene Services
- Waste Anesthetic Gas Surveys
- Ethylene Oxide Waste Gas Surveys
- Air Monitoring Surveys
- Lead and Cadmium Monitoring
- Nuclear Medicine Departments
- Noise Evaluations
- Biological Safety Cabinet Certification
- Fume Hoods/Clean Benches
- Laminar Flow Surgical Suites
- Pharmacy Particulate Surveys

Sterilizer Maintenance

Ph. 303-742-2075

Fax 303-742-2090

sterilizers@hospitalshared.com

- Preventative Maintenance, Repair, and Installation of Sterilizers, Washers, and Operating Room Tables/Lights



Hospital Shared Services
1395 South Platte River Drive
Denver, CO 80223
Ph. 303-722-5566
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STRATEGIES for
POWERFUL
PARTNERSHIPS

2004
ANNUAL REPORT

To Our Customers, Shareholders, and Friends:

It is our pleasure to report to you that Hospital Shared Services (HSS) continued its tradition of positive growth and financial stability with a strong balance sheet. Total 2004 revenues were \$57.0 million, compared to \$56.9 million in 2003. The HSS workforce numbered nearly 2,000 at year-end, ranking us among Colorado's largest employers. In the *Modern HealthCare Outsourcing Survey* published in 2004, HSS was ranked the 10th largest outsourcing firm in the country and the third largest clinical/diagnostic equipment maintenance (nonclinical) contractor by total healthcare patients in 2003.

HSS is the second largest hospital cooperative services provider in the United States with 16 diversified service programs. We increased the number of services provided to existing customers in 2004 and we added new customers in targeted areas in our nine-state western U.S. market.

We strengthened our management team across divisions in 2004, adding significantly to our diversity of experience and maintaining our leadership edge in an increasingly complex and growing industry.

HSS benefits enormously from the dedication and expertise of our Board of Directors and we are appreciative of their many contributions in 2004. Thomas C. Puckett of Bonfils Blood Center provided exceptional leadership as Board Chairperson. (After years as a customer, Tom joined HSS as a key member of the leadership team in April 2005.)

Our founding members might be surprised to see how the company they formed in 1967 to serve seven midtown Denver hospitals has grown in size, geographic scope, and stature. But these achievements are testament to their foresight. Their vision of cooperative planning and shared service programs provided by a trusted third party was ahead of its time. It is called outsourcing today and has become an essential element in the business landscape.

HSS has strategically adapted to the growing need for outsourcing applications in healthcare and security. As a result, we have built strong partnerships with customers that have lasted, in some cases, as long as we have been in business. For example, all of the original founding member hospitals still in operation today remain our customers. The Denver Museum of Nature & Science, the first non-healthcare customer of FirstWatch, continues to be a customer. In fact, FirstWatch was specifically asked to protect the Museum's "Treasures of Ancient Egypt" exhibit in 2004. Egyptian officials were pleased with the security measures FirstWatch implemented for protection of the Ramses exhibit in 1985 and wanted to work with us again. We are grateful for the loyalty of these and many other long-term customers and we work hard to continue to earn it.

Examples of the 2004 strategies that helped HSS build and extend powerful partnerships with customers are provided on the accompanying pages. Momentum from execution of these strategies is carrying HSS strongly into 2005. FirstWatch customer, Denver International Airport, renewed this division's contract for another multi-year period. Additionally, the City and County of Denver selected FirstWatch to provide security for city buildings over a multi-year period.

Thank you for your trust and confidence. We look forward to helping you meet your business needs and challenges effectively and efficiently in the years ahead.

Sincerely,



George R. Schiel, MHA, FACHE
President



Donna Kusuda, MS, CPHQ
Chairperson
Board of Directors



2004 Strategies for Powerful Partnerships

Focus on mission and core values

For almost 40 years, Hospital Shared Services (HSS) has devoted itself to a single mission: To provide a diverse array of personalized technical and professional service programs to enhance the value of our customers' business. Our vision is to be the very best at providing value-added and cost-effective operational advantages to all our customers.

The following core values operate as a compass, keeping us on course in an ever-changing business and economic climate:

- Always make things right for our customer
- Be an ambassador for each customer; be integrated into their culture
- Conduct all business with honesty and integrity as individuals and as an organization
- Create innovative approaches to deliver cooperative solutions for customers
- Maintain a reputation for service excellence and program quality
- Value our employees and their contribution to Hospital Shared Services and to our customers

Deliver "above and beyond" service

Because we work so closely with our customers, and are integrated into their culture and industry, we develop extensive knowledge and understanding of their opportunities and challenges. Based on this knowledge, we can anticipate as well as respond to customer needs with service solutions tailored to their operation, budget, and timetable. We empower every HSS employee to go "above and beyond," and to take actions they believe necessary to serve their customers with professionalism and commitment.

Adapt infrastructure

Leading companies adapt to a changing marketplace. We review our infrastructure regularly, and reconfigure it as necessary, to ensure HSS continues to effectively provide the service programs our customers require.

We made a significant investment last year to upgrade the HSS Communications Dispatch Center, the communications heart of our operation. We switched from conventional radio to a state-of-the-art Nextel satellite system, which provides more dependable communications in today's hospitals and healthcare facilities. The Center's new system makes a number of monitoring and reporting functions virtually automatic,

reducing the potential for error and saving valuable seconds in response. In anticipation of future growth, the new Center has eight staff stations, up from four in the previous Center.

The HSS business management system was significantly refined in 2004 to strengthen our financial and accounting systems and provide increased internal controls. We earned high marks from our independent auditors for this infrastructure improvement.

Also in 2004, the HSS Board made the difficult decision to divest the Printing and Forms Management division. We are proud of this division for helping participating hospitals significantly reduce the number of forms in use. But this success led to a revenue decline that was unsustainable. The sale of the division to a new owner was made speedily—in 90 days—but with the utmost concern for employees and customers. At the time of divestiture, all HSS employees had been offered positions by the new owner and printing orders for existing customers continued to be completed with no interruption in service.

Above and Beyond Service



Healthcare Security Officer Michael Brianza was asked to check suspicious activity in his medical center customer's parking lot late one evening. He smelled smoke and decided to look for the source. Walking to an adjacent parking lot, he found a car engulfed in flames. Utilizing the Communications Dispatch Center to call the fire department immediately, Mike then noticed that heat from the flames was beginning to melt the siding on a camper parked nearby. Fearing someone might be inside, he pounded on the camper door. The sleeping occupant awoke and Mike helped him escape the camper before he suffered possible injury or death.

Benefit from diversity

We believe customers are best served by an outsourcing company that has diversity in its business lines, workforce, and leadership expertise and experience. HSS has that diversity. Since its founding, HSS has expanded its service programs from a single business line to 16 today. Each one of these programs was developed to give customers a viable solution to a real need.

The face of the HSS workforce is the face of America. Our staff is split evenly between women and men and 40 percent are minorities, ensuring customers that HSS staff will reflect the people and cultures in the communities they serve.

HSS senior leadership brings a wide array of experience, expertise, and educational background to the company, including, among others, healthcare, security and police administration, hospital administration, finance, and engineering. The combination of these talents gives HSS management broader perspective on, and deeper understanding of, customer needs, industry challenges, and business operations.

Value employees

HSS has a workforce of 2,000 dedicated individuals who understand that they are empowered to do what's right for their customers and to act as ambassadors. Extraordinary results come from that understanding, as the following examples attest.



In 2004, Dave Krueger, Environmental Health and Safety, learned of a new U.S. Pharmacopeia standard for pharmacies requiring airborne particulate monitoring. In talking with pharmacist customers, he discovered that those who were aware of the new requirement were unsure how to comply. Dave developed a new offering through the HSS Safety and Industrial Hygiene program to meet this customer need and implemented it successfully. Business volume is growing strongly.



Joanne Burns, Staffing and Professional Services, was asked, on short notice, to sit with a 17-year-old treatment facility resident who was about to give birth. Her soothing bedside manner and experience as a birthing coach quickly won the mom-to-be's trust. Later,

Joanne actively participated in the young woman's labor and delivery, helping make the experience a positive one for the new mom and her family.



Max Edja, Healthcare Security Officer, has attracted hospital volunteers to his outlying parking lot through friendly, caring service as a shuttle driver, and, at times, singing. He takes care to learn the names of his riders and even visited one regular rider

on his day off when she was hospitalized. Max keeps his bus full of happy volunteers, thus freeing parking spaces close to the hospital for patients.

