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Jed M. Nosal, Chief
Business and Labor Bureau
Office of the Attorney General
One Ashburton Place
Boston, MA 02108

Dear Mr. Nosal

This firm represents Quincy Medical Center, Inc., and its affiliated entities[1/] (collectively, "Quincy"), in connection with the proposed transfer of substantially all of the assets of Quincy to a wholly-owned indirect subsidiary of Steward Health Care System, LLC ("Steward"). This letter is Quincy's notice to the Attorney General pursuant to the provisions of Section 8A(d) of Chapter 180 of the Massachusetts General Laws ("Section 8A(d)").

For the reasons set forth below, we respectfully submit that the proposed transaction (the "Transaction"), which is the culmination of Quincy's multi-year review and evaluation process, is in the public interest and complies with the laws governing Massachusetts charities as required by Section 8A(d). Quincy requests that you find that Quincy's actions in deciding to pursue the Transaction and the Transaction itself satisfy the criteria set out in Section 8A(d) and that you assent to the Transaction in the bankruptcy proceeding described below.

I. INTRODUCTION

A summary of the Transaction and a copy of the executed Asset Purchase Agreement ("APA") are attached as Exhibit A. As you are aware, on July 1, 2011, Quincy filed a petition for relief under the U.S Bankruptcy Code (the "Code")[2/] and is operating its business in the ordinary course as a debtor in possession. The APA is structured in a manner that contemplates Bankruptcy Court approval of the Transaction, subject to the applicable provisions of the Code. The bankruptcy filing was made necessary by Quincy's dire financial condition and to avoid the failure, and closing, of the acute care hospital operated by Quincy in the City of Quincy (the "City"). (Exhibits B through D contain, respectively, the Petition in the Bankruptcy Court, the Motion for a Sale Order and an attendant affidavit of Quincy's Chief Financial Officer.)

1/ Quincy's affiliates, both of which are also parties in the bankruptcy proceeding described below, are QMC ED Physicians, Inc, ("QMC ED") and Quincy Physician Corporation ("QPC"). QMC ED is a charitable corporation and QPC is a taxable non-profit corporation formed under Chapter 180 of the Massachusetts General Laws.

2/ The lead case for the affiliated Quincy entities is In re: Quincy Medical Center, Inc., Chapter 11 Case No. 11-16934-MSH (Bankr.D.Mass.)

The Transaction, in conjunction with the conclusion of the bankruptcy proceeding, will enable Quincy to sell its operating assets to Steward free and clear of its secured and unsecured debt obligations and allow Steward to continue the operations of the hospital currently operated by Quincy following consummation of the Transaction (the "Closing) as the "New Quincy Hospital."[3/] As a result, the New Quincy Hospital will be debt-free, will have substantially greater access to capital under its new ownership, and will be able to continue to provide high-quality lower-cost community-based health care, retain the jobs of the approximately 1,100 individuals currently employed at Quincy, meet its ongoing commitments to the communities it serves, and thereby advance Quincy's historical mission. The New Quincy Hospital will be part of Steward's accountable care organization, fully benefiting from Steward's existing and ongoing investments in health information technology and community-based care.

Pursuant to the APA, Steward will:

- pay Quincy at least $35 million, and potentially as much as $38 million, which Quincy will apply toward the discharge of its secured and unsecured debt;
- assume certain of Quincy's liabilities related to its current operations, including employee-related liabilities;
- hire virtually all of Quincy's employees, including employed physicians, and recognize its current unions;
- assume Quincy's Medicare and private payer provider agreements;[4/]
- establish a local governing board committee that will have responsibility for approval of major borrowing, substantial changes in services, strategic planning, capital and operating budgets, capital expenditure prioritization, filing of new Determination of Need applications, medical staff matters and community benefit planning;
- retain all of Quincy's current services for a minimum of 7 years and for as long as 10 years following the Closing;
- expend or commit to expend $34 million on capital expenditures and investment at the New Quincy Hospital within the first 5 years following the Closing;
- expend or commit to expend an average of between 110% and 125% of New Quincy Hospital's annual depreciation expense for the Hospital's routine needs for the second 5 years following the Closing (approximately $20 million over the 5 year period);

[3/] Quincy will retain all donor-restricted funds and assets, as well as any right to receive or expectancy in any charitable gift, grant, bequest or legacy. These assets will not be subject to the bankruptcy proceeding but will be disposed of through proceedings in the Massachusetts Supreme Judicial Court.

[4/] The New Quincy Hospital will participate in the Medicaid program as well, but, because of the rules applicable to that program, it will not assume Quincy's current Medicaid provider number.

- maintain at least the current level of Quincy's charity care and community benefits; and
- recruit and retain physicians needed by the community.

On June 27, 2011, after careful deliberation, consideration of other alternatives and following a lengthy review process described in more detail below, the Quincy Board of Trustees[5/] voted unanimously to enter into the APA. In the Quincy Board's judgment: (A) it is impossible for Quincy to continue operations in its charitable form; (B) through the Transaction Quincy will receive fair value for its assets; and (C) the Transaction will allow the New Quincy Hospital to: (1) maintain a debt-free community acute care hospital, (2) secure access to capital for service expansion, infrastructure investment and routine maintenance, (3) assure the continuation of hospital services within the City and for the surrounding communities, and (4) partner with a clinically and financially integrated health care delivery system. In reaching this conclusion the Quincy Board acted with due care and loyalty, avoided conflicts of interest, and relied upon the advice of qualified, independent consultants while exercising prudent business judgment.

II. BACKGROUND

Quincy is currently a private, non-profit community acute care hospital located in the City of Quincy. It was originally founded as a municipal hospital, Quincy City Hospital, in 1890. For more than 120 years, it has served the City and the surrounding communities. Quincy provides a wide range of inpatient and outpatient medical and surgical services. It has 196 licensed beds, approximately 91 staffed beds, and a medical staff that includes over 340 physicians. Among the services Quincy provides are emergency services, general surgery, vascular and endovascular surgery, surgical oncology services, cardiovascular care, stroke services, geriatric care, including geriatric psychiatry, and women's health services. Radius Specialty Hospital operates a 38-bed long term acute hospital satellite on Quincy's premises under Radius' license.

In 1999, the City transferred the assets and a majority of the liabilities of the municipal hospital to Quincy through a home rule petition, Chapter 94 of the Acts of 1999 ("Chapter 94," see Exhibit E). Chapter 94 provided, *inter alia*, that Quincy would retain emergency services and could terminate them only with approval of the City's Mayor and City Council. The deed transferring the hospital premises from the City to Quincy (the "Deed") required compliance with this provision of Chapter 94. (See Exhibit F.) The City and the Commonwealth provided

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5/ Quincy is governed by a Board of Trustees (the "Board") that consists of 11 trustees who serve staggered three-year terms, and which meets at least 11 times per year. Two trustees are appointed by the Mayor and 4 are elected by the Board from candidates nominated by the Nominating Committee, of which number at least 3 are to be persons who work, reside or regularly perform professional services in Quincy's service Area. Three additional trustees are to be members of the Medical Staff and the President of Quincy and the President of its Medical Staff serve *ex officio*.

some financial benefits to facilitate this transfer, but expectations regarding the amount of financial support that would be made available to it were never fully realized. From its inception as a private non-profit hospital Quincy was inadequately capitalized.

In 2006 Quincy engaged FTI Cambio to identify performance improvement opportunities. In 2007 Quincy applied for and received a $2.5 million grant from the State's Essential Health Care Provider Trust Fund (the "Fund"). In 2008 Quincy received a second grant of $2.5 million from the Fund. In 2009 Quincy received a third grant of $2 million from the Fund and in 2010 the grant decreased to $1.1 million. No grant from this source is forthcoming for 2011.

In May 2008, Quincy issued $60.25 million of variable rate Massachusetts Health & Educational Facilities Authority ("MHEFA") Series A Revenue Bonds. The proceeds from the issuance of the bonds were used to refund Quincy's outstanding 1993 Bonds in the amount of $35.17 million and to improve the hospital infrastructure. However, Quincy continued to experience a significant decline in financial operating performance. As a result of Quincy's continued economic decline, at the end of fiscal year 2009 it failed to meet a minimum days of cash on hand bond covenant, which triggered the requirement of an operational assessment of Quincy by Alvarez & Marsal.

Quincy has sought to improve its competitive position through affiliations with other hospitals, particularly academic medical centers. The City recognized the need for such a relationship in Chapter 94, by including provisions relating to a clinical partnership between Quincy and Boston Medical Center ("BMC"). The clinical partnership with BMC commenced in 1999, and lasted for ten years. However, in fiscal year 2009, BMC and Quincy concluded that BMC was no longer able to provide needed support to Quincy and the relationship began to wind down. Quincy then entered into a brief clinical affiliation with South Shore Hospital, with the goal of creating a stronger community hospital-based regional health care system. This affiliation was terminated after only eight (8) months, as it could not effectively address all of the challenges facing Quincy. Quincy decided to seek out a new clinical affiliation with an academic medical center. As a result, Quincy and Tufts Medical Center announced a clinical affiliation in June 2010.

During fiscal year 2010, Quincy developed and sought to implement new strategic plans in order to reverse its financial decline by improving its volume, revenue, and operating margin. It developed a strategic plan focusing on certain performance improvement initiatives that included: (A) focused market outreach; (B) expansion of clinical services through the affiliation with Tufts Medical Center; (C) cost management programs; and (D) management restructuring. It began implementing operational improvements that had previously been identified by Alvarez & Marsal and Quincy management, hoping to achieve cost savings, to improve revenue realization, and to identify performance improvement opportunities. Quincy consolidated or eliminated product lines, sought to recruit additional physicians to meet the needs of Quincy and the communities it serves, and engaged the services of John Kastanis, a 30-year industry veteran, as Interim CEO.

Notwithstanding all of these efforts, Quincy continued to experience volume erosion and significant financial losses in 2010 and 2011. Over the past two years it has seen a dramatic deterioration in its financial performance, a significant and steady erosion of its cash position, and a continuing reduction in average daily census and outpatient volume. These factors made the bankruptcy filing inevitable, and necessary to avoid the closure of the hospital.

Due to its lack of capital, Quincy has deferred facility maintenance and equipment upgrades over the past decade. These deferred capital expenditures are now negatively impacting its operations and compounding volume erosion. They will eventually impact the quality of care Quincy is able to provide. Quincy estimates that approximately $25 million in deferred capital spending will need to be completed in the next two years, in addition to the approximately $600,000 required to complete the projects initiated with the MHEFA funds already borrowed.

Quincy's financial picture is complicated by the fact that, compared with its principal competitors, it has the most challenging payor mix. Medicare and Medicaid patients constitute 64% of its payor mix and reimbursement for these patients is often insufficient to cover the cost of care they require. Furthermore, relative to other Massachusetts hospitals Quincy has significantly lower commercial reimbursement rates as evidenced by the data provided in the Office of the Attorney General's "Examination of Health Care Cost Trends and Cost Drivers" reports for both 2010 and 2011. (These Reports are attached, respectively, as Exhibits G and H.)

As of March 2011, Quincy had assets with a book value of approximately $74.8 million. The total of the assets included $2.9 million of cash and cash equivalents, which, together with investments, is approximately 37 days cash on hand, substantially less than the 60 days cash on hand specified in its bond covenants. Quincy's current cash flows are insufficient to service its debts and fund required capital expenditures. In prior years, grants from federal and state sources supplemented the operating cash flow and the MHEFA borrowing supported critical deferred infrastructure projects. However, the MHEFA project funds are substantially depleted, and, as a result of the current state of the Commonwealth's budget, grant funding has ceased. Most significantly, Quincy failed to make the May 31, 2011 debt service payment due under the outstanding bonds, putting it in payment default on its bonds.

Quincy's current high debt, its inability to meet its bond covenant requirements, and the competitive pressures it is experiencing have made Quincy's continued operation as a free standing community hospital impossible. The Board realized that the only way to secure the future of acute health care services in the community is to partner with a well-capitalized health care provider that would be willing to make both immediate and long-term commitments to the preservation of an acute care hospital for the community. Otherwise, the most likely outcome of current trends is foreclosure by Quincy's secured creditors, and the possible closure of the hospital. Accordingly, Quincy's Board of Trustees, based on the advice of management, independent experts and legal counsel, voted to initiate bankruptcy proceedings and to enter into the Transaction to ensure the continued provision of acute care services to the communities it serves.

The situation facing the hospital is quite dire. Even with bankruptcy protection, Quincy projects that it will run out of cash if it cannot consummate the Transaction by late summer or early fall of 2011. (Exhibit I contains the budget and cash flow analysis that was presented to the Bankruptcy Court with the bankruptcy filing on July 1, 2011.)

III. PROCESS

During the past sixteen months, led by the Chair of its Board of Trustees, Quincy began to explore its options for seeking capital partners to help infuse it with needed financial resources and to enhance its competitive position to attract referrals. The Board and the Board's Executive Committee (the "Executive Committee")[6/] recognized that, notwithstanding the Tufts clinical affiliation, significant capital investments were needed to restore the hospital to viability, and that a clinical affiliation, without more, would be insufficient. During this time the Board and its Executive Committee met over 50 times to review possible options for remaining independent and seeking capital partners (both non-profit and for-profit). The Executive Committee undertook an informal and confidential process of reaching out to several Boston-area providers, especially non-profits, to discuss possible affiliation arrangements. It also commenced discussions with a for-profit entity about its potentially acquiring Quincy. Despite this process, the Executive Committee did not identify any non-profit entity interested in making, or able to make, the substantial capital commitments that Quincy needed.

In March 2010 Quincy engaged Casner & Edwards as special counsel to the Board, to apprise the secured creditors of Quincy's financial situation and to begin to prepare the creditors for a sale or potential bankruptcy filing. During the process it had undertaken, the Executive Committee recognized that even an acquisition by a for-profit company would not occur on terms that would enable Quincy to pay its secured and unsecured creditors in full. Under the continuing pressure of the hospital's significant indebtedness and deteriorating financial performance, the Executive Committee concluded that it would need to consider a carefully-planned bankruptcy as a means of assuring the continued presence of an acute care hospital in the City. At the same time the Executive Committee recognized that any public disclosure of a potential bankruptcy could be detrimental to Quincy's perilous situation and so it needed to maintain a high level of confidentiality that such a course of action was even being contemplated.

At this point, the Quincy Board determined that it required the services of an independent financial advisor to assist in evaluating Quincy's alternatives, including its strategies vis-à-vis creditors. On March 1, 2011, Quincy retained Navigant Consulting, Inc. ("Navigant"), to assist Quincy in the continued implementation of its strategic plan and with the implementation of

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[6/] The Executive Committee consists of the Chair of the Board, Grace Murphy-McAuliffe, 2 additional trustees (Richard Barry and Raymond Tung) and the President and the Chief Financial Officer. The three trustee members are not members of the Medical Staff or employed by Quincy.

certain performance initiatives, and Navigant Capital Advisors ("NCA"), an affiliate of Navigant, to assist the Board with the potential sale of Quincy.

As of the end of March 2011, Quincy's financial situation can be demonstrated by comparing certain Quincy financial statistics to Moody's investment grade criteria, as follows:[7/]

	Moody's	Quincy
Operating margin	2.2%	-7.4%
Operating cash flow margin	8.9%	0.3%
Annual debt service coverage ratio	4.0x	0.0x
Current ratio	2.0	0.9
Days cash on hand	147.0	39.4
Cash to debt	105.6%	19.8%
Debt to capitalization	41.5%	83.5%
Debt to total revenue	35.0%	56.2%

The Executive Committee met with its consultants at least six times in March, April, and May to develop recommendations, request for proposals and evaluation criteria and to identify potential affiliation partners or purchasers.

On April 5, 2011 NCA presented to the Quincy Board a market overview and a preliminary analysis of potential partners - including non-profit and for-profit entities. (See Exhibit J for NCA's power point presentation of April 5, 2011.) The Quincy Board expressed to NCA that its primary purpose was to ensure the continued availability of acute care hospital services in the community and to protect Quincy's employees. At the April 5th meeting the Board approved a list of 23 providers that NCA was to contact to determine their interest in an association with Quincy. The list included regional non-profit and for-profit providers, as well as national provider systems that did not have a presence in Massachusetts. The Board's desire was to "cast the net" as widely as possible to determine interest. The Board also charged the Executive Committee to continue to work with NCA in considering potential capital partners for Quincy.

On or about April 6, 2011, NCA began its initial calls to potential capital partners regarding Quincy. On or about April 22, 2011, NCA also began distribution of a Confidential Information Memorandum to all parties that had executed non-disclosure agreements. (See

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7/ The information in this chart was not presented to the Quincy Board or Executive Committee but was constructed by NCA from financial information available from Quincy.

Exhibit K for the Confidential Information Memorandum.[8/]) The non-disclosure agreements allowed these parties to begin a detailed review of due diligence materials that NCA had begun placing in a secure web-based data room. Ten entities executed non-disclosure agreements.

On April 19, 2011 NCA presented to the Quincy Board an assessment of Quincy's then current financial standing and its conclusions based on this financial review. (See Exhibit L for NCA's power point presentation of April 19, 2011.) NCA's presentation highlighted that Quincy was not likely to be able to generate sufficient cash flow to meet its debt service or routine capital expenditure requirements, even after implementing the performance improvements that had been recommended by Alvarez & Marsal, additional ones initiated by the Interim CEO, and further ones proposed by Navigant. At that meeting the Board determined that Quincy could no longer survive as a stand-alone hospital and that bankruptcy would very likely be the vehicle for effectuating a restructuring and recapitalization of the hospital.

On May 5, 2011, NCA sent packages with evaluation materials to the parties that had signed non-disclosure agreements, including a bid process letter requesting written non-binding letters of intent to be provided to NCA by May 23, 2011 (extended to May 31, 2011, in light of the holiday and in order to facilitate due diligence by interested parties). The package also included a draft asset purchase agreement, and a request that each party provide its proposed changes to the draft agreement as part of its proposal. (Exhibit M contains the bid process letter that NCA sent to Steward. Substantially the same letter was sent to other potentially interested parties.) The request was for proposals from parties who would consider serving as the so-called "stalking horse" in a structured bankruptcy proceeding, that is, as the party put forward by Quincy if it filed for bankruptcy as the entity to which substantially all of Quincy's assets would be transferred with Bankruptcy Court approval, subject to an auction to determine if there might be a "higher and better" offer from another bidder. Of the 23 potential buyers contacted, and of the 10 that had signed non-disclosure agreements, ultimately only two parties submitted proposals, and neither was a non-profit entity. One of them was Steward.

On June 1, 2011 NCA presented to the Executive Committee a general update on the solicitation process, an overview of current valuation metrics within the hospital industry, and draft evaluation criteria regarding the two proposals that NCA had received on Quincy's behalf. (See Exhibit N for NCA's power point presentation of June 1, 2011.) During this meeting NCA and the Executive Committee discussed the need for Quincy to expedite the sale, through bankruptcy, as Quincy's financial situation was continuing to deteriorate. The Executive Committee approved the evaluation criteria to be used to assess the bids. These criteria included:

[8/] Note that the forecast included in the CIM was prepared in April 2011 and did not take into account: (i) subsequent declines in volume and related operating trend, or (ii) any financial impact associated with Quincy's bankruptcy filing, including increased administrative, professional and legal expenses as well as further volume erosion.

- a long-term commitment to maintaining a full-service acute-care hospital in the City and the services and programs currently offered by Quincy;
- a description of how the provision of healthcare services in Quincy's service area relates to the purchaser's current operations and strategic plans;
- fair value for Quincy's assets and operations;
- a commitment to abide by the terms of Chapter 94;
- the ability and commitment to fund Quincy's current and future capital expenditures, in light of Quincy's estimate that over the next two years the hospital will require a minimum of $25 million in deferred routine capital expenditures, plus additional capital expenditures for facility improvements and service initiatives;
- a plan for continuing and meaningful community input into the hospital's clinical and operational decisions;
- plans to retain Quincy's employees, including recognizing the current unions at the Hospital, and plans with regard to any employees displaced in connection with a transaction, including opportunities to relocate within the acquiring system and severance benefits; and
- access to resources such as a physician network; competitive managed care contracts; greater discounts on purchasing hospital supplies; strong information technology infrastructure, including electronic medical records software; participation in research and teaching programs; administrative and operational support; and clinical specialty services not currently provided by Quincy.

During June 2011 the Executive Committee and Quincy's consultants continued conversations with each of the potential purchasers and responded to due diligence requests. On June 7, the Executive Committee met with representatives of Steward, and on June 24 the Executive Committee met with representatives of the other potential purchaser.[9/] Both parties were asked to negotiate the terms of the applicable asset purchase agreement, and extensive negotiations about the terms of that agreement were undertaken with Steward at its request. During this time, both potential purchasers had the opportunity to continue to conduct due diligence of Quincy.

On June 21, 2011, NCA presented the Quincy Board with a solicitation update, current valuation metrics for the hospital industry and a comparative assessment of the two proposals. (See Exhibit O for NCA's power point presentation of June 21, 2011.)

Further discussions ensued with the potential purchasers and with Quincy's Executive Committee and consultants, in an effort to refine the terms of the proposals and to get to what would, in effect, constitute last and best offers from each. The

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9/ The meeting occurred late in the decision process because of scheduling needs on the part of the other bidder's senior management.

negotiations focused not only on the financial terms and the assets and liabilities to be assumed or excluded, but also on post-Closing commitments with regard to the role of the local governing board committee, continuation of services, and capital investment.

On June 27, 2011, the Executive Committee met with the consultants to review the results of their analyses of the two potential purchasers and their proposals, the differences between the two proposals, the strengths, weaknesses and risks associated with selecting one over the other, and the commitments to the community and benefits to the creditors each presented. (See Exhibit P for NCA's power point presentation of June 27, 2011.) The full Board meeting followed, at which a similar discussion took place. After extensive debate the Board voted to accept the Steward proposal, subject to final negotiation of the terms of the APA. That negotiation was concluded, and the APA attached as Exhibit A was signed by the parties on June 30. Quincy filed for bankruptcy the next morning, with Steward as its so-called "stalking horse."

IV. THE CHOICE OF STEWARD

The Executive Committee and full Board carefully considered the two proposals that had been submitted. Neither proposal was from a non-profit entity. The Executive Committee and the Board relied on the advice of qualified, independent experts and counsel, both bankruptcy counsel and Quincy's general outside counsel; examined their fiduciary duties with respect to the decision to be made; exercised their business judgment; and concluded, for the reasons set forth below, that the Steward proposal was the superior proposal. The Board's decision was made based on the commitments (both financial and otherwise) Steward was prepared to make contractually to the Quincy community post-Closing and on the financial terms, which would be more acceptable to Quincy's creditors and therefore would allow the bankruptcy process to be concluded more expeditiously than if the alternative proposal was accepted.

NCA's presentation to the Board on June 27, 2010 included the comparative purchase price analysis of the two proposals, as found in Exhibit P. Subsequent to June 27 adjustments were made to the cash purchase price component of the Steward proposal, so that $35 million became the minimum amount, with a potential for the cash purchase price to be as high as $38 million. NCA consequently completed an updated purchase price analysis (see Exhibit Q), which again demonstrated the financial superiority of the Steward proposal.

Further, in terms of continuation of Quincy's mission, the post-Closing commitments were of great importance to the Executive Committee and the Board. Steward's proposal includes the following:

1. Continuation of Services. For the first 10 years post-Closing, with an exception described below, Steward has committed to maintaining an acute care hospital in the City providing at least the same scope of services and maintaining at least the same level of

community benefits and charity care as Quincy currently provides. It also commits to continuing to use the name "Quincy Medical Center" or some reasonably similar words in its name. Under limited circumstances, Steward could close or limit services as early as approximately the beginning of the 7th anniversary of the Closing. That is, the APA includes the commitment that, from the Closing until the 5th anniversary of the Closing, Steward may not close or limit the services that Quincy provided immediately prior to the Closing, but, during the period from the 5th through the 10th anniversaries of the Closing it could close or limit such services provided (i) Quincy experiences negative operating margins in 2 consecutive fiscal years, not taking into account the first 3 fiscal years immediately following the Closing; and (ii) after ascertaining that Quincy has experienced 2 years of negative operating margins, Steward has to provide the Department of Public Health with 18 months' prior notice of any such closure or limitation. For purposes of calculating net operating margin: (i) generally accepted accounting principles ("GAAP") will be applied to determine expenses and revenue; (ii) only operating expenses and revenues directly ascribed to Quincy will be used in the calculation, except that general reasonable and necessary Steward corporate overhead may be allocated to Quincy as long as the allocation is reasonable and proportional to the allocation of such overhead throughout the Steward system;[10/] and (iii) no debt service amounts, whether of principal or interest, will be included in the calculation. In light of the capital investment to be made in New Quincy Hospital and the definition of net operating margin that will apply, the Board reasonably concluded that New Quincy Hospital will continue all of Quincy's current services for the entire 10-year period.

Furthermore, Steward has agreed to accept the use restrictions contained in the Deed, which includes, among other terms, that the New Quincy Hospital's emergency services can be closed only with the consent of the Mayor and City Council.

The alternative proposal committed that for a minimum period of 5 years after Closing, it would (i) maintain a Department of Public Health-licensed hospital with an emergency department, (ii) provide Essential Services at such hospital; (iii) grow the Essential Services in a manner intended to meets the health care needs of the community it would be serving; and (iv) not terminate any Essential Service without first obtaining the approval of the hospital board of trustees and, in the case of emergency services, the approval of the Mayor and City Council, as required by the Deed.[11/] The proposal did not address the retention of services beyond the 5-year period.

10/ Steward's representatives also noted in the meeting with the Executive Committee on June 7 that the post-Closing capital commitment would not be ascribed to the New Quincy Hospital's expenses for purposes of the net operating margin calculation.

11/ However, the other bidder's asset purchase agreement also required, as a condition of the Closing, that use restrictions in the Deed be terminated or amended in a manner acceptable to the proposed buyer. That would mean that the commitment to retaining the emergency services would run for only 5 years, as opposed to the current deed requirement that runs with the land and that therefore mean that the approval of the Mayor and City Council would be required before the emergency services could be shut down, regardless of duration of time.

2. Local Governance. As soon as practicable following the Closing, Steward will form a local governing board committee at New Quincy Hospital to be comprised of medical staff members, City community leaders and appropriate executive officers. While it is to be subject to the authority of Steward's board of directors and the terms of Steward's certificate of incorporation and bylaws, the local governing board committee will be responsible for: (i) approval of borrowings in excess of $500,000; (ii) additions or conversions that constitute substantial changes in service; (iii) approval of capital and operating budgets, including prioritization of capital investments; (iv) approval of the filing of any application for Determination of Need; (v) development of strategic plans for the community served by Quincy; (vi) medical staff credentialing; and (vii) community benefit planning. Quincy, after consulting with Steward, will nominate the individuals to be appointed to the initial local governing board committee and Steward will appoint the individuals so nominated. After the Closing, the members of the local governing board committee will have sole responsibility for nominating any successor members, with Steward's board of directors obliged to appoint the persons so nominated as long as the appointments are approved by the Chairman of Steward Health Care System LLC.

The alternative proposal was similar in that it also indicated compliance with the requirements of the Determination of Need Regulations regarding local governance, but its provisions were more restrictive than those proposed by Steward. The alternative proposal did not address how this board would be initially appointed nor how successor board members would be appointed, and so did not assure continuity for current members of the Quincy Board of Trustees.

3. Capital Commitments. From the Closing until the 5th anniversary of the Closing Steward has agreed to expend or commit to expend no less than $34 million in the aggregate for capital expenditures and investments to improve, furnish, equip and expand the services of New Quincy Hospital, including no less than $15 million to be expended or committed to be expended in the aggregate within the first 12 months post-Closing and another $10 million in the subsequent 12 month period following the Closing. The amounts to be expended in that initial 2-year period are to include $5 million in investments in information technology. All of these amounts must qualify as capital expenditures under GAAP and the amounts committed for the first 2-year period are to be expended as soon as feasible following the making of the commitment, consistent with the nature of the project for which the committed funds are to be expended.

Steward further committed that, from the 5th anniversary through the 10th anniversary of the Closing, in addition to capital investment for program expansion and service line development, Steward is committed to expend or commit to expend an average of between 110% and 125% of the annual depreciation expense of Quincy for the hospital's routine needs. This amount is currently estimated to be not less than approximately $4 million annually, or an additional approximately $20 million over the 5-year period.

Subject to the availability and capabilities of third party vendors, Steward has also committed to the full deployment of Meditech 6.0 and Advance Clinical Systems and computerized physician order entry (CPOE) throughout Quincy over the first 12 to 18 months following the Closing. Further, Quincy's ICU beds will be included in Steward's electronic ICU monitoring system (eICU), providing 24/7 remote intensivist coverage.

In terms of capital investment, the alternative proponent stated that, within the first 5 years after the Closing, it would expend not less than $27 million of capital funds for the benefit of the hospital and the development and/or expansion of the network of healthcare providers in which the hospital participates. This commitment did not appear to focus solely on the hospital itself but also seemed to encompass investments in physician networks. The local board of trustees could approve capital budgets, but Steward's proposal was clearer both with regard to investment in Quincy facilities and in terms of the local governing board being able to prioritize, as well as approve, expenditures from capital budgets.

Quincy has lacked access to capital for many years. It has substantial immediate as well as long-term capital needs. Steward's willingness to make a significant and front-loaded capital commitment was of great importance to Quincy, especially in light of the significant investment Steward has already made in health information technology that will be accessible by New Quincy Hospital and its physicians, all for the benefit of the residents of the community Quincy currently serves.

4. Support for Community-Based Physicians. In support of the community-based physicians practicing at Quincy, Steward has agreed to provide the physicians with medical staff privileges who become a part of Steward Health Care Network with electronic medical records and access to a health information exchange in a manner compliant with applicable law. Physicians providing services at Quincy who choose to contract through Steward Health Care Network will have access to Steward's managed care contracts and medical management/care management ACO infrastructure, and medical malpractice insurance through TRACO (Steward's offshore captive insurance company), as well as Steward Quality and Safety Group's medical management systems. These are significant benefits in terms of the quality and coordination of care that can be provided to patients in the Quincy community. Further, physicians in leadership positions within Quincy's medical staff will have an opportunity to take leadership positions on Steward's system-wide committees for quality and safety. Steward also stressed its strong commitment to providing as much care in the local community as possible, to reduce the need for patients to seek care at higher-cost and less convenient facilities, such as the academic medical centers in Boston.

After considering these and other relevant factors, and recognizing that it was not presented with any proposal from a non-profit organization, the Quincy Board concluded that, as between the two proposals it received and analyzed, Steward's was the superior alternative for maintaining a locally-focused, acute-care hospital over the long term, for preserving a continuing and meaningful role for community members in hospital governance, and for enabling New Quincy Hospital to provide "accountable care" in accordance with market demands and regulatory requirements.

V. NO CONFLICTS OF INTEREST

No officer, trustee, employee, or other individual associated with Quincy, or any family member of such individual, will receive any financial benefit for the approval and completion of the Transaction with Steward. The Interim CEO is compensated for his services as Interim CEO and several physician Board members are compensated, on a fair-market-value basis, for the services they provide to Quincy, but none of the Board members are compensated for their service on the Board. At the outset of the review process, each member of the Quincy Board was requested to complete a confidentiality agreement regarding the proposed purchase or bankruptcy of Quincy.

There has been no discussion regarding compensation for service on the New Quincy Hospital Board or local governing board committee, nor any discussion about compensation arrangements for senior management beyond what is provided for in the APA. The Interim CEO, and all other Quincy employees, are to be offered equivalent positions by Steward, but none of them will be compensated either by Quincy or by Steward for causing the Transaction to be considered or completed. Although there are several physicians serving on the Quincy Board any financial arrangements they may make with Steward or any of its affiliates to receive the types of practice support described above will be in compliance with applicable law and no different from the arrangements available to any other physician on Quincy's medical staff.

VI. BENEFITS TO THE PUBLIC

For the reasons described above, the proposed Transaction is in the public interest and in accordance with the standards and requirements of Section 8A(d), including but not limited to:

- long term preservation of a lower-cost, high-quality community hospital in the City;
- preservation of the jobs of approximately 1,100 individuals (as of June 30, 2011);
- investment of $34 million of capital expenditures at the hospital within the first 5 years following the Closing and additional funds for routine maintenance thereafter;
- maintenance of current levels of charity care and community benefits for residents of the City and the surrounding communities;
- payment of local property tax and state sales tax; and
- creation of new jobs.

VII. FAIR VALUE WILL BE PAID

Under Section 8A(d), Steward must pay "fair value" for the assets and operations of Quincy. NCA's financial analysis, and the results of the extensive investigation of possible purchasers, demonstrates that the face value of Quincy's debts far exceeds the fair value of its assets. As a result, the entire purchase consideration will only reduce Quincy's outstanding secured and unsecured debt and the balance will be discharged in bankruptcy. The consideration was the result of arms-length negotiations between the parties. In addition, because Quincy's liquidity is quite weak and there is a serious possibility of its running out of cash in the late summer or early fall of 2011, even with bankruptcy protection, the consideration is structured, in part, to encourage the creditors to support a speedy completion of the bankruptcy process. The purchase price for the Transaction, not including any post-Closing commitments, consists of:

- a cash payment of $38 million if the Closing is effective on or before October 1, 2011; of $37 million if the Closing is effective on or before November 1, 2011; or $35 million if the Closing is effective thereafter;[12/]
- assumption of of Quincy's liabilities related to transferred employees, including accrued payroll, vacation and benefits;
- assumption of Quincy's Medicare and private payer provider agreements;[13/] and
- assumption of Quincy's accounts receivable, with the attendant responsibility and risk associated with collections.

While this price was arrived at through the process described above that was conducted on Quincy's behalf by NCA, Steward's proposal also will be subject to an auction in Bankruptcy Court. If there are no better and higher bids - which, in light of the process already conducted by Quincy is probable although not certain - then it is reasonable to conclude that the price represents the fair market value for the assets and operations of Quincy. In any event, the bankruptcy auction process will ensure that Quincy receives at least the consideration offered by Steward. Therefore, Quincy will receive fair value for its assets in compliance with Section 8A(d)(iv).

VIII. CONCLUSION

During the past sixteen months, the Quincy Board and its Executive Committee investigated many alternatives for the long-term continuation of Quincy's mission of providing locally-controlled acute-care hospital services to the community. The Quincy Board determined that Quincy could not continue as an independent non-profit organization and had no non-profit alternative available to it.

Without the proposed Transaction and the bankruptcy process, Quincy will be forced to close. The Transaction will provide Quincy with the resources necessary to discharge its debt obligations, and to allow the New Quincy Hospital to improve its facilities and services, recruit

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[12/] This consideration will be dedicated to the discharge of Quincy's secured and unsecured debt. Note that the cash purchase price may be reduced by any trade creditor liabilities Steward agrees to accept that it is not otherwise required to assume under the APA.

[13/] As noted above, the New Quincy Hospital will participate in the Medicaid program, but, technically, it is not assuming Quincy's Medicaid provider number.

and adequately compensate physicians needed by the community, and provide and improve its health care services. Steward was clearly the superior bidder, and demonstrated the financial support, information technology, personnel, and other systems necessary to ensure Quincy's long-term survival as part of a large-scale and effective clinically and financially integrated health care delivery system. As a part of Steward Health Care System, the New Quincy Hospital will be able to improve the quality, and control the costs, of the health care it provides to residents of the City and surrounding communities. The Quincy Board, after significant deliberation, determined that Steward's proposal constituted the best means of guaranteeing the long-term future of community-based acute care in the City.

Quincy respectfully requests that the Attorney General find that the Transaction complies with Sections 8A(d)(1)(i)-(v) and assent to its approval by the United States Bankruptcy Court, District of Massachusetts. Quincy welcomes the Attorney General's review of the proposed transaction.

Respectfully submitted,

Stephen M. Weiner
on behalf of
Quincy Medical Center, Inc. and its affiliates

Enclosures
cc: Nora Mann

List of Exhibits

Exhibit	Description
A	Transaction Summary and Executed Asset Purchase Agreement
B	Quincy's Bankruptcy Petition
C	Motion for Sale Order
D	Affidavit of Mark O'Neill
E	Chapter 94 of the Acts of 1999
F	Deed from City of Quincy to Quincy
G	Office of the Attorney General: "Examination of Health Care Cost Trends and Cost Drivers" March 16, 2010
H	Office of the Attorney General: "Examination of Health Care Cost Trends and Cost Drivers" June 22, 2011
I	Bankruptcy Filing Budget and Cash Flow Analysis
J	NCA Presentation, April 5, 2011
K	Confidential Information Memorandum
L	NCA Presentation, April 19, 2011
M	Bid Process Letter to Steward
N	NCA Presentation, June 1, 2011
O	NCA Presentation, June 21, 2011
P	NCA Presentation, June 27, 2011
Q	NCA Updated Purchase Price Analysis