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HEALTH FACILITIES &
SERVICES REVIEW BOARD

February 11, 2019

Hand-Delivery

Quincy Physicians & Surgeons Clinic, S.C.
1025 Maine Street
Quincy, Illinois 62301

Re: Joint Venture of the Quincy ASC

Dear Board of Directors:

This letter sets forth a starting point for discussions with physicians of Quincy Physicians & Surgeons Clinic, S.C., d/b/a the Quincy Medical Group ("QMG"), and the Blessing Health System ("Blessing") regarding a joint venture of the Surgery Center of Quincy located at 1118 Hampshire Street in Quincy, Illinois (the "Quincy ASC"), a wholly-owned clinical operating component of Blessing. In creating this starting point, Blessing has considered best practices in ambulatory surgery center operations as well as legal compliance requirements for physician-hospital joint ventures. We believe a joint venture with the local providers would benefit the entire community by helping us further standardize and enhance patient care, control costs, increase quality, and provide even greater efficiency of and access to ambulatory surgical services.

1. **Quincy ASC**

In order to allow for the Quincy ASC to be jointly owned with physicians, the Blessing will form a new legal limited liability company ("NewCo"). Blessing will transfer the operating assets and any related liabilities of Quincy ASC to NewCo. Blessing will transfer the ASTC license to NewCo. In addition, Blessing will assign relevant contracts (including its real estate lease) to NewCo and, as applicable, establish new contracts where necessary (including a hospital transfer agreement with Blessing Hospital, and any necessary contracts for Blessing to provide IT and revenue cycle services). Active employees of Quincy ASC will be established at NewCo, preserving their current levels of compensation and benefits. Finally, NewCo will establish a medical staff governance structure and quality assurance oversight (discussed further under Governance).

As you are aware, Blessing is in the process of designating the status of the Quincy ASC from a hospital outpatient department to a freestanding ambulatory surgery center. Blessing will also assign the Medicare provider number to NewCo in order to ensure continuous operation of Quincy ASC.

2. Valuation and Ownership Structure

Blessing will engage a qualified valuation firm with experience in ASC valuation assignments in order to determine the fair market value of Quincy ASC. The fair market value of the Quincy ASC will substantively determine the appropriate valuation the equity of NewCo.

Blessing (or a controlled affiliate of Blessing) will retain the majority (no less than 60%) of NewCo's equity. Once NewCo is established, Blessing plans on syndicating up to 40% ownership in NewCo to eligible physician owners who may purchase equity ownership interests for cash at fair market value. Individual physician investors will be offered equity ownership interests of 1.0% to 3.0% to accommodate the surgeons and other providers who use the Quincy ASC and are most likely qualified investors.

3. Eligible Physician Owners

NewCo will have an operating agreement (the "Agreement") that would describe the eligibility of physicians to qualify and maintain equity ownership in NewCo. In addition to being licensed physicians in good standing and eligible to participate in Medicare, in order to ensure consistency with Blessing's quality assurance efforts all physicians must be members in good standing on the medical staff of Blessing Hospital and to meet all credentialing requirements to be on the medial staff of Quincy ASC. In addition, all physician must be considered active surgeons (i.e., at least one-third of medical practice income for 2018 must be derived from the physician's performance of surgical procedures in an ASC or a hospital) and be in a position to perform at least one-third of his or her surgical procedures at the Quincy ASC.

4. Offer to QMG Physicians

Blessing welcomes the participation of QMG surgeons meeting physician eligibility in the NewCo joint venture. Given the clinical and operational need to focus the Quincy ASC on certain procedures, we will want to discuss which QMG physicians make the most sense as investors in NewCo. However, we believe most of the QMG physicians currently active at Quincy ASC would be invited to be physician investors.

5. Corporate Partner

Blessing is in the process of exploring potential management company partners to manage and potentially invest in NewCo, i.e. a "corporate" partner. Blessing believes such corporate partners offer best practices and state-of-the-art expertise in running ambulatory surgery centers. In order to make substantive performance improvement at Quincy ASC and better ensure future success for Blessing and its physician partners (including any QMG physicians), we believe the corporate partner must serve as the exclusive manager of Quincy ASC.

6. NewCo Governance

The Agreement entered into by Blessing, its physician partners, and any corporate partner will describe the governances of the NewCo joint venture. Blessing envisions there will be a

governing board of NewCo (the "Governing Board") that would consist of Blessing and physician representatives. Representation and voting on the Governing Board would reflect proportional ownership interests in NewCo.

Certain actions of NewCo would require a super-majority approval, including a majority of physician owners. These actions would include (i) decisions to dissolve NewCo or discontinue operation of the Quincy ASC; (ii) a capital call to NewCo equity owners; (iii) amending the Agreement, (iv) NewCo entering into a line of business other than the ownership of Quincy ASC; (v) the merger, consolidation or sale of substantially all of the assets of NewCo or the Quincy ASC; (vi) borrowing or guaranteeing any indebtedness or granting a lien or other encumbrance on any assets of the NewCo or the Quincy ASC; (vii) the transfer of interests in the NewCo by an equity investor; (viii) admitting additional physician equity investors in NewCo; and (ix) establishing policies for distributions of NewCo's cash to its equity owners.

Blessing also envisions physician equity owners to hold primary discretion over (i) appointing a medical director for the Quincy ASC (which may be a QMG physician); and (ii) appointing a quality committee charged with delineating the clinical protocols and clinical decision-making standards at the Quincy ASC.

Finally, Quincy ASC will continue to further Blessing's healthcare mission. Quincy ASC will participate in Medicare and Medicaid and continue to offer charity care consistent with Blessing's policies. The Agreement will provide that Blessing may take any unilateral actions in the event NewCo is engaging in activities that potentially compromise Blessing's tax-exempt status.

7. Other Terms

As common in these types of joint ventures, all physician equity owners in NewCo will agree to non-competition and non-solicitation provisions in the Agreement. This provision will require a physician owner cannot own or manage another ASC within 30 miles of Quincy ASC, and that this covenant not to compete will extend three (3) years following any physician equity owner's withdrawal or termination from NewCo. The transactions contemplated by this letter are subject to all applicable legal and regulatory requirements.

If QMG is interested in pursuing the proposal outlined in this letter, then Blessing respectfully requests the certificate of need application for the ASTC be withdrawn at this time to provide the parties with the opportunity to explore an arrangement. Also, Blessing requests QMG to form a working group of physicians active at Quincy ASC. This working group would begin meetings with Blessing (and potentially a corporate partner) to begin planning the launch of NewCo. Blessing will retain the services of a consulting firm and law firm to assist in this effort.

This letter is intended to be a non-binding expression of interest and act only as an invitation for further discussion between the parties. If Blessing does not receive a written expression of interest to pursue the proposal by 5pm on March 4, 2019, then Blessing will assume QMG is not interested and the proposal will be deemed withdrawn.

Quincy Physicians & Surgeons Clinic, S.C.
February 11, 2019
Page 4

We look forward to hearing from you. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Maureen A. Kahn". The signature is fluid and cursive, with a large initial "M" and "A".

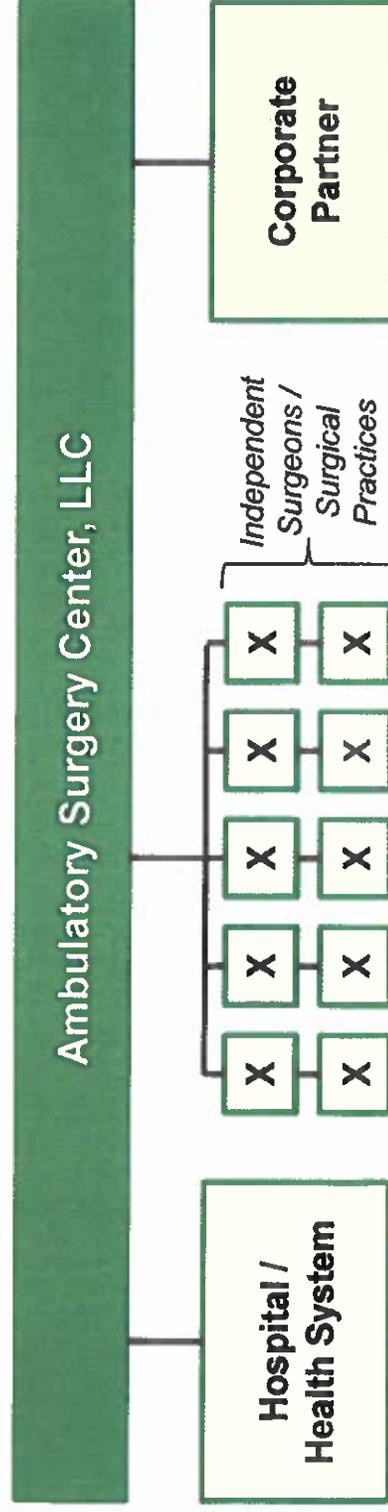
Maureen A. Kahn
President/CEO

MAK/sem

HOSPITAL-PHYSICIAN-CORPORATE PARTNER MODEL

Strategic Rationale: *Incorporates a corporate partner (a third party manager) that brings development and operational expertise to the joint venture*

- This is a very common ASC joint venture model; preferred structure for industry leaders USPI and SCA
- Main focus of the corporate partner will be recruiting impactful physician investors
- Corporate partners provide management services to the ASC in return for a fee of 5% to 7% of net revenue (or net collections)





CONCEPT REMODEL PLAN-THIRD FLOOR

AMBULATORY SURGERY CENTER REMODEL

QUINCY, ILLINOIS

ERDMAN

JANUARY 16, 2019