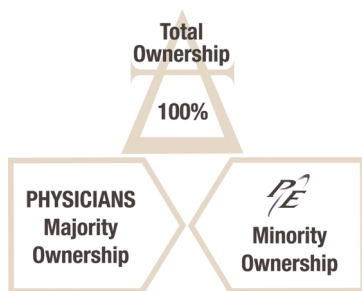


Corporate Report

a report by
Physicians Endoscopy

Physicians Endoscopy (PE), LLC is a healthcare services company that was formed in July 1998. PE specializes in the development and management of free-standing endoscopic ambulatory surgery centers (ASCs) in partnership with practicing gastrointestinal (GI) physicians. Because of our extensive focus in the area of GI endoscopy, we believe that PE has established itself as the pre-eminent developer and manager of endoscopy centers in the US.

Since its inception, PE has acquired, developed, and managed over 15 surgery centers throughout the US. PE currently has several centers under various stages of development. Each of these centers, coupled with our unique physician partnership model and a compendium of specialty services, serves as an example of a new paradigm in healthcare delivery and as a model for the next generation of partnerships between healthcare professionals and business managers.



"We've been profitable since our first full month of operation. PE is our trusted partner," says Louis La Luna, Medical Director (MD), Berks Center for Digestive Health.

PE centers often have the benefit of:

- strong yearly distributions averaging over \$1.4 million to all owners per center;
- typically a 100% return on capital investment within 18 months;
- delivering a return of investment (ROI) of 500–2000% over the initial seven years; and
- minimizing personal guarantees in the first two years of operations and eliminating them completely starting in year three.

ASCs provide a narrow range of lower-risk endoscopic surgical procedures and are designed in such a way as to enable the center to charge a facility fee for each procedure, which is generally less than that charged by

hospitals and other multispecialty free-standing outpatient surgical centers for similar services performed on an outpatient basis. PE has been recognized for its leadership position in the development and operation of endoscopic ASCs within the US. Our basic strategy is really quite simple—service. Our plan is to prove ourselves and our company to be forthright, reliable, and communicative, and to actually deliver upon expectations and promises. Unlike so many practice management companies that have come and gone before us, we intend to provide a service to our partners that meets and often exceeds their expectations.

"The management and staff of PE are experts in the ASC industry. They developed and executed a nearly flawless business plan for our center, and all along the way the center's performance has exceeded our expectations. PE made it seem easy," says Jay Levinson, MD, Michigan Endoscopy Center.

PE has assembled a talented and dedicated team of professionals who can investigate the feasibility of an ASC, and then design, construct, and manage all the business aspects of that ASC in co-operation with our physician partners. Each of these individuals assumes an active role in the development of new physician partnerships, as well as ensuring existing partners receive superior attention and service.

We believe that our collective experience in many of the most important aspects of developing and managing ASCs is already unparalleled within our market niche. We have demonstrated, however, that experience and talent are only one aspect of creating a successful, service-based business. The way our team employs its talents, and the way in which we deliver our services, is as important as merely possessing the ability to do so.

Physicians Endoscopy's Track Record of Success

- Profit margins nearly twice the industry average.
- All centers have become profitable within 180 days with the owners enjoying full return on capital contributions typically within 18–24 months of operations.
- Comprehensive benchmarking studies regularly demonstrate results significantly better than industry averages across a wide spectrum of clinical, operational, and financial indicators.

One of the many keys to the success of an ASC and of our company is the relationship that is developed between PE, our physician partners, and their professional practices. The positive tone of each partnership is typically established quite early in the relationship and strengthened throughout the feasibility and construction phases of the development

process. During this time, there are many common fears that are shared by all physicians. Financial commitment, changing practice locations, working with new nursing staff, and altering a practice style that has historically contributed to the personal comfort zone that each physician needs to function combine to create fears that need to be overcome. The PE team is acutely aware of these and other issues and works to create an environment that provides comfort and reassurance to our physician partners.

Communication, accessibility, clear and concise presentation, and a simple recognition of and a strategy for dealing with important issues set the stage for a long-term bonding relationship with our partners. They expect us to do the big things right. That is why they chose to partner with us. Doing the little things right and exceeding expectations in those areas that are often considered to be unimportant is what can make all the difference. Proving to our physician partners that we, as non-clinical business people, can hold up our end of the partnership and contribute in a very tangible way to the overall success of the venture is the key that every PE team member shares.

While each partnership is unique, there is always that one thread that is common to all—mutual trust and respect for the inherent talents and skills of the physician and business partners. Most of us have witnessed the rise and fall of numerous Physician practice management (PPM) companies over the past several years. While the reasons for failure are often quite numerous and diverse, the basic defect in the relationships can often be identified with the inability of the PPM to establish agreed upon ground rules of co-operation and a clear and well-understood division of responsibility. We believe that any partnership, especially one between business professionals and physicians, must consist of expectations and deliverables that are clearly articulated and shared by all participants.

“PE is a highly valued business partner. In our book, they have been a top leader in the industry for years,” says Stephen Woods, MD, Northwest Endoscopy Center.

It should be very clear in everyone’s mind exactly what each of the parties is expected to bring to the venture. As the business partner in each ASC, PE realizes that the services that we provide are not always well understood by our physician partners and, quite often, are not high on their personal radar screen in terms of importance. Providing an expert business management service is one important step; making sure that those services are visible, tangible, and appropriately valued by our physician partners is paramount to long-term success.

With this in mind, we feel that the ever-changing healthcare environment urges us to continue to identify and redefine the pathways for a truly cohesive partnership. How many physician groups can keep up with the latest changes in clinical services, research, and technology and still have the time to handle ever-increasing payer demands and accreditation requirements, and stay on top of the latest changes in coding, regulatory

issues, and reimbursement guidelines? Providing the resources to anticipate and address each of these demands is why PE was formed—and this is why our successes are growing. We depend on our physician partners and they depend on us. We share the risks as well as the fruits of our successes. We play a very key role. We are not the star of the performance; that remains the role of the physicians. We manage the infrastructure and provide the business expertise to ensure the ongoing financial security of the enterprise.

Key components of PE’s strategy are:

- structuring each ASC partnership to ensure physician control;
- staying focused upon single specialty GI-driven endoscopic ASCs;
- being a real partner: delivering more and better service than our partners expect, always be available, doing the unexpected, expect the unexpected, communicating, earn our keep;
- achieving growth in endoscopy center revenues and profitability;
- never institutionalizing the ASC. It is not a hospital. Do not allow institutional attitudes to develop. Treat all patients and those who accompany them to the facility as invited guests in our home. Make it a positive experience; and
- marketing the physicians, not the faculty.

PE has been able to demonstrate that a well-structured and well-managed ASC will contribute to enhanced physician productivity. We believe that growth within the professional practices of our physician partners will inevitably result in significant trickle-down benefits at the ASC. PE believes that there are also numerous operating efficiencies that we and our partnered ASCs can realize through enhanced seamless integration strategies, including patient data transfers, specialty scheduling programs, and even group purchasing and inventory control programs, as well as other clinical efficiencies associated with the operation of a single specialty center model.

As our network of ASCs continues to grow, PE will be in a unique position to provide important clinical data such as occurrence and outcomes statistics to governmental and third-party payers and to actively participate with pharmaceutical and medical technology companies in the clinical trials of developing drugs, treatment protocols, and class three and four technical device investigations.

We will seek to continuously enhance the relationship with our physician partners by providing value-added services and hands-on management of the centers. We know that we must demonstrate tangible value to our physician partners on a daily basis. Center administrators and company management will remain focused on the continued development of each existing center first and foremost. We will continually search for ways to maintain our partnered relationships while pursuing the necessary activities and rewards associated with the development of new centers. ■