

OUR CODE OF CONDUCT AND ETHICS

As an employee, business partner or stakeholder of Capella Healthcare,
I will make the safety, comfort and well-being of our patients my top priority.

In addition to this, I will

- Be honest and truthful,
- Act with integrity,
- Respect the feelings and viewpoints of others, even if I do not agree with them,
- Be courteous to all,
- Use the resources of our Company wisely and respect the property rights of others,
- Abide by the laws, regulations and directives which govern our Company, and seek advice and counsel if I do not understand these,
- Report known violations or infractions of laws, regulations or directives in accordance with our Company's Ethics and Compliance program.

Capella Healthcare's Code of Conduct provides guidance to all employees and business associates and assists us in carrying out our daily activities within appropriate ethical and legal standards. These obligations apply to our relationships with patients, affiliated physicians, third-party payors, subcontractors, independent contractors, vendors, consultants, and one another.

The Code of Conduct is intended to be comprehensive and easily understood. Though we promote the concept of management autonomy at local facilities in order to meet local needs, the standards set forth in the Code of Conduct are mandatory and must be followed.

The Ethics Line number is 1-866-384-4276. If you are not comfortable discussing a potential Ethics issues with your supervisor, please call this number. The Ethics Line is staffed by an outside firm of former FBI agents and is not connected to Capella Healthcare.

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DEAR EMPLOYEES AND BUSINESS ASSOCIATES:

The healthcare industry is one of the most regulated industries in the nation. Almost every healthcare activity, from dispensing drugs to serving meals to billing for services, is covered by laws and regulations at the city, county, state and federal level. In addition, our industry must adhere to standards set forth by our accrediting bodies, such as the Joint Commission for the Accreditation of Healthcare Organizations (JCAHO).

To help you navigate the complex environment of laws and regulations, we have developed an Ethics and Compliance program that is intended to be both comprehensive in scope and educational in nature. Our goal is to assist you, our employees and business associates, to better understand the regulatory environment and to operate effectively within it. Our program is designed to be available to you.

We also understand that situations will arise where you may be asked to do something you are not comfortable doing or conversely; you may be asked not to do something that you think you should be doing. In some cases, you may have done something that you later learn might have been improper, but at the time you did not fully understand the applicable laws or regulations. In other cases, you may know of possible wrongdoings but you don't know how to disclose the matter without fear of jeopardizing your career. To this end, Capella's Ethics and Compliance function is set up to discover and remedy instances of regulatory non-compliance and protect those individuals who report those instances to us.

We want to assure you that we are entirely committed to an effective Ethics and Compliance program that protects individuals who disclose compliance issues, promotes the highest level of regulatory compliance in our Company and is available to help you understand the legal environment. We expect that you will be equally committed to fostering an environment that treats others fairly and conducts business in accordance with the law.

Tony Fay
*Ethics and Compliance
Officer*

Dan Slipkovich
Chief Executive Officer

Tom Anderson
President

Tom Pemberton
*Sr. Vice President &
Chief Operations Officer*

THE PURPOSE OF THE CODE OF CONDUCT

Capella Healthcare is committed to providing the highest quality service, while conducting business activities honestly, ethically and in full compliance with all federal, state, and local laws and regulations. Employees and associates of Capella Healthcare are expected to act with honesty, integrity and respect for the law and respect for each other. This *Code of Conduct* is a guide of how we will conduct ourselves as we perform our jobs. It's not meant to cover every situation you encounter or every detail of our policies and rules.

It is expected that every employee read, understand and follow the *Code of Conduct*. It applies to every employee, regardless of classification – full-time, part-time, PRN, exempt or non-exempt. This Code also applies to all of those who work on behalf of Capella—physicians, contractors, vendors and other healthcare professionals. The success of the *Code of Conduct* depends on our commitment to act with integrity, both personally and as a company.

Ask your supervisor if you're unclear about any part of this *Code of Conduct* or call The Ethics Line at (866) 384-4276. The phone call is completely anonymous and confidential—answered by an organization independent from Capella or any of its affiliates. Any retaliation for reporting unethical conduct will not be tolerated; retaliation by any individual will mean disciplinary action up to and including dismissal.

Leadership Responsibilities

While all Capella colleagues are obligated to follow the *Code of Conduct*, we expect our leaders to set the example and to be, in every respect, a role model. We expect everyone in the organization with supervisory responsibility to exercise that responsibility in a manner that is kind, sensitive, thoughtful and respectful. We expect each supervisor to create an environment where all team members feel free to raise concerns and propose ideas.

We also expect that they will ensure those on their team have sufficient information to comply with laws, regulations, policies and the resources to resolve ethical dilemmas. They must help create a culture within Capella which promotes the highest standards of ethics and compliance. This culture must encourage everyone in the organization to share concerns when they arise. We must never sacrifice ethical behavior in the pursuit of business objectives.

NEW DEVELOPMENTS FOR 2007

Password Integrity

In 2007, we will vigorously enforce our policy that computer users must keep their passwords confidential and not share them with anyone. In addition, nobody is allowed to log in to the system with another's user ID. You should refuse any requests to log in on behalf of someone else. If you see breaches in this policy, please report them promptly to your Facility Information Security Officer (FISO) or your facility Ethics & Compliance Officer.

Patient Grievances

Capella has adopted a new Patient Grievance and Complaints Management Policy (QM.003). Under this policy, if a patient or family member registers a complaint, please take it seriously and let them know we will get back to them. The complaint should be addressed and resolved at the lowest level possible or referred up the chain of command in accordance with your localized Patient Grievance and Complaints Management Policy. You should respond to the complaint as soon as possible after you have conferred with your supervisor. Occasionally, complex complaints or grievances require further investigation, in which case, an initial response to the patient or family should be made within 7 days and a full resolution of the complaint should be made within 30 days. Patients must also be given the contact information for the Joint Commission Hotline Number; which is (800) 994-6610.

Proper Dates for Forms and Signatures

During 2006, several instances occurred where there was a legitimate misunderstanding as to what date to use when signing off on a record or order. The following will serve to clarify existing JCAHO and other policies:

- Unless otherwise called for by the instructions to the form or a notation by the signature or date block, all signatures and initials must reflect the actual date of the signature or initial.
- In some cases, a form may call for an effective date, such as the date you last spoke with a patient. In such an instance, you may write in the effective date, but if the form also calls for a signature or initial, you must put the current date by the initial or signature. In this case, the form will have two dates, the effective date and the date of the signature or initial.

- If your facility has forms that make the date determination process ambiguous, these forms should be revised as soon as possible. Data elements such as Date Last Observed or Date Last Seen must make it clear that this is an effective date and not the current date. Such forms should also include a signature or initial box which would include the current date.

Verbal Orders

Capella discourages verbal orders for any patient-related services. However, in the event that such orders are necessary, JCAHO standards must be followed. The verbal order must be entered into the record as it is being recited, it must be read back to the person who recited it, and it must be signed, dated and timed by the person who accepted it.

Records Management

By 2007, the original Capella facilities should be in material compliance with Capella's Record Retention Policy (EC.014). This policy is designed to keep records only as long as we need to and to know where they are. All department heads are a part of this process and we ask that you keep your records inventories in compliance with the stated retention periods.

ACCEPTING OR GIVING ITEMS OF VALUE

We do not encourage the giving or receiving of gifts; however, employees who choose to give or receive items must do so only in accordance with this policy. Gifts should never be given or accepted in exchange for or as a reward for business, including referrals to our facilities. Cash or cash equivalent gifts should not be given or accepted. Generally, gifts should be reasonable, appropriate and consistent with normal business courtesies. For example, the gift of a meal at a restaurant for the purpose of furthering or developing a business relationship is generally considered an appropriate business courtesy.

It is against Capella policy to engage in any form of bribery, directly or through an intermediary, including the offer or acceptance of any improper payment, gratuity or gift to obtain business or secure services.

Under no circumstances may a Capella employee solicit a gift.

Charitable Giving

When an individual employee engages in charitable fundraising, or a similar effort, no one should ever be compelled to participate. Similarly, when the company or a Capella facility determines it appropriate to support charitable organizations, no employee should be compelled to contribute to the charitable organization, nor should there be any workplace consequences for such non-participation.

Gifts to Employees, Healthcare Practitioners and Referral Sources

Gifts to employees must be reported in accordance with federal and state tax laws. Employees cannot give any supervisors in their direct chain of command any gifts with a value in excess of \$50. Gifts to employed healthcare practitioners must meet the requirements of our policies governing practitioner relationships. Gifts to potential referral sources or their family members cannot be given except in accordance with separate policies governing gifts to referral sources. This gift policy does not apply to gifts from Capella or its facilities to employees in recognition of employment or volunteer activities or to personal gifts between employees. To ensure compliance with policies governing gifts to potential referral sources, ask the Capella Legal Department prior to considering any such gift.

Gifts to Government Employees

Because government employees are subject to strict federal and state standards, you must not give or accept gifts from government employees except in accordance with government policies. As a result, gifts to or from government employees are prohibited unless pre-approved in writing by Capella's general counsel. Minor refreshments such as coffee in connection with business discussions are allowed.

Gifts to Patients

Gifts to and from patients are highly discouraged because they may give patients not receiving or giving gifts the impression that the care they receive is less than the patient who gives or receives a gift. However, if a gift is not solicited, patient gifts given to employees in gratitude may be accepted if they are of very little value. Handmade items with little marketable value or perishable items such as flowers or homemade cookies may be accepted.

Gifts to patients are only appropriate if they are consistent with the patient's clinical care and if the gift is of very little value. Capella's chief compliance officer can approve a request to give holiday gifts to appropriate parties on a case-by-case basis. You should be careful to avoid the appearance of impropriety or favoritism by including all appropriate patients in the event.

Gifts from Pharmaceutical Companies and Medical Device Manufacturers

While pharmaceutical and medical device manufacturers sponsor necessary and valuable research and training, you should not grant their representatives access or allow them to recommend a product in exchange for gifts, payments, favors or educational opportunities. Anyone who accepts a payment for services from a pharmaceutical company or a medical device manufacturer must follow the conflict of interest provisions of this *Code of Conduct*. Anyone who receives money for educational events from a pharmaceutical representative or a device manufacturer must ensure the event fulfills the Pharmaceutical Research and Manufacturers Code on Interactions with Healthcare Professionals, which can be obtained from the Corporate Compliance Department.

Gifts of Value

Lavish gifts should never be accepted or given. Regardless of the value, employees should refuse any gift that might give the impression of impropriety. Gifts under \$100 in value per person or multiple gifts from a single source valued at \$300 or less per year are considered reasonable. Face amounts of gifts, such as a ticket, are used to determine the value of the item. If you accept a gift such as a meal or ticket to an event, business matters should be discussed and the host or giver of the gift should be present at the event.

ACCREDITATION

In preparation for, during and after surveys, employees or associates will deal with all accrediting bodies in a direct, open and transparent manner. No action should ever be taken in relationships with accrediting bodies that would mislead the accreditor or its survey teams, either directly or indirectly.

ACCURACY, RETENTION AND DISPOSAL OF DOCUMENTS AND RECORDS

No employee or associate may falsify information or cause a document to be misleading. No employee or associate may alter or destroy a document that you know or should know to be relevant to a government investigation, an audit or an internal investigation. We will retain and protect medical and business documents and records, including letters, memos, electronic information or files on disk or tape, e-mails, databases and other forms of correspondence in accordance with applicable laws and Capella's Record Retention policy (EC.014). All employees or associates must follow our comprehensive records retention and destruction policy, which incorporates legal requirements. Do not tamper with records, remove or destroy them prior to the specified date.

Contract Negotiations

We will be honest and participate in fair competition during all contract negotiations whether we are the customer or supplier. We expect that all contracts will be bid, negotiated and performed with the following principles in mind:

- Accurate and truthful representation by all parties;
- Full disclosure with respect to ownership and possible conflicts of interest;
- Compliance with all applicable laws and regulations;
- Decisions will be based on cost, quality and generally accepted industry standards; and
- Completion of all contract specifications and requirements.

BUSINESS PRACTICES

Billing and Coding

We are committed to accuracy in billing and coding practices and to compliance with all governmental and third-party payor requirements. We will provide employee orientation and training, and enforce billing policies, audit procedures and billing controls to ensure each facility bills accurately for its services and only bills for services rendered. We will not present or cause to be presented any false, fictitious or fraudulent claims.

Business Information

Protecting secure and confidential information is the responsibility of every employee. Confidential information is a company asset. Though many of us have access to confidential information for use in the context of our jobs, we will not share this information with anyone unless they have a legitimate need to know and have agreed to maintain its confidentiality. If your employment ends, you are still required to maintain the confidentiality of any information you gained during your employment.

Confidential information includes personnel information, passwords, patient medical and financial records, patient lists and clinical information, research data, pricing and cost information, contract details, company strategy, and information relating to mergers, acquisitions, divestitures and affiliations.

No employee or associate should use any information about Capella Healthcare or its affiliates for your personal benefit. Business information should be disclosed only as required in the performance of your job duties or as authorized by Capella or its affiliates. You may be held personally liable for any benefit gained from improper use of this information or damages resulting from its disclosure. Employees who violate this policy will face disciplinary action up to and including dismissal.

Cost Reports

Capella is required by federal and state laws and regulations to submit certain reports of its operating costs and statistics. We comply with federal and state laws, regulations, and guidelines relating to all cost reports. These laws, regulations and guidelines define what costs are allowable and outline the appropriate methodologies to claim reimbursement for the cost of services provided to program beneficiaries.

All issues related to the preparation, submission and settlement of cost reports must be performed by or coordinated with our Reimbursement Department.

All consulting arrangements that could impact reimbursement amounts from government payers must be approved in advance by the Reimbursement Department.

Cost reports will be completed in an accurate manner, ensuring that the company is reimbursed for costs in accordance with laws and regulations.

Financial Reporting

No employee or associate can create false or misleading entries in any financial record. All funds and assets must be properly recorded. No employee or associate can attempt to defeat any internal control and should report any attempt to do so. Every employee or associate must cooperate fully with any internal or external audit. It is never appropriate to obstruct an audit or mislead an auditor. If you have concerns about any financial reporting issue call The Ethics Line.

Interactions with Physicians

Federal and state laws and regulations govern the relationship between hospitals and physicians who may refer patients to our facilities. The applicable federal laws include the Anti-Kickback Law and the Stark Law. It is important that those employees who interact with physicians, particularly regarding making payments to physicians for services rendered, leasing space, recruiting physicians to the community, and arranging for physicians to serve in leadership positions in facilities, are aware of the requirements of the laws, regulations, and policies that address relationships between facilities and physicians.

If relationships with physicians are properly structured, but not diligently administered, failure to administer the arrangements as agreed may result in violations of the law. Any business arrangement with a physician must be structured to ensure compliance with legal requirements, our policies and procedures and with any operational guidance that has been issued. Most arrangements must be in writing and approved by the Capella legal counsel.

Obtaining Business Through Improper Means

No employee or associate will make any illegal or unethical payments to anyone to cause them to use our services. No employee or associate should ever make a payment that would embarrass the company or any of its facilities if publicly disclosed. No employee or associate will provide anything of material value to any federal, state or local government representative, although most jurisdictions allow small amounts for meals and refreshments.

Referrals

We will not provide or offer to provide financial incentives—monetary or in-kind—to anyone as a way of increasing admissions, referrals or length of stay determinations. We will not make payments or provide benefits, such as free office space, to any physician or health professional providing services to the hospital in return for referrals.

Compensation agreements with non-employed physicians and other providers must be in a written contract that follows all federal, state and local laws and is approved in accordance with company policy. Physicians and health professionals must submit invoices detailing the specific services performed, the date on which the services were performed and, when appropriate, the length of time spent performing such services prior to receiving payment. Also, physician recruiting arrangements must be in accordance with company policies.

All referrals should be made solely on the basis of what is best for the individual seeking treatment and in accordance with state law and regulation. Employees who work with physician arrangements are responsible for understanding and complying with these policies.

Relationships with Payors

Everyone must provide government agencies and other payors with truthful and accurate information in both written and oral statements. Anyone who contributes to medical records in our facilities must provide accurate information. We expect physicians and other health-care professionals who treat patients in our facilities to provide accurate and complete information in a timely manner. Inaccurate or false statements to a government agency or other payor will not be tolerated and could constitute intentional fraud and be subject to civil penalties or criminal prosecution.

Vendors and Subcontractors

Capella is free to choose or refuse to do business with any particular supplier, as long as that decision is made independently and does not involve any agreement with another company or person. Purchasing decisions will be made based on a vendor's qualifications and not on personal associations or friendships.

If you deal with suppliers, you should do so in a reputable, professional and legal manner. We promote competitive purchasing to the maximum extent possible. We select products or services based solely on business criteria such as quality, price, delivery, technical excellence, availability, service and maintenance of adequate sources of supply.

Purchasing decisions should not be based upon compensation paid to the employee making the selection. You should not accept anything of value from suppliers or potential suppliers if that acceptance would raise even the appearance of improper influence.

We also expect the people and companies that work on our behalf to maintain our high standards. If you work with contractors, it is your responsibility to make these companies and their people aware of our program and provide them with a copy of this *Code of Conduct*.

CONFLICTS OF INTEREST

You should avoid any activity that may involve, or may appear to involve, a conflict of interest with your obligations to Capella or the facility in which you work. Employees are expected to pursue the best interests of the company at all times and under all circumstances.

A conflict of interest, or even the appearance, may occur if outside activities or personal interests influence or appear to influence your ability to make objective decisions while conducting business. Outside activities that require or appear to require so much time that your professional duties are negatively impacted may also cause a conflict of interest. It is your responsibility to remain free of conflicts of interest.

Conflicts of interest may also arise when an employee, or a member of his or her family, receives improper personal benefits as a result of his or her position with the company or its affiliates. Loans to employees and their family members are of special concern. Federal law currently prohibits us from making personal loans to directors and executive officers.

You should immediately disclose any potential conflicts of interest involving you or your immediate family members to your supervisor.

If you have any questions about what constitutes a conflict of interest, ask your supervisor, the Capella corporate compliance officer or the Ethics Line.

Competitors and Outside Employment

You must not own more than a one percent interest of other hospitals, suppliers or healthcare industry firms in competition with Capella without the written consent of the hospital CEO or Capella. Additionally, employees should not provide services, receive compensation from or serve as a director to these entities without permission. Any potential violation of this policy must be disclosed and addressed according to Capella's conflict of interest policy.

Do not engage in any illegal or improper acts to obtain competitors' trade secrets, strategies, plans, customer lists, technical developments or information about operations. We will not hire a competitor's employees for the purposes of obtaining this kind of confidential information.

All full-time and part-time employees must obtain prior approval from their supervisors before accepting outside employment or other work activity, including self-employment, if the additional employment could create a conflict of interest.

Remember that you have a duty to advance the company's interests when the opportunity arises. You should not take for yourself opportunities that belong to Capella or its affiliates or are discovered through corporate resources or information. You are prohibited from using these resources for personal gain.

Hiring of Former and Current Government and Fiscal Intermediary Employees

The recruitment and employment of former or current U.S. Government employees may be impacted by regulations concerning conflicts of interest. Hiring employees directly from a fiscal intermediary requires certain regulatory notifications. Colleagues should consult with the Capella Human Resources Department and the Legal Department regarding such recruitment and hiring.

CONTROLLED SUBSTANCES

Many employees have access to controlled substances in the course of executing their professional duties or providing patient care. These substances must be handled and monitored appropriately and the protocols of regulatory authorities must be followed. Any activity that does not comply with controlled substance regulations or Capella policy must be reported immediately.

Substance Abuse

We are committed to providing an alcohol-free and drug-free work environment. All employees must report to work free of the influence of alcohol and illegal drugs. Reporting to work under the influence of alcohol or any illegal drug; having illegal drugs in your system; or using, possessing or selling illegal drugs will result in disciplinary action, including termination. You may be required to undergo a periodic and random drug test as a means of enforcing this policy.

You must be sensitive to the effects of taking prescription or over-the-counter drugs and medications that could impair judgment or other skills required to do your job.

If you have concerns or questions about the effect of these drugs—or any drugs or alcohol—on your work performance or on the performance of another employee, consult with your supervisor or your Human Resources director.

Capella also has a confidential Employee Assistance Program (EAP) which is provided by ComPsych. The toll-free number is (800) 327-1850. All calls to this line are confidential.

EMPLOYMENT PRACTICES AND WORKPLACE CONDUCT

Confidentiality

Confidential information about our organization's strategies and operations is a valuable asset. Although Capella employees may use confidential information to perform their jobs, it must not be shared with others unless the individuals and/or entities have a legitimate need to know the information in order to perform their specific job duties or carry out a contractual business relationship.

Diversity and Equal Employment Opportunity

We are committed to an equal opportunity work environment in which everyone is treated with dignity, respect, fairness and impartiality. We will comply with all laws and regulations concerning recruiting, hiring, compensation, promotions, disciplinary action, staff reductions, employee evaluations, transfers and terminations.

We will not discriminate against individuals with disabilities in any offer, term or condition of employment. We will make reasonable accommodations to the known physical and mental limitations of otherwise qualified individuals with disabilities.

We will not employ or conduct business with an individual whom we know or have reason to believe has been convicted of a felony or any offense related to Medicare, Medicaid, CHAMPUS or other government reimbursement programs. We will not conduct business with individuals listed by a federal agency as excluded or otherwise ineligible for participation in those programs.

Harassment and Workplace Violence

We believe employees have the right to work in an environment free of harassment and violence.

We will not tolerate any form of harassment, sexual or otherwise, from any employee. Sexual harassment may include unwelcome sexual advances, requests for sexual favors in conjunction with employment decisions and verbal or physical conduct that creates an intimidating, hostile or offensive work environment or interferes with work performance. Degrading or humiliating jokes, slurs or intimidation will not be tolerated.

We are also committed to maintaining a violence-free work environment. Workplace violence includes robbery and other commercial crimes, violence directed at anyone, stalking, terrorism and hate crimes by current or former employees. No firearms or other weapons such as explosive devices or dangerous materials are allowed on the premises, except for law enforcement officers on duty.

We will not tolerate a hostile workplace. Any employee or associate who is actively contributing to workplace hostility through methods such as bullying, embarrassing, sabotaging work product or threatening retaliation, will be subject to disciplinary action up to and including dismissal and could be referred to the law enforcement authorities for criminal prosecution.

If you experience or observe any form of harassment or violence, immediately report the incident to a supervisor, the Human Resources Department, the corporate compliance officer or call the Ethics Line.

Personnel Actions and Decisions

Capella treats salary, benefit and other personal information relating to employees as confidential. Personnel files, benefit files, employee health records, payroll information, disciplinary matters and similar information are maintained in a manner designed to ensure confidentiality in accordance with the law. Capella personnel must exercise care to prevent the release or sharing of information beyond those persons who may need such information to perform their job responsibilities.

If an individual's employment or contractual relationship with Capella should end for any reason, the individual is still bound to maintain the confidentiality of information viewed, received or used during the employment or contractual business relationship with Capella. This provision does not restrict the right of an employee to disclose information about his or her own compensation, benefits, or terms and conditions of employment.

Proprietary Information and Trade Secrets

Proprietary information includes information about Capella's methods and processes and anything classified as "Confidential" or as "Intellectual Property." This information should not be discussed with anyone outside the company without authorization and will only be discussed within Capella on a need-to-know basis. The value of the company's proprietary and confidential information will be protected at all times.

Employees may not use or disclose to others, except with the company's written consent or where required by law, any of the following proprietary and confidential information:

- Information regarding the company's customers, pricing policies, methods of operation and proprietary computer systems;
- Financial data such as revenue, budget projections, profit margins, cost of goods, etc.;
- Acquisition and divestiture data including all data related to practice valuation, marketing plans, management agreements, etc.;
- All regulatory information and communications; and
- All other information related to the Company's business, management team and employees.

All requests from media, investors, stakeholders or others for any confidential company information, other than that which is publicly available through annual and quarterly reports to shareholders and through news releases and company website postings, should be referred to the office of the Chief Executive Officer or the Chief Financial Officer. No written response or oral response should be made other than to refer the request to the appropriate office when involving confidential information. Content interviews that do not divulge confidential information are permissible. This policy relates to material information relating to Capella overall and should not interfere with routine communication with partners, physicians or employees.

ENVIRONMENTAL MATTERS

It is the policy of Capella to comply with all applicable federal, state and local environmental laws, including laws regulating the removal and disposal of medical waste. Capella is committed to the proper handling, storage, use, shipment and disposal of all materials that are regulated under any applicable environmental law. All employees will abide by such requirements.

Capella is also committed to maintaining all necessary environmental permits and approvals. Certain employees are charged with ensuring that Capella remains in material compliance with the terms and conditions of any such permits and approvals and with filing any reports and notifications required under any applicable environmental laws. Such employees will ensure that all permit applications, reports and notifications are timely filed. If such employees discover any omission or lack of timely action, they should promptly report this to their immediate supervisor and take appropriate action to correct such omission.

GOVERNMENTAL INVESTIGATIONS

It is our policy to fully comply with all state and federal laws and regulations. We will cooperate with any reasonable request for information from any governmental entity. In doing so, however, it is essential that our employees' legal rights and the legal rights of the company are protected. It is also important that government requests for information be responded to in an accurate, complete and timely manner. You should notify your supervisor, ethics and compliance officer, CEO, the Capella Healthcare Legal Department or the corporate compliance officer immediately if you receive a subpoena, search warrant or other legal document from a government agency regarding Capella's business, whether at home or in the workplace.

We encourage you to cooperate with governmental authorities conducting an investigation; no adverse action will be taken against you for any lawful cooperation. You should be aware that the law guarantees each person the right to be represented by legal counsel during any investigation or inquiry by any governmental agency. Because of the extremely technical nature of these investigations, we believe that Capella should also be represented and that all of our employees should at least be made aware of the opportunity for such representation.

HEALTH AND SAFETY

We will provide employees with a healthy and safe work environment. Our facilities must follow all company policies, government rules and regulations and local practices that promote workplace health and safety. You should be aware of and abide by all health and safety standards that apply to your job duties. Please notify your supervisor immediately if you become aware of a condition or situation that presents a danger or may be in violation of health and safety standards.

INFORMATION SYSTEMS

All communication systems in our facilities, including phone systems, voice mail, Internet and Intranet access and e-mail, are company property and are to be used primarily for business purposes. Reasonable and limited personal use of these resources is permitted, however users or company-owned or maintained systems should presume no expectation of privacy.

You must never share your passwords with others and you must never login using someone else's user ID or allow someone to log in using your user ID.

Patient and confidential information should not be sent through any communication system unless through an approved system that complies with HIPAA.

Employees should not use any communications system to post, store, download or transmit any illegal, threatening or obscene matter. You should not knowingly, recklessly or maliciously use these resources to distribute false materials. Do not use communications systems to send or solicit chain letters or spam and do not violate copyrights. We consistently monitor company communications systems.

LICENSE AND CERTIFICATION RENEWALS

Capella employees and individuals retained as independent contractors must maintain any professional license, certification or other accreditation required by state or federal law. You will not be allowed to work without a valid license or certification if it is required of your position. To ensure compliance, you may be required to show proof of your current license status.

MARKETING AND ADVERTISING

Our facilities will not use advertising or marketing programs that cause confusion between our services and those of our competitors and we will not degrade our competitors' business or operations. We will comply with all state and federal requirements concerning advertising. All advertising and marketing materials that contain the Capella Healthcare logo and information must be submitted to the Ethics & Compliance officer for review and approval prior to distribution. Specific claims about the quality of our services must be supported by evidence and all advertising about price must accurately reflect the true charge for our services.

All Capella advertising must be truthful, fully informative and not misleading. We may use marketing and advertising activities to educate the public, provide information to the community, increase awareness of our services and recruit employees.

MEASURING PROGRAM EFFECTIVENESS

We are committed to assessing the effectiveness of our ethics and compliance programs through various efforts. We will routinely conduct internal audits of issues that have regulatory or compliance implications. Responsible executives will routinely undertake monitoring efforts in support of policies and compliance in general.

PATIENT CARE

Admissions and Treatment

We treat all patients with compassion and respect. We provide quality healthcare that is necessary and appropriate. We do not discriminate in the admission or treatment of patients, and we will not make any distinction based on a patient's age, gender, disability, race, sexual orientation, religion or national origin. Our facilities will admit only those patients who need and will benefit from our treatment.

Emergency Treatment

We will comply with the Emergency Medical Treatment and Active Labor Act (EMTALA) in providing emergency medical treatment to all patients—including pregnant women and their unborn children—regardless of their ability to pay. Anyone who comes to one of our facilities with an emergency medical condition will be given a prompt medical screening examination and necessary stabilization within the capability and capacity of the facility. If medically necessary, the emergency patient will be admitted and treated or stabilized. A patient will only be transferred if the facility does not have the capacity or capability of treating him or her, or if the patient or guardian requests the transfer. The patient will be transferred to an appropriate facility, after the facility receiving the patient provides formal acceptance. In medical emergencies, or if the patient is in labor, we will not delay the medical screening examination or necessary stabilizing treatment in order to collect financial and demographic information.

Patient Rights and Confidentiality

Each patient or their representative will receive a written statement of patient rights upon admission. We will respect these rights throughout the individual's treatment unless otherwise required by state or federal law.

In the course of providing care, we may collect information about a patient's medical condition, past treatments, family history or medication. We will be sensitive to the personal nature of this information, and we will maintain its confidentiality at all times. Patient information will not be released or discussed unless it is necessary to serve the patient or required by law.

We will comply with the Health Insurance Portability and Accountability Act (HIPAA) in our access, use, disclosure and processing of our patients' protected health information. Immediately upon treatment at one of our facilities or enrollment in our health plan, we will notify our patients of how we might use their information and their rights under HIPAA. We

will abide by the policies and procedures established to maintain the confidentiality of protected health information, and we will protect this information regardless of its form or medium. Adequate safeguards will be taken when communicating protected health information in written, oral or electronic form.

Subject only to emergency exceptions, we will not share our patients' protected health information without their permission except when authorized under HIPAA for treatment, payment or healthcare operations, by written patient authorization, or if required by law. In all cases, we will share the minimum amount necessary to fulfill our legal obligations.

Research

For any Capella facility that conducts healthcare research, we will comply with all laws and regulations governing the clinical and financial aspects of that research. We will not tolerate research misconduct of any kind. Any research involving a human subject must be in conjunction with an Institutional Review Board and consistent with company policies.

We will fully inform all patients who participate in a research project of their rights and the services available to them. Patients will be given a complete explanation of the risks, expected benefits and alternatives.

Treatment Plans

We are committed to creating a safe, compassionate treatment environment where patients and their families understand their individual condition or illness, as well as the recovery process. As soon as possible, we will provide the patient or the patient's representative with information regarding the diagnosis and anticipated treatment plan.

We will provide a clear explanation of the right to refuse or to accept care or to make advance directives, the risks and benefits associated with available treatment options, organ donation or procurement and financial and insurance information. Discharge planning begins at the time of admission and continues throughout the treatment process. The patient, patient's family or guardian and the clinical team will be involved in the discharge planning process.

Patients will only be admitted for medically necessary reasons. Patients will be discharged when continued treatment is no longer medically necessary. We strive to provide health education, health promotion, and illness-prevention programs as part of our efforts to improve the quality of life of our patients and our communities.

PERSONAL USE OF COMPANY RESOURCES

We are all responsible for using company resources and assets wisely, including time, materials, equipment, supplies and information. These resources are to be maintained and used for business purposes only. The occasional use of items that are negligible in cost, such as telephones and insignificant copying, are permitted. The use of company assets for personal financial gain unrelated to the organization is not allowed. All employees must obtain prior written approval from their supervisor to use company assets for charitable reasons.

POLITICAL PARTIES, CAMPAIGNS AND GOVERNMENT RELATIONS

Complex laws govern campaign contributions by corporations such as Capella. Because of this, Capella's corporate Ethics & Compliance Officer also serves as its executive in charge of Government Relations. All political activities conducted while "on the clock" at Capella, including campaign contributions on behalf of Capella, should be cleared by the Government Relations office of Capella.

Some definite prohibitions of political activity include:

- Making corporate or PAC contributions without first getting this cleared by Government Relations. (Note: Corporate contributions are never allowed for federal races and are prohibited in many states.)
- Including personal campaign contributions on your expense report.

Capella, like many other organizations, tries to be active in the political debate. We see this as being good citizens and advocating for things like fair Medicare payments for our senior citizens and clean drinking water for our children.

At times, Capella may ask employees to make personal contact with government officials or to write letters to present our positions on specific issues. Such participation is strictly voluntary. Moreover, it is part of the role of some Capella management to interface on a regular basis with government officials. If an employee is making communications on behalf of Capella, the employee must be familiar with any regulatory constraints and observe them.

Capella operates a political action committee (PAC). All campaign contributions and PAC operations will be conducted in accordance with federal and state laws and regulations. In jurisdictions where political contributions by corporations are lawful, exceptions to these policies may be considered. Such exceptions must be approved in writing and in advance by the company's Government Relations executive.

PUBLIC COMPANY REPORTING

While we are a privately held company, from time to time, Capella may be required to file periodic reports with the Securities and Exchange Commission, other governmental agencies, investors or the media. We will take our public disclosure responsibility seriously and expect each employee to take reasonable steps to ensure these reports and other public communication provide full, fair, accurate, timely and understandable disclosure regarding our financial and business condition.

If you are aware of any information that affects the disclosures we make in public filings, you must promptly report this information to Capella's chief compliance officer or to the Ethics Line.

In addition, you should promptly report any information you may have concerning significant deficiencies in the design or operation of internal controls that could adversely affect our ability to record, process, summarize and report financial data or any fraud, no matter how small, involving Capella's management or other employees who have a significant role in the company's financial reporting, disclosures or internal controls.

Antitrust

Capella competes aggressively in an ethical and legitimate manner. Antitrust laws are designed to create a level playing field in the marketplace and to promote fair competition.

These complex laws prohibit the following:

- Illegal or deceptive marketing activities;
- Price-fixing arrangements with competitors;
- Conspiracies to limit employee salaries or benefits; and
- Any activities that limit open business competition.

Antitrust laws could be violated by discussing Capella business with a competitor, such as how our prices are set, disclosing the terms of supplier relationships, allocating market share among competitors or agreeing with a competitor to refuse to deal with a supplier.

In general, employees should avoid discussing sensitive topics with competitors or suppliers, unless they are proceeding with the advice of the legal counsel. Employees also must not provide any information in response to an oral or written inquiry concerning an antitrust matter without first consulting the legal counsel.

Copyright Laws

Print and electronic materials (including audio, video and software) are often protected by copyright laws. Capella employees are expected to respect and comply with these laws, which ensure those who created these materials receive proper credit and compensation for their work. We will not reproduce articles, pamphlets, software or other electronic materials, without written permission from the writer or publisher. Certain exceptions apply for intellectual property in the public domain or covered under so-called “Open Source Licensing.”

Gathering Information about Competitors

It is not unusual to obtain public information about other organizations, including our competitors, through legal and ethical means such as public documents, public presentations, websites, magazine articles and other published and spoken information. However, employees should avoid seeking or receiving information about a competitor through other non-public means if they know or have reason to believe the information is proprietary or confidential.

Insider Information

You may become aware of non-public information about the company that would influence an investor’s decision to buy or sell our securities. You should discuss this information only on a “need to know” basis. You may not trade in the market or influence others to trade in the market on the basis of material non-public information. As part of your duties you may also find out about material non-public information about other organizations. You may not trade on this information either. It is illegal and you could go to jail. You are also prohibited from discussing insider information with others, such as family members, friends, or business colleagues until the information becomes public. If you have any questions, contact Capella’s Legal Department.

OUTSIDE EMPLOYMENT

No employee shall have any outside employment or any outside business activity, which:

- Involves the use of Capella property or facilities;
- Materially diverts the employee’s time, attention or energy away from Capella business; or
- Interferes with the performance of the employee’s duties.

No employee shall serve as a director of a for-profit business entity or organization without the approval of the Chief Executive Officer or, in the case of the Chief Executive Officer, the approval of the Board of Directors.

RELIGIOUS AFFILIATIONS

Capella does not support or endorse any specific religious organization. However, the company respects the rights of each of its employees to engage in the political and religious activities of his or her personal choice. Discrimination or harassment based upon political or religious preferences is not tolerated. Employees are reminded that all political and religious activities are to occur on the employee’s personal time and must not interfere with work responsibilities.

REPORTING IMPROPER PRACTICES

Reporting Improper Practices

We expect our employees and associates to report questionable or unethical actions.

Some examples would include:

- Admitting a patient for a reason other than medical need,
- Transferring a patient in violation of EMTALA rules,
- Keeping a patient in the facility for reasons other than medical need,
- Paying professionals to refer or admit patients,
- “Upcoding” or billing for services not provided,
- Providing services in violation of federal or state regulations,
- Using accounting practices in violation of Capella policies,
- Allowing a vendor’s gift to influence a business decision,
- Inaccurate or misleading advertising,
- Disclosing confidential information,
- Giving a corporate campaign contribution to a U.S. Senator,
- Harassing or discriminating against others,
- Violating OSHA and other environmental regulations,
- Engaging in any activity that involves a conflict of interest, and
- Violating securities laws, insider trading and other laws, rules and regulations.
- Delivering low quality care

Also report incidents that could potentially harm patients or co-workers.

Examples would include:

- On-the-job substance abuse,
- Stealing or accepting bribes or kickbacks,
- Using company resources for personal use or gain,
- Accepting lavish entertainment, gifts and gratuities,
- Violating internal accounting controls,
- Processing fraudulent transactions,
- Committing or failing to report harassment or discrimination,
- Logging in with another's user ID,
- Being asked to lie to cover another employee's mistake,
- Violating patient rights,
- Disregarding health and safety laws,
- Using a company computer to send inappropriate e-mail,
- Disclosing confidential information unnecessarily,
- Improperly using intellectual property or computer data,
- Improperly retaining or disposing of company records,
- Violating copyright laws or stealing software, and
- "Covering up" any violation of this *Code of Conduct*. Report suspicious or questionable behavior even if you're not sure there is a problem.

Sometimes a small detail of a situation is discovered to be a part of a much larger problem. It's important to remember that even the appearance of a conflict of interest or a violation can be serious.

Training and Communication

Comprehensive training and education has been developed to ensure that employees throughout the organization are aware of the standards that apply to them. *Code of Conduct* training is conducted at the time an individual joins the organization and annually for all employees. Compliance training in areas of compliance risk (e.g., billing, coding, cost reports) is required of certain individuals. Company policies outline the training requirements.

THE ETHICS LINE (866) 384-4276

The Ethics Line is a confidential telephone hotline to report ethics and compliance violations or concerns or ask questions about suspicious behavior. Currently, the Ethics Line is answered by communication specialists in Nashville, Tennessee who work for a company called Operations Security, L.L.C. This company is independent of Capella Healthcare or any of its facilities or affiliates.

You can call the Ethics Line, from any location—even your home. It's a free call and completely confidential. You do not have to give your name.

When you dial (866) 384-4276, a specialist will answer the phone and ask you which facility is involved. He or she will then listen to the details of your concern and take notes. The specialist may ask follow-up questions to make sure he or she understands the situation. At the end of the call, the specialist will give you a confidential case number, a security code and a date to call back if you want an update on the situation.

After each call, the specialist will report the information to Capella's chief compliance officer for investigation. During and after the investigation, the Ethics Line will be updated, so you can check back and get the latest information on the investigation and its results.

Regardless of the outcome of the investigation, we do not tolerate retaliation against anyone for reporting concerns or suspicions in good faith.

JCAHO HOTLINE

In addition to Capella's Ethics Line, JCAHO has a hot line that can be accessed by employees, physicians and patients. The number is (800) 994-6610. You are free to use this hot line if, for any reason, you do not wish to use the Capella's Ethics Line.

YOUR RIGHT TO REMEDIES UNDER THE FALSE CLAIMS ACT

As discussed in this *Code of Conduct*, it is a civil offense and possibly a criminal offense, to knowingly submit false claims to the United States government. The Federal False Claims Act contains provisions that allow citizens with evidence of fraud against government contractors and programs to sue, on behalf of the government, in order to recover stolen funds. In addition, several states also have false claims statutes. Citizens are protected under the Federal False Claims Act, and most state statutes, from harassment, demotion and wrongful termination. You can find out more about this process by visiting www.capellahealth.com/ethics.

ACKNOWLEDGMENT OF THE CODE OF CONDUCT

Acknowledgment Process

Every year, Capella requires all employees to sign an acknowledgment confirming they have received the Code, understand that it represents mandatory policies of Capella and agree to abide by it. Employees should expect to complete the acknowledgment process annually, as the *Code of Conduct* is a living, changing document, in order to comply with the most current changes in regulatory policies. New employees are required to sign this acknowledgment as a condition of employment and must receive *Code of Conduct* training within 30 days of employment.

2007 CALENDAR YEAR ACKNOWLEDGMENT

I have read and understand this Code of Conduct, and I agree to follow its policies and practices. I understand that it is my responsibility to report any activity or behavior that violates this Code. All potential conflicts of interest are noted below on the disclosure form.

PRINT NAME HERE

SIGNATURE

DATE

DISCLOSURE OF ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

The following actual or potential conflicts of interest are being disclosed in accordance with provisions of this Code of Conduct:

(Note: you must disclose conflicts each year by means of this form.)

Ethics Line (866) 384-4276