

America Service Group's Current CEO Is Focused On Driving The Consistency Of Their Healthcare Service Products At Each Of Their Sites Around The Country



Healthcare
Specialized Health Services
(ASGR-NASDAQ)

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Richard Hallworth
President and CEO

BIO:

Richard Hallworth
President, Chief Executive Officer and
Director, America Service Group;
President, Chief Executive Officer and
Director, Prison Health Services
 Rich Hallworth joined ASG/PHS in
 March of 2006. He has developed a stra-

tegic orientation to managing the leading player in a complex industry in a challenging environment. He couples industry vision with a track record of planning and executing actions necessary to take advantage of anticipated market direction. In the past he has developed and implemented unique clinical, technological and consumer-based programs, improving offerings and services while holding or reducing costs. Mr. Hallworth has expertise in building strategic partnerships to drive cutting-edge initiatives and is a successful team builder with a reputation for honesty and integrity and is known for his approachability. A Certified Public Accountant with a broad range of experience in leading companies through major transformation, his solid finance background and strong record of budgetary management has been shaped by early experience working in public accounting.

Company Profile:

America Service Group Inc., based in Brentwood, Tennessee, is a leading provider of correctional healthcare services in the United States. America Service Group Inc., through its subsidiaries, Prison Health Services (PHS) and Correctional Health Services (CHS) provides a wide range of healthcare programs to government agencies for the medical care of inmates.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Hallworth, how has ASG changed under your leadership?

Mr. Hallworth: "I have been here three years now. I came onboard as COO and was promoted effective January 1st under a planned succession that had been un-

derway for quite awhile. What we have been doing over the last few years is building the consistency of the delivery of our PHS correctional healthcare service product, to make our clinical approach more uniform at each of our sites around the country. I am trying to seize the opportunity now as CEO to make sure we are driving that consistency of quality service at every one of our facilities to make sure we are meeting or exceeding our clients' expectations."

CEOCFO: Has exceeding client expectations always been a hallmark for ASG?

Mr. Hallworth: "PHS always strove to deliver quality care. However, care is being delivered by five thousand professionals in a distributed labor force in 23 states. So it is extremely difficult to maintain the quality without consistent clinical and administrative guidance and leadership and without the tools and technology that help drive that consistency. It has been a challenge in the past."

CEOCFO: You provide healthcare services for over 6% of the incarcerated population.

Mr. Hallworth: "Yes, through our PHS and CHS subsidiaries we provide healthcare to 6% of all inmates in the country."

CEOCFO: How is it structured when you are working with the various correctional organizations, and why are correctional facilities choosing America Service Group?

Mr. Hallworth: "The value proposition for a correctional facility to outsource to a private vendor such as PHS is pretty compelling. We bring managed care to the correctional setting. The rest of the U.S. population is under managed care; the prisons have been under traditional

fee for service and outdated indemnity care. So by bringing managed care tools and techniques to the table we provide the correctional facilities with a first-year savings of 20%-plus in their cost, while maintaining or improving the quality. Then we can sustain that savings in perpetuity, because we operate under a managed-care model. It is a very compelling value-care proposition for a correctional facility especially in these challenging economic times. And America Service Group/PHS set ourselves apart from our competitors by the maturity of our managed care model and our proprietary technology tools.”

CEOFCO: Are you able to provide preventative care?

Mr. Hallworth: “That is our model. Our model is when a prisoner is incarcerated we do an intake assessment within the first 24 hours, when we gauge their current health status. If they need any immediate attention for a condition that they contend with, such as a chronic condition or a mental health or substance abuse issue or they need a pharmaceutical, we screen these conditions early to assess what their needs are. Then we have them seen by a specialist if necessary, order prescriptions and get them into one of our chronic clinics so that we can get their health conditions under management as quickly as possible. We believe the preventative measures will forestall the onset of a higher cost and higher risk issue later on.”

CEOFCO: How do you attract healthcare personnel?

Mr. Hallworth: “It is not as difficult as you might think to attract people to a correctional facility. Certainly, they are going behind bars to work, but there is gratification that our professionals receive for providing service to a population that is in need of healthcare. This is because a significant portion of the incarcerated population has not had access to the healthcare system, and has not been compliant with medical protocols, so they are yearning for quality healthcare. Our practitioners can make a real difference

in the person’s life. Ninety-five percent of the inmates are going to be released back into the public, so this is a very important cog in the public health system, and our people provide that service. A lot of our people are mission-driven; they see this as an opportunity to make a difference in a person’s life.”

CEOFCO: How do you balance the restrictions of the prison setting with the need to provide quality healthcare?

Mr. Hallworth: “We are engaged to provide community standard healthcare; we take that job very seriously. Our professionals in the field don’t view the citizens as inmates; they view them as patients. They are seeking to improve the health status of those inmates. When we employ people we stress upon them the need to

“Correctional healthcare is on very few people’s radar screen. It is not a sexy industry. However, we are in a pretty unique business model. We have no reliance on consumer spending and the service we provide is constitutionally mandated; the Supreme Court ruled back in the 1970’s that prisoners are required to receive community standard care. Prisoners are the only sector of the U.S. population that is guaranteed healthcare. Governments do not have a choice *whether* to provide healthcare; their choice is *who* provides the service.” - Richard Hallworth

make appropriate clinical judgments regardless of the person’s background, or the crimes they have committed, and often our people don’t even want to know what crimes they committed. They are to employ their best clinical judgment. We know that prisoners like to game the system and we see that constantly, but our professionals are trained in that and after guided experience they get a better sense of when an inmate needs a service or when they are looking to attain privileges. So we screen for those concerns regularly.”

CEOFCO: You are in a large number of states, is there any particular geographic distribution?

Mr. Hallworth: “Fifty-eight percent of the correctional healthcare in this country is still self-operated by the states, counties, or municipalities. The opportunities arise for us when the state or county de-

cides to privatize, so our geographic dispersion is principally opportunistic when a facility decides to privatize. We will operate in all fifty states if the opportunity is there.”

CEOFCO: Do you see increased outsourcing in correctional medical care?

Mr. Hallworth: “Yes, we found that in the last recession in the 2001 timeframe, when at that time about 30% of the correctional healthcare was privatized. So states and counties looking to make better use of taxpayer dollars decided that the recession was the impetus for them to privatize. We saw an increase from about 30% upward to about 39% of the population being privatized in the last recession. With this recession, we think it is going to compel governors and county councilors to take a hard look at their budgets. So when they are facing very difficult choices impacting teachers, bridges, roads and Medicaid funding, the opportunity to maintain and improve the quality of prisoner healthcare for a cost savings is a compelling story which we think is going to drive a continued trend towards privatization.”

CEOFCO: I would think that 20-plus savings should do it under any timeframe!

Mr. Hallworth: “It normally would, but when times are flush for government budgets, the need to make the change or the desire to make the change is probably not as driven as it is in leaner times. That is human nature. There are also many advocacy groups and proponents of the status quo that have to be taken on. In these tough times it just tends to give people more laser focus than they would have in more robust times.”

CEOFCO: What is the competitive landscape?

Mr. Hallworth: “There are several players in the privatized industry with two very large players and some much smaller players which operate in generally limited geography or types of facilities, small and medium sized jails and prisons. That is the way we break up the market. The needs of those segments are

different, so there are players that compete in one or more of those segments.”

CEO CFO: Why choose America Service Group?

Mr. Hallworth: “We bring a team of professionals to the table that deliver a quality product in a consistent manner and we have introduced over the last many years the clinical guidance to deliver best practice medicine in each facility aided by technology. One of the key differentiators we offer is our own proprietary PHS electronic medical record called, Catalyst™ that assists our clinical professionals in each patient encounter by guiding them through the very difficult clinical decisions they have to make. Catalyst gives our people the tools they need at their fingertips in order to facilitate the making of good clinical decisions.”

CEO CFO: Do you tend to have long-term contacts?

Mr. Hallworth: “Contracts vary in length. Generally, the smaller the correctional facility size, the shorter the contract, but generally they will run from one to five years of initial contract duration. With potential extension opportunities there may be two to five years on top of that.”

CEO CFO: What is the financial picture like for America Service Group today?

Mr. Hallworth: “We have never been stronger financially than we are today. We are projecting revenues in the \$600 to \$610 million range for 2009. We have been profitable, and we have cash. At March 31st we had \$28 million in cash on our balance sheet and no debt. We are a strong financial player, but some of our major competitors claim financial stability. Therefore, when a prospective client is looking to retain us vs. one of our competitors they need to make sure that their healthcare provider has the financial stability to be there for the long-term. They need to have the financial strength to absorb volatile healthcare costs. The healthcare provider should also have the ability to invest in the kinds of tools, techniques and technology that are required in order to facilitate the improvement of healthcare in the correctional setting. For example, we face the same

needs that are in the commercial setting, driving increased technology and electronic medical records. It takes significant investment to do that and we have the financial strength and the vision that we are executing on.”

CEO CFO: ASG has been using telemedicine for fifteen years, so you are well ahead of the curve!

Mr. Hallworth: “Yes, and we have always employed telemedicine in correctional facilities in one form or another. It started as telephonic and then moved into telemedicine for a number of years, and we are now in a hundred different facilities where we use telemedicine. We believe it is going to have increased applicability as technology improves and as we tie it to our Catalyst electronic medical record so that the remote caregiver on the other side of the screen has not only the patient on a video screen, but also has access to the patient’s entire electronic medical chart. So it improves the quality of care. When you factor in improvements in technology, we think there will be increased opportunities to use telemedicine.

In addition, with the shortage of providers that is projected to worsen in this country for both nurses and physicians, we think telemedicine is an efficient way to leverage a clinician’s time. Telemedicine minimizes the need to have clinicians travel to see our inmates in facilities and eliminates the security risk of transporting the prisoner outside of a correctional facility to be seen by a provider in the community when necessary. However, we not only eliminate that security risk, but eliminate the cost of the officers’ time to transport and secure the prisoner. There is a significant cost savings to the taxpayer by utilizing telemedicine.”

CEO CFO: What is ahead for the company?

Mr. Hallworth: “We are very excited about our future prospects, as we think that there are tremendous growth opportunities for this company. I mentioned that 42% of correctional facilities are privatized, so there are 58% that are not. We offer a tremendous value proposition. We have differentiating factors from our competition in our financial stability,

strong leadership team and the technology that we bring to the table. We think we are situated to win new business and to best satisfy a client’s needs.”

CEO CFO: What should potential investors remember most, and what might people misunderstand about ASG that they need to know?

Mr. Hallworth: “Correctional healthcare is on very few people’s radar screen. It is not a sexy industry. However, we are in a pretty unique business model. We have no reliance on consumer spending and the service we provide is constitutionally mandated; the Supreme Court ruled back in the 1970’s that prisoners are required to receive community standard care. Prisoners are the only sector of the U.S. population that is guaranteed healthcare. Governments do not have a choice *whether* to provide healthcare; their choice is *who* provides the service.

We also have growth potential in this industry. Incarceration rates have increased over the last several decades, so we have a natural increase in population, but we also have tremendous growth potential by seizing opportunities to privatize the portion of the correctional facilities that are still being self-operated.”

CEO CFO: Final thoughts, what should people remember most about America Service Group?

Mr. Hallworth: “We touched on the PHS Catalyst electronic medical record and that is a differentiator, but we also offer a business model that is a catalyst for change in the way this business is delivered. The way we deliver care behind bars is necessarily significantly different than is done in the commercial population, and that is difficult to explain to those who are not involved in healthcare daily. When you go to your physician for your annual physical, he or she might give you a referral to a specialist, or give you a prescription to fill and you go to your neighborhood drug store and fill that. You may or may not take the medications once you fill the prescription, you may or may not follow up and make an appointment with the specialist. However, behind bars it is our job to ensure that if a patient needs to be seen by a specialist, we need to book that appointment and

make sure the inmate actually shows up at that appointment. We need to fill the prescription for them, make sure they line up three times a day, and actually take the medication. The responsibility is on our providers. We have a much higher obligation to assure that the inmate is compliant with the care that is necessary and that responsibility is much greater than clinicians in the community. It changes the way we do business behind bars. There are tremendous opportunities for things to go wrong because the inmate

may not show up, or he is off at court when he is supposed to be seen by a specialist. He may also have moved from one building to another and can't show up because he can't get to the other building for his appointment. Technology has really helped us send out the alerts and triggers that say 'patient #1 should have been here today at ten o'clock and didn't show up.' Now instead of paper being shuffled trying to figure out where the patient is, we have an instant alert and we can go out and retrieve the patient no

matter where he is. The way we do things is much different with technology; it significantly improves the safety of the care. It is really changing the model behind bars and we are very pleased with our Catalyst product that we have developed. It is proprietary, it works behind bars, and it is not a commercial application that someone has tried to "correctionalize." It is built especially for the correction setting. We think it sets the standard for the way technology should be used behind bars to improve patient care."



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