

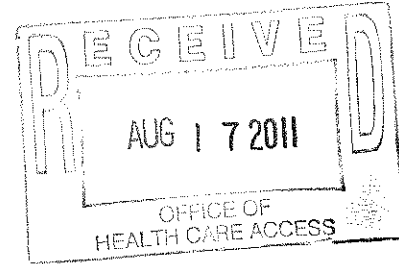
III MERITAS LAW FIRMS WORLDWIDE

Jennifer L. Groves  
(t) 203.786-8316  
(f) 203.772-2037  
jgroves@uks.com

August 17, 2011

VIA ELECTRONIC MAIL

Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
Post Office Box 340308  
Hartford, CT 06134-0308



Re: Merger of RegionalCare Hospital Partners, Inc. Subsidiary Into Essent Healthcare, Inc.

Dear Ms. Martone,

Enclosed please find a CON Determination Form for the proposed merger of a RegionalCare Hospital Partners, Inc. subsidiary into Essent Healthcare, Inc., the parent corporation of Essent Healthcare of Connecticut, Inc. d/b/a Sharon Hospital. Should you require anything further for your review, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Jennifer L. Groves'.

Jennifer L. Groves

JLG/dla

Enclosure

cc: Michael W. Browder



## State of Connecticut Office of Health Care Access CON Determination Form

All persons who are requesting a determination from OHCA as to whether a CON is required for their proposed project must complete this Form 2020. The completed form should be submitted to the Commissioner of the Office of Health Care Access, 410 Capitol Avenue, MS#13HCA, P.O. Box 340308, Hartford, Connecticut 06134-0308.

### SECTION I. PETITIONER INFORMATION

If this proposal has more than two Petitioners, please attach a separate sheet, supplying the same information for each Petitioner in the format presented in the following table.

	Petitioner	Petitioner
Full Legal Name	Essent Healthcare of Connecticut, Inc.	
Doing Business As	Sharon Hospital	
Name of Parent Corporation	Essent Healthcare, Inc.	
Petitioner's Mailing Address, if Post Office (PO) Box, include a street mailing address for Certified Mail	50 Hospital Hill Road Sharon, CT 06069	
What is the Petitioner's Status: P for profit and NP for Nonprofit	Profit	
<b>Contact Person at Facility</b> , including Title/Position: This Individual at the facility will be the Petitioner's Designee to receive all correspondence in this matter.	Michael W. Browder, President & CEO, Essent Healthcare, Inc.	Jennifer L. Groves, Legal Counsel for Petitioner

Contact Person's Mailing Address, if PO Box, include a street mailing address for Certified Mail	Essent Healthcare, Inc, 3100 West End Avenue, Suite 900 Nashville, TN 37202	Updike, Kelly & Spellacy, P.C. One Century Tower 265 Church Street New Haven, CT 06510
Contact Person's Telephone Number	(615) 312-5104	(203) 786-8316
Contact Person's Fax Number	(615) 312-5101	(203) 772-2037
Contact Person's e-mail Address	<u>mike.browder@essenthealthcare.com</u>	<u>jgroves@uks.com</u>

## SECTION II. GENERAL PROPOSAL INFORMATION

- a. Proposal/Project Title: **Merger of RegionalCare Hospital Partners, Inc. Subsidiary Into Essent Healthcare, Inc.**
- b. Estimated Total Project Cost: **N/A**
- c. Location of proposal, identifying Street Address, Town and Zip Code: **50 Hospital Hill Road, Sharon, CT 06069**
- d. List each town this project is intended to serve: **This project is intended to serve the towns currently served by Sharon Hospital including, but not limited to, Cornwall, Goshen, Canaan, Salisbury, Kent, Sharon, and various towns in eastern New York.**
- e. Estimated starting date for the project: **October 31, 2011**
- f. Type of Entity: **Acute Care General Hospital**

## SECTION III. PROPOSAL DESCRIPTION

Please provide a description of the proposed project, highlighting each of its important aspects, on at least one, but not more than two separate 8.5" X 11" sheets of paper.

## Proposal Description

This proposal concerns Essent Healthcare of Connecticut, Inc. ("Essent Connecticut"), which does business as Sharon Hospital ("Sharon" or the "Hospital"), a 78-bed, 16 bassinets, acute care general hospital located at 50 Hospital Hill Road in Sharon, Connecticut. The Hospital is licensed by the State of Connecticut Department of Public Health ("DPH"), certified by the Centers for Medicare and Medicaid Services ("CMS") and accredited by The Joint Commission ("TJC"). Sharon has been providing hospital services to the residents of northwestern Connecticut since 1909. A copy of the Hospital's current DPH license is attached as Exhibit A.

Essent Connecticut acquired the assets of Sharon Hospital from Sharon Corporation, The Sharon Hospital Incorporated and West Sharon Corporation on April 12, 2002. The purchase was approved by OHCA and the Attorney General's Office under the state's for-profit hospital conversion statutes (Conn. Gen. Stat. Sec. 19a-486 *et seq.*), by way of an OHCA Revised Final Decision, dated December 14, 2001 (Docket No. 01-486-01R), and a Final Decision and subsequent Order of the Attorney General's Office, dated November 26, 2001 and January 9, 2002, respectively (Docket No. 01-486-01). OHCA also issued a CON approving the transaction on March 27, 2002 (Docket No. 01-533).

Essent Healthcare, Inc. ("Essent") is the ultimate parent corporation of Essent Connecticut. Essent, through its affiliates, owns and operates a multi-state healthcare system, which includes in addition to Sharon, hospitals in Pennsylvania and Texas. The proposed transaction involves a change in parent corporation investment and affects all Essent hospitals in a similar fashion. The structure of the transaction includes the formation of a subsidiary ("Merger Sub") of RegionalCare Hospital Partners, Inc. ("RegionalCare"), which will then be merged into Essent (the "Merger"). Essent will remain as the surviving corporation, will retain its name and will be wholly owned by RegionalCare. Following the Merger, Essent will continue to own its interest in Essent Connecticut (an indirect subsidiary), and Essent Connecticut will continue to own and operate Sharon Hospital. Attached as Exhibit B are corporation organizational charts depicting Essent's legal structure, both before and after the Merger, as it relates to Essent Connecticut and Sharon Hospital.

Essent Connecticut requests that OHCA find that the Merger, which involves corporations several levels removed from the licensed operating entity of Sharon Hospital, does not constitute a transfer of ownership requiring a CON. In order for a transfer of ownership of a healthcare facility to require OHCA approval, it must be a transfer that "impacts or changes the governance or controlling body of a healthcare facility ..." Conn. Gen. Stat. Sec. 19a-630(14). In this case, neither the governance nor the controlling bodies of Sharon Hospital will change as a direct result of the Merger. With respect to governance, neither the Articles of Incorporation nor the By-laws of Sharon Hospital will be amended or changed in any way in connection with the Merger. Nor will there be any changes to the controlling bodies of Sharon Hospital, other than those that occur in the normal course of business.

The Hospital's controlling bodies include both the Essent Connecticut Board of Directors and a local Advisory Board mandated by Condition E. of the above-referenced Final Decision of the Attorney General's Office, dated November 26, 2001. The latter must be comprised of at least three public officials currently holding office in the Hospital's primary service area; at least three members of the Sharon Hospital Medical Staff; at least three individuals nominated and selected by the public officials serving on the Advisory Board; and two additional members selected by Essent Connecticut. Essent Connecticut is required to meet with the Advisory Board at least quarterly to seek input on various decisions affecting the Hospital. The Advisory Board requirements can only be amended by order of the

Attorney General's Office. There will be no changes to the Advisory Board, either in terms of rights and responsibilities or composition, as a result of the Merger. Nor will there be any changes to the Essent Connecticut Board of Directors, other than normal course of business membership changes.

The Merger is not directed at Sharon and it is expected to have no impact on the Hospital's operations. As previously mentioned, the same legal entity that owns the Hospital facilities and is currently the licensed operator will remain the owner and licensee following the transaction. There will be no change in services offered at the Hospital, in the populations currently served or in the Hospital's payor mix as a result of the proposed Merger. Nor will there be any changes in key professional, administrative, clinical, or direct service personnel at Sharon.

Based on the foregoing, the Merger of Essent and the RegionalCare Merger Sub does not result in a change in the governance or controlling body of Sharon Hospital. Essent Connecticut therefore respectfully submits that it is not a transfer of ownership of a healthcare facility that requires CON approval pursuant to Conn. Gen. Stat. Sec. 19a-638(a)(2).



*EXHIBIT A*

STATE OF CONNECTICUT  
Department of Public Health

LICENSE

License No. 0071

General Hospital

In accordance with the provisions of the General Statutes of Connecticut Section 19a-493:

Essent Healthcare of Connecticut, Inc, of Sharon, CT, d/b/a Sharon Hospital is hereby licensed to maintain and operate a General Hospital.

Sharon Hospital is located at 50 Hospital Hill Road, Sharon, CT 06069

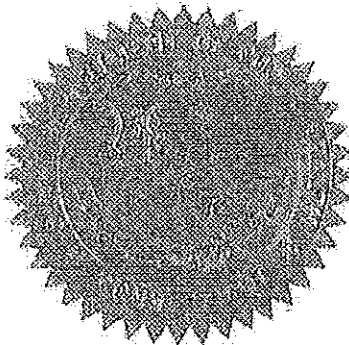
The maximum number of beds shall not exceed at any time:

16 Bassinets

78 General Hospital beds

This license expires March 31, 2012 and may be revoked for cause at any time.

Dated at Hartford, Connecticut, April 1, 2010. RENEWAL.



*J. Robert Galvin MD, MPH, MBA*

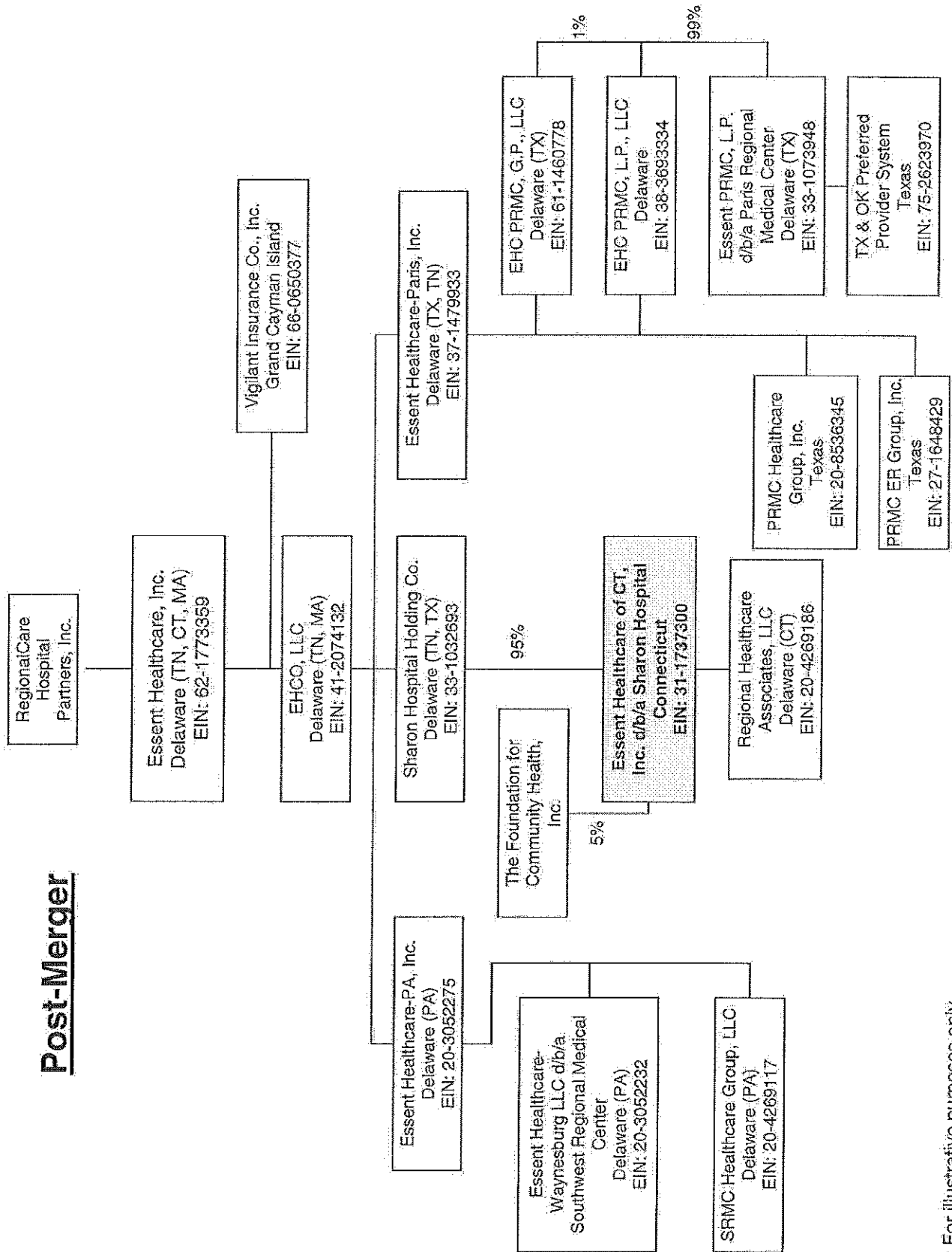
J. Robert Galvin, MD, MPH, MBA,  
Commissioner



***EXHIBIT B***



# Post-Merger



Note: For illustrative purposes only.



**STATE OF CONNECTICUT**  
DEPARTMENT OF PUBLIC HEALTH  
*Office of Health Care Access*

September 9, 2011

Michael W. Browder  
President & CEO  
Essent Healthcare Inc.  
3100 West End Avenue  
Suite 900  
Nashville, TN 37202

Jennifer L. Groves  
Legal Counsel  
Updike, Kelly & Spellacy, P.C.  
Once Century Tower  
265 Church Street  
New Haven, CT 06510

Re: Certificate of Need Determination; Report Number: 11-31720-DTR  
Essent Healthcare of Connecticut Inc. d/b/a Sharon Hospital  
Merger of RegionalCare Hospital Partners, Inc. and Essent Healthcare, Inc.

Dear Mr. Browder and Attorney Groves:

On August 17, 2011, the Office of Health Care Access ("OHCA") received your determination request on behalf of Essent Healthcare of Connecticut ("Essent Connecticut") d/b/a Sharon Hospital ("Hospital"), with respect to whether a certificate of need ("CON") is required for RegionalCare Hospital Partners, Inc. ("RegionalCare") to merge into Essent Healthcare, Inc. ("Essent").

Essent is the parent corporation of Essent Connecticut. Essent through its affiliates owns and operates a multi-state healthcare system which includes, in addition to Sharon Hospital, hospitals in Pennsylvania and Texas. The proposed transaction involves a change in parent corporation investment and affects all Essent hospitals in a similar fashion.

Under this proposal, a new subsidiary ("Merger Sub") of RegionalCare will merge into Essent. Essent will remain as the surviving corporation; it will retain its name and will be wholly owned by RegionalCare. Following the merger, Essent will continue to own its interest in Essent Connecticut and Essent Connecticut will continue to own and operate Sharon Hospital.

With respect to the governance of Sharon Hospital, neither the Articles of Incorporation nor the By-Laws of Sharon Hospital will be amended or changed in any way in connection to the proposed merger. Additionally, there will be no change in Essent's ownership or governance of Essent Connecticut, which will continue to be owned 95% by Sharon Hospital Holding Co. and 5% by The Foundation for Community Health, Inc.

Sharon Hospital's controlling bodies include Essent Connecticut Board of Directors and a local Advisory Board. This proposed merger will not result in any changes to the Advisory Board or to the Essent Connecticut Board of Directors. Therefore, there is no impact on Sharon Hospital's operations.

Based upon the foregoing, it appears that the merger of Essent and RegionalCare will not impact or change the governance or controlling body of Essent Connecticut. Accordingly, a CON is not required for this proposal pursuant to General Statutes § 19a-638a (2).

Thank you for informing OHCA of your plans and if you have any questions regarding this letter, please contact Steven W. Lazarus, Associate Health Care Analyst at (860) 418-7012.

Sincerely,



Kimberly R. Martone  
Director of Operations, OHCA

C: Rose McLellan, License and Applications Supervisor, DPH, DHSR

\*\*\*\*\*  
\*\*\* TX REPORT \*\*\*  
\*\*\*\*\*

TRANSMISSION OK

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STATE OF CONNECTICUT  
DEPARTMENT OF PUBLIC HEALTH  
OFFICE OF HEALTH CARE ACCESS

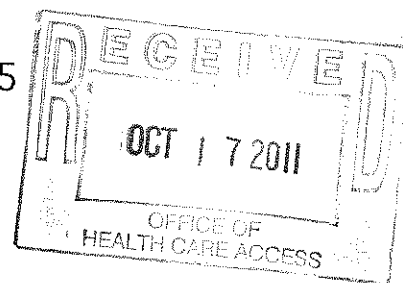
FAX SHEET

TO: Attorney Groves & Mr. Browder  
FAX: (860) 548-2680  
AGENCY: \_\_\_\_\_  
FROM: Steven Lazarus  
DATE: 9/9/11 TIME: \_\_\_\_\_  
NUMBER OF PAGES: (3)  
(including transmittal sheet)

Comments: Please see the enclosed  
Con Determination.

PLEASE PHONE IF THERE ARE ANY TRANSMISSION PROBLEMS.

Victor F. Germack  
P.O. Box 612  
Salisbury, CT. 06068  
917-582-8411/860-435-0185



October 14, 2011

Ms. Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
Post Office Box 340308  
Hartford, CT 06134-0308

Re: Certificate of Need Determination; Report Number: 11-31720-DTR  
Essent Healthcare of Connecticut Inc. d/b/a Sharon Hospital  
Merger of RegionalCare Hospital Partners, Inc. and Sharon Healthcare, Inc.

Dear Ms. Martone:

As you will recall, we spoke on September 30 and I told you that OHCA's decision not to request a certificate of need ("CON") from the referenced parties above is wrong and contrary to the public interest. I and several residents in the area served by Sharon Hospital ("Sharon") feel that our rights to a full presentation of the facts and access to a public hearing have been violated. OHCA, charged with protecting the interests of Connecticut's healthcare consumers, has failed to provide a full and transparent exposition of the facts so that we can be assured that the care provided by Sharon, and particularly the charity care that it provides, will continue and not be interrupted. What is the role of a regulator if it does not regulate?

OHCA determined that the sale to RegionalCare did not constitute an ownership change. You based your decision on the fact that the direct ownership of Essent Healthcare of Connecticut (which owns Sharon) did not change, nor did the governance, Articles of Incorporation or the By-Laws of Sharon. However as I pointed out to you, OHCA's decision is too

narrow and is an incorrect reading of the relevant section of the statute - 19a-630. "Transfer of ownership" means a transfer that impacts or changes the governance or controlling body of a health care facility or institution, including, but not limited to, all affiliations, mergers or any sale or transfer of net assets of a health care facility." Now from Essent's own submission to OHCA (obtained pursuant to the Freedom of Information Act), it is abundantly clear that ownership of all Essent's assets - including Sharon Hospital - will go to RegionalCare, the new owners. Essent states, "Essent will remain as the surviving corporation, will retain its name and will be wholly owned by RegionalCare".

OHCA wrongly decided that because the subsidiary corporation operating Sharon Hospital - Essent Connecticut - did not change its name and kept the same Board of Directors, By-Laws, etc., there was no ownership change. However, actual ownership of the assets will change. Furthermore, any Board of Directors can be changed by its parent corporation just as different governance policies can be enacted any time that RegionalCare chooses. OHCA's reading of the statute doesn't address the substantive ownership change that is occurring .

The community knows virtually nothing about RegionalCare! Since RegionalCare is privately-held, without a CON process, we lack transparency; we can't see its financial statements, determine its financial ability or make an assessment of its financial health to determine its ability to provide continued quality medical care, including vital charity care. We don't know how much debt the restructured Sharon or RegionalCare will have, RegionalCare's track record or future plans, or whether its senior executives have the necessary record and experience to run Sharon. Determining this should be OHCA's primary objective!

About 10 years ago, when Sharon Hospital was for sale to Essent, Attorney General Richard Blumenthal, now our U. S. Senator, held a series of important and worthwhile public hearings before the CON was issued, insuring that all facts came out so that the community could be assured of continued quality medical care. Additionally, as a result of the hearings, he put in a number of stipulations, which strengthened the process.

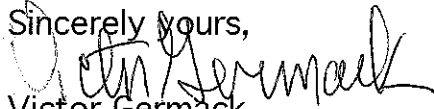
RegionalCare is just another Nashville-based, private leverage buyout firm started only 2 years ago; it has since acquired several hospitals and is said to have borrowed several hundred million, in addition to purchasing



Essent for a reported price in excess of \$300 million. One of our main concerns is that Sharon and RegionalCare will take on so much debt, become over-leveraged and in this economy, having just gone through a great financial bubble, will be unable to continue operations. This is why we and you need to examine and analyze their financial statements. As an investment banker and President of a company (RateFinancials Inc.), that rates the financial reporting of public companies, you can never be thorough enough in your examination of the financials.

We are asking that OHCA reverse its decision, require a Certificate of Need application and a full public hearing. Then we will be able to examine RegionalCare's financial statements, their plans for Sharon, and question their senior executives. We in the community need to be assured that this isn't the same old financial shenanigan game where an over-leveraged company stumbles over its founder's grandiose dreams. Thank you for your attention to this issue.

Sincerely yours,



Victor Germack

cc: Governor Daniel P. Malloy  
Attorney General George Jepsen  
Dr. Jewel Mullen

**Date: 10/24/11**

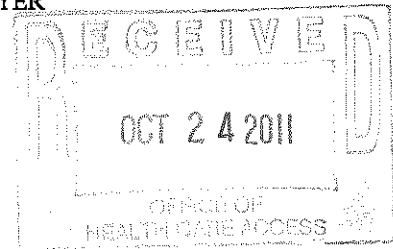
**From: Roberta Willis**

**To: Kim Manton/Fax 860-418-7053**

**# of Pages 4 (Including this page)**

## OFFICE OF THE COMMUNITY LAWYER

October 11, 2011



Attorney General George Jepsen  
55 Elm Street  
Hartford, CT 06106

Re: Sale of Sharon Hospital

Dear Mr. Jepsen:

On September 6, 2011, RegionalCare Hospital Partners announced a "merger" with Essent Healthcare. After reviewing documentation obtained pursuant to the Freedom of Information Act request submitted by a concerned citizen to the Office of Health Care Access (OHCA), it is clear that ownership of all Essent's assets - including Sharon Hospital - will be sold to RegionalCare, the new owners. Essent states that "Essent will remain as the surviving corporation, will retain its name and will be wholly owned by RegionalCare" (see CON Determination Form, August 17, 2011). But labeling this deal as a merger is misleading.

OHCA, charged with protecting the interests of Connecticut's healthcare consumers, has decided that the parties do not require a Certificate of Need (CON) application or a public hearing concerning this sale. See the September 9, 2011 letter from OHCA to Michael Browder & Jennifer Groves (attached). OHCA incorrectly decided that because the subsidiary corporation operating Sharon Hospital - Essent Connecticut - did not change its name and kept the same Board of Directors, there is no ownership change. OHCA's reading of the statute is too restrictive and narrow and doesn't address that RegionalCare can change the governance policies and the Board of Directors at any time.

Since RegionalCare is privately-held, without the CON process there is no public scrutiny of the financial statements and no assessment of its financial health to determine its financial ability to provide continued quality medical care, including vital charity care. In addition, without the CON process the community cannot be assured that RegionalCare has the demonstrated track record and experience to run Sharon Hospital successfully. This lack of transparency also means that the Sharon Hospital community cannot know how much debt the restructured Sharon Hospital will have or RegionalCare's future plans.

RegionalCare is another Nashville-based, private leverage buyout firm created 2 years ago. It has since acquired several hospitals and is said to have borrowed several hundred million dollars. It could affect the continued viability of Sharon Hospital if RegionalCare is over-leveraged and heavily in debt and is unable to continue operations in the short, or long, term.

The law states that if there is a change of ownership, a CON must be submitted. See CGS Section 19a-638(2). OHCA's restrictive and narrow reading of the statute does not address the substantive change that has occurred and it is irresponsible by not requiring more information.

In 2001, when Sharon Hospital underwent the first for-profit sale to Essent, your predecessor held a series of important public hearings before the CON was issued, insuring that the facts were made public so that the community would be assured of continued quality medical care.

For the future of Sharon Hospital, we request that you urge OHCA to reverse its September 9, 2011 decision, require a Certificate of Need application and public hearings so that the community can examine RegionalCare's financial statements, the plans for Sharon Hospital, and question senior executives. The community needs to be reassured that this is not the same old story of a debt-burdened company working their financial shenanigans

It is unclear when the "merger" will be effective, or if any permits or approvals will be required by the Department of Public Health – so time is of the essence.

Sincerely,



Charlene LaVoie  
Community Lawyer

Enclosure

c: Senator Richard Blumenthal  
Congressman Chris Murphy  
State Senator Andrew Roraback  
State Representative Roberta Willis

LAKEVILLE  
JournalOct. 13  
2011

## LETTERS TO THE EDITOR

More letters on Pages A9 and A12.

## Community needs better clarity on Sharon Hospital ownership

Your story about Sharon Hospital is misleading. Sharon Hospital will be sold to RegionalCare Hospital Partners. From a narrow, legalistic perspective, Essent is calling its sale a merger, which is a misnomer.

After reviewing documentation (obtained under the Freedom of Information Act) submitted to OHCA (Office of Health Care Access), it is clear that ownership of all Essent's assets—including Sharon Hospital—will go to RegionalCare, the new owners.

Essent states: "Essent will remain as the surviving corporation, will retain its name and will be wholly owned by RegionalCare."

We know virtually nothing about RegionalCare. OHCA, charged with protecting the interests of Connecticut's health-care consumers, has decided that the parties did not require a certificate of need (CON) application nor a public hearing concerning the sale. The law states that if there is a change of ownership, a CON must be submitted.

OHCA wrongly decided that because the subsidiary corporation operating Sharon Hospital—Essent Connecticut—did not change its name and kept the same board of directors, there was no ownership change.

However, actual ownership of the assets will change. Any board of directors can be changed by its parent corporation, just as different governance policies can

be enacted anytime that RegionalCare chooses. OHCA's reading of the statute is too restrictive and narrow and doesn't address that substantive change will occur.

OHCA has failed in its responsibilities with its decision not to require more information. The regulators aren't regulating.

With this lack of transparency, our community doesn't know how much debt the restructured Sharon Hospital will have or RegionalCare's future plans. Since RegionalCare is privately held, without a CON, we can't see its financial statements or determine its financial ability to provide continued quality medical care, including vital charity care.

About 10 years ago, when Sharon Hospital was for sale to Essent, Attorney General Richard Blumenthal, now our U.S. senator, held a series of important public hearings before the CON was issued, ensuring that all facts came out so that the community could be assured of continued quality medical care.

RegionalCare is just another Nashville-based, private leverage buyout firm started only two years ago; it has since acquired several hospitals and is said to have borrowed several hundred million dollars.

If this purchase consummates, we can rest assured that in five to seven years, Sharon will be sold again—and again. Aren't we all tired of financial shenanigans and debt-burdened companies working their finan-

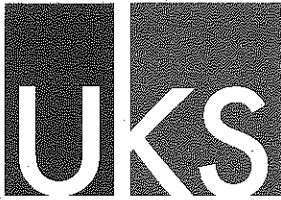
cial magic? This has led to the U.S. economy's downturn and the financial bubble.

If we want Sharon Hospital to survive, it is time to contact our representatives, the attorney general and OHCA asking that OHCA reverse its decision, require a certificate of need application and a full public hearing. Then we will be able to examine RegionalCare's financial statements, their plans for Sharon Hospital, and question their senior executives.

Victor Germack

Salisbury

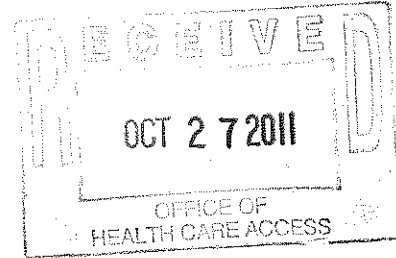
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MERITAS LAW FIRMS WORLDWIDE

Jennifer L. Groves  
(t) 203.786.8316  
(f) 203.772.2037  
jgroves@uks.com

October 26, 2011



Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
P. O. Box 340308  
Hartford, CT 06134-0308

Re: Merger of RegionalCare Hospital Partners, Inc. Subsidiary Into Essent Healthcare, Inc.

Dear Ms. Martone,

As you are aware, this office represents Essent Healthcare, Inc. ("Essent"), the parent company of Essent Healthcare of Connecticut, Inc. ("Essent Connecticut"), which owns and operates Sharon Hospital ("Sharon" or the "Hospital"). On September 9, 2011, OHCA determined that CON approval was not required for the merger of RegionalCare Hospital Partners, Inc. ("RegionalCare") into Essent (Report No. 11-31720-DTR). On October 14, 2011, we received a copy of correspondence from Victor F. Germack to OHCA, requesting that the agency reverse its decision in Report No. 11-31720-DTR and require CON approval for the proposed parent company level transaction. Thank you for allowing Essent to submit this response to Mr. Germack's letter.

Mr. Germack suggests that OHCA was mistaken in its interpretation of the transfer of ownership CON statute (C.G.S. 19a-638-(a)(2)), and that CON approval is required for the proposed merger. He claims that a CON proceeding is necessary to ensure continuity of care, in particular charity care, at Sharon, as well as the financial viability of the Hospital going forward. Mr. Germack's assessment of both the law, and the ongoing obligations of the owner and operator of Sharon Hospital, is incorrect.

As a threshold matter, OHCA has determined in other recent decisions that the proposed merger of corporations several levels removed from the licensed entity that owns and operates a health care facility does not result in a change of ownership or control of the health care facility (i.e. Report No. 11-31700-DTR regarding Wilton Surgery Center, LLC). OHCA's determination in Report No. 11-31720-DTR concerning Essent is consistent with these prior determinations. More importantly, Mr. Germack incorrectly states that as a result of this transaction the "actual

Updike, Kelly & Spellacy, P.C.

6000 Century Tower ■ 265 Church Street ■ New Haven, CT 06510 (t) 203.786.8300 (f) 203.772.2037 www.uks.com

ownership of the assets [of Sharon] will change.” This assertion is both legally and factually incorrect. All of the assets of the Hospital, both real property and personal property, are currently owned by Essent Connecticut. Following the consummation of the parent level transaction, all of these assets will continue to be owned by Essent Connecticut. Similarly, all licenses and other regulatory approvals will continue to be held by and be enforceable against Essent Connecticut.

Mr. Germack further implies that with the alleged change of ownership will come a change in control. However, OHCA correctly determined that there will be no change in control as a result of the proposed merger. There will be no changes to the governance of the Hospital, including the Articles of Incorporation and By-laws of Essent Connecticut, nor any changes to the controlling bodies of the hospital. Mr. Germack does not appear to understand an important fact: that conditions imposed on Essent and Essent Connecticut through the decisions issued by OHCA (Docket No. 01-486-01R) and the Office of the Attorney General (Docket No. 01-486-01) in 2002, in connection with the conversion proceedings relating to the Hospital, *will remain in full force and effect after the merger of RegionalCare and Essent is complete, just as they have for almost ten years*. This includes, notably, the Attorney General’s condition requiring an Advisory Board comprised of community and elected officials, with whom Essent must meet and from whom it must seek input on decisions affecting the Hospital. The existence and composition of the Advisory Board cannot be altered, even after the proposed merger, without the prior consent and approval of the Office of the Attorney General.

In addition, the Attorney General’s decision also included conditions intended to protect the financial viability of the Hospital. In this regard, the Attorney General imposed a restriction on the use of the Hospital’s assets as collateral by Essent and Essent Connecticut. This prohibition against cross-collateralization allowed the assets of Sharon to be used as collateral only for funds incurred for the benefit of the Hospital, and not for projects unrelated to the Hospital. This condition is an ongoing obligation, can only be modified with the prior consent of the Office of the Attorney General, and will be applicable to Essent, Essent Connecticut and RegionalCare following the completion of the parent level transaction. Accordingly, Mr. Germack’s concern that the conditions of the Attorney General that “strengthened the process” in 2002 will be lost are unfounded, as neither Essent, Essent Connecticut nor RegionalCare can unilaterally alter this restriction. Accordingly, adequate checks remain in place to ensure the financial health and viability of Sharon and the continuity of hospital care for the community.

Mr. Germack appears particularly concerned about the continued availability of charity care at Sharon Hospital with the proposed merger. Once again, Mr. Germack fails to appreciate that OHCA’s original decision in the conversion proceedings will remain in place. This final decision contains, among other things, a condition that requires Essent to provide appropriate

Kimberly Martone

Page 3

October 26, 2011

care to any person or patient presenting for such care, regardless of the individual's ability to pay, to the extent that the services required are offered at the Hospital. This obligation will continue to apply to Essent Connecticut following the merger.

In light of the foregoing, Essent maintains that the CON Determination issued by OHCA under Report No. 11-31720-DTR is correct and should be sustained. The proposed merger does not constitute a change of ownership or control of a healthcare facility, subject OHCA jurisdiction. While Essent Connecticut understands Mr. Germack's concerns, these are the same concerns expressed by him during the original conversion proceedings, and the decisions rendered by OHCA and the Attorney General in 2002 address these and other concerns.<sup>1</sup> These decisions remain valid and enforceable by OHCA and the Office of the Attorney General, are not affected by the parent level transaction, and no further proceedings are necessary to maintain the enforceability thereof against Essent, Essent Connecticut or RegionalCare. Any allegations of non-compliance with the terms of any conditions imposed by OHCA or the Office of the Attorney General can be addressed through the existing decisions of such agencies.

Very truly yours,



Jennifer L. Groves

JLG/dla

Enclosure

cc: Michael W. Browder  
Melanie Dillon, Esq.

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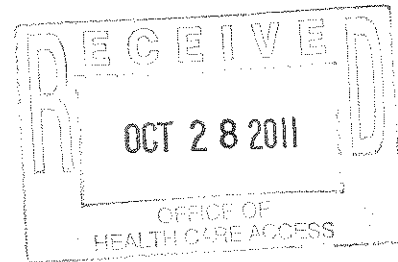
<sup>1</sup> In 2008, Mr. Germack raised certain additional concerns with OHCA and then-Governor M. Jodi Rell regarding the ownership and operation of Sharon Hospital. In response, Essent Connecticut worked cooperatively with OHCA and established that Mr. Germack's complaints were without merit. This serves as further evidence that Mr. Germack's concerns do not support the need for additional review proceedings with respect to the proposed parent level transaction. Moreover, despite the fact that Mr. Germack's 2008 complaints were unfounded, Essent Connecticut voluntarily adopted a proactive annual report to the community in order to increase transparency.



OFFICE OF THE COMMUNITY LAWYER

October 28, 2011

Kimberly Martone  
Office of Health Care Access  
410 Capitol Avenue  
Hartford, CT 06134



Re: Sale of Essent/Sharon Hospital to RegionalCare

Dear Ms. Martone:

This is to request that OCHA seek the assistance of the Attorney General in reviewing the proposed sale of Essent Healthcare to RegionalCare Hospital Partners and to re-open the determination process on the basis that pertinent information was not available at the time of the August 17, 2011 application to OCHA. The central issue is whether this deal is a merger or a sale.

In its August 17, 2011 narrative "Proposal Description", to OHCA, Essent states that "Essent will remain as the surviving corporation, will retain its name and will be wholly owned by RegionalCare". There are assertions that there is no change in governance.

The Essent of Connecticut board is the parent board comprised only of Essent employees. But Essent's directors and officers of the parent and subsidiaries are all resigning pursuant to Article VI. section 6.2.c of the Agreement:

Board resignations. RegionalCare shall have received the resignations, effective as of the closing, of each director or manager of Essent and its Subsidiaries and each officer of the company and its subsidiaries...

This represents a change in control and triggers a CON review pursuant to CGS 19a-630.

Furthermore, the Agreement is peppered with references such as seller expenses, board resignations, termination fees, and financing requirements that are all consistent with an acquisition.

The August 17, 2011 CON Determination Form, Section II. b. asks "estimated total project cost": the response is "N/A". But Bloomberg articles and Vestar Capital Partners (the sellers) explain that this deal is a "sale" (see attached).

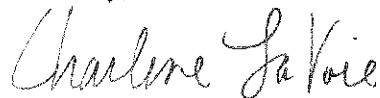
RegionalCare is seeking \$460 million of loans to complete its purchase of Essent. It is pivotal to know how much of this debt will land on Essent of CT / Sharon Hospital's balance sheet as it is likely to be recapitalized with significant amounts of new debt.

The financing of this deal is troubling for the future of Sharon Hospital. The components of the loan include: \$295MM buyout loan (with an interest rate in the 7.75% to 10.75% range); a revolver of \$100MM; and, a term loan of \$65MM (the term loans have a maturity of 7 and 7 1/2 years). These loans result in annual interest payments of about \$35MM-\$44MM. Essent's annual earnings of approximately \$30MM EBITDA (earnings before interest, taxes, depreciation and amortization) would make it impossible for it to pay the interest out of existing cash flow without making changes to operations or by some other means.

Finally, there is a concern that the conditions imposed by the Attorney General and OHCA in 2002 may not extend beyond two years, when the right of first refusal purchase option expired.

We respectfully request that there be a re-opening of OCHA's determination in light of new information and possible misleading information that may have been contained in the August 17, 2011 CON Determination Form. Thank you for your time and careful consideration of this important matter.

Sincerely,

A handwritten signature in cursive script that reads "Charlene LaVoie".

Charlene LaVoie  
Community Lawyer

Roberta Willis  
State Representative and Member of the  
Sharon Hospital Advisory Board of Directors

# Vestar Capital Partners / News

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## **The Deal: Essent goes to RegionalCare for \$260M**

**by Lisa Ward**

*Updated 04:55 PM, Sep-07-2011 ET*

After a long holding period, Vestar Capital Partners and Cressey & Co. are finally exiting hospital operator Essent Healthcare Inc. through a sale to Warburg Pincus-backed RegionalCare Hospital Partners Inc. valued at about \$260 million, sources said.

The sale price equates to more than 8 times Ebitda, these sources said. Nashville-based Essent, which owns and operates three acute-care hospitals in Sharon, Conn.; Waynesburg, Pa.; and Paris, Texas; has between \$25 million and \$30 million of trailing 12-month Ebitda, these sources said.

The sale comes some three years after the sponsors first tried selling it just before the financial crisis hit. Vestar stands to make an attractive return on its \$70 million investment. Both sponsors declined to comment on the transaction.

Citigroup Global Markets Inc., Morgan Stanley and Deutsche Bank Securities Inc. committed debt financing to RegionalCare. Brentwood, Tenn.-based RegionalCare owns and operates four hospitals in Florence, Ala.; Muscle Shoals, Ala.; Ottumwa, Iowa; and Wilmington, Ohio.

New York-based Warburg Pincus helped launch RegionalCare in 2009 to back two hospital veterans, Martin Rash, the former chairman and CEO of Province Healthcare Co., and its former president and COO, John Rutledge. Their company was acquired for \$1.1 billion by Brentwood-based LifePoint Hospitals Inc. in March 2005.

Warburg invested \$300 million of equity in RegionalCare in 2009. In April 2011 RegionalCare raised an additional \$267 million of equity in a private placement, according to regulatory filings.

Since its formation, RegionalCare has acquired three hospitals operating in rural areas. In April 2010, it bought Ottumwa Regional Health System for an undisclosed price. In June 2010 RegionalCare acquired Coffee Health Group in Florence, Ala., and Clinton Memorial Hospital in Wilmington. Clinton was acquired for about \$55 million, according to Moody's Investors Service.

Essent dates to 1999, when Cressey backed W. Hudson Connery, former COO of Health Trust Inc., a hospital operator sold to Columbia/HCA Healthcare Corp. in 1995. Cressey initially invested \$50 million in the company.

Connery reportedly envisioned buying small, underperforming hospitals from large systems, but it ended up buying small, rural hospitals instead.

Vestar recapitalized Essent in January 2005, investing \$70 million out of its fourth fund. Cressey, then Thoma Cressey Equity Partners, injected an additional \$10 million. The capital helped shore up the company's balance sheet and fund the purchase of Christus St. Joseph's Health Systems in Paris, Texas. Essent secured \$55 million in senior debt and a \$20 million revolver as part of the deal. The sponsors were hoping to auction off Essent, but the process was derailed when markets soured. Before resuming a process, the sponsors decided that Essent should divest two particular hospitals in Massachusetts. Because Massachusetts is the only U.S. state that mandates universal healthcare, these hospitals would only interest a select group of buyers.

In December Essent found a buyer in Cerberus Capital Management

LP-backed Steward Healthcare System LLC. Boston-based Steward, now one of the state's largest hospital networks, bought the 124-bed Merrimack Valley Hospital in Haverhill, Mass., and the 57-bed Nashoba Valley Medical Center in Ayer, Mass., for about \$40 million.

Barclays Capital was the exclusive financial adviser to Essent. Kirkland & Ellis LLP's Mike Movsoyich, Kester Spindler and Stefanie Wool, along with Pat Gallagher and David Grenker, represented Essent, together with K&L Gates LLP.

Waller Lansden Dortch & Davis LLP and Cleary Gottlieb Steen & Hamilton LLP advised RegionalCare. Cahill Gordon & Reindel LLP represented each of the banks.

Hospital operators have been attractive targets for private equity over the past two decades, but industry sources expect the pace of investing to accelerate in the next year as many small, independent hospitals increasingly struggle to stay solvent.

Reimbursement rates from the government and providers result in shrinking revenues, and that trend is likely to continue, sources said.

At the same time, healthcare reform requires hospitals to make large investments in technology upgrades, just as traditional sources of funding, such as municipal bond markets, have been dried up.

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RegionalCare Hospital Partners Inc., a Warburg Pincus portfolio company, today announced it has signed a definitive agreement to merge with Essent Healthcare, Inc., a portfolio company of Vestar Capital Partners and Cressey & Company.

Brentwood, Tennessee-based RegionalCare is the owner and operator of four market-leading, non-urban hospitals located in

Florence, Alabama; Muscle Shoals, Alabama; Ottumwa, Iowa and Wilmington, Ohio, while Nashville-based Essent is the owner and operator of three market-leading, non-urban acute care hospitals located in Sharon, Connecticut; Waynesburg, Pennsylvania and Paris, Texas. The merger, which is conditioned on customary regulatory reviews and approvals, is expected to close by the fourth quarter of this year. Terms of the deal were not disclosed.

- . Day to day operations at the Essent hospitals will be unaffected by the parent-company-level merger.
- . “As a leading healthcare management company, Essent was an attractive partner for us,” said Martin S. Rash, Chairman and CEO of RegionalCare. “Essent’s physician recruitment initiatives and top-quality clinical operations coupled with service expansion opportunities and improving demographic trends in their markets, position these hospitals well for the future. We look forward to working with existing management and hospital boards, along with the hospital medical staff and employees to continue the momentum they have created.”

- . **Our Communities - Where We Serve**

- . **Ottumwa Regional Health Center - Ottumwa, IA**

- . Ottumwa, the city of bridges, is located in southeastern Iowa. The Des Moines river runs right through Ottumwa, providing a beautiful backdrop to a vibrant region. A family oriented community of 25,000, Ottumwa offers a low cost of living and outstanding public and private education facilities.

- . Ottumwa Regional Health Center is a trauma and referral center licensed for 217 beds, providing medical care to the residents of southeastern Iowa and northern Missouri. Emergency Services operates as a Level III Trauma Center. There are over 70 highly skilled physicians, representing 30 specialty areas of medicine.

- . **Eliza Coffee Memorial Hospital - Florence, AL**

From the houses on the bluffs overlooking the river to the historic homes in the city's downtown area, life in the area is full of beauty. Florence is located in northwest Alabama along the Tennessee River in a two county region known as the Shoals. The area carries forth the ideals of creating a safe, family-friendly place for residents to live.

Eliza Coffee Memorial Hospital (ECM) has grown into the largest, most comprehensive medical facility in northwest Alabama, south central Tennessee and northeast Mississippi. The 358 bed facility represents over 42 specialty areas of medicine, with over 200 physicians on staff.

### **Shoals Hospital - Muscle Shoals, AL**

This is southern living at its best and how life is supposed to be. A thriving retail and manufacturing economy, a reverent sense of history and culture, superior schools, and the friendliest people in the world fashions the Shoals and offers numerous opportunities for an enhanced quality of life. The Shoals is a great place to live, work, and play!

Shoals Hospital (Shoals) provides general acute care and operates the area's only in-patient acute rehab facility, the J. W. Sommer Rehab Unit. With more than 100 physicians on staff, representing over 24 specialty areas of medicine, Shoals serves a population of approximately 220,000.



## **Clinton Memorial Hospital - Wilmington, OH**

Combining the best of small-town values with big city accessibility, Clinton County is within easy commuting distance to the major metropolitan areas of Columbus, Dayton and Cincinnati. Wilmington, the county seat, offers affordable living in a community that values family life, educational excellence and professional opportunity.

Clinton Memorial Hospital (CMH) is a 165-bed acute care hospital serving the residents of Clinton County and the surrounding area. The health system offers a full range of medical services, including emergency, cardiology, oncology, surgical services and women's and children's services. CMH employs more than 900 people and has a medical staff of more than 200 in approximately 35 different specialties.

## **About RegionalCare Hospital Partners**

We believe the heart of healthcare is service to others.

We are motivated by a singular mission: To provide local communities with hospitals that have the financial resources and management expertise to deliver affordable, accessible, quality healthcare.

- . This mission influences everything we do and is woven into the three key qualities we offer as a partner:
- . **Expertise** – Our executive leadership team has worked with more than 300 hospitals in 25 states to support local hospitals in their mission of serving their communities through improvement and growth.
- . **Focus** – Recruiting physicians, expanding services, and ongoing investment in technology are vital to the health of every hospital. We accelerate the mission of each hospital's board so that the hospital can meet the ever-changing healthcare needs of their community.
- . **Resources** – Warburg Pincus, the world's leading healthcare investment firm for over 35 years, committed \$300 Million in equity to invest in the growth of community hospitals.

In order to accomplish this mission, we rely on physicians who are equally committed to serving others thorough affordable, accessible, first-rate healthcare that improves well-being and quality of life.

*Martin S. Rash Chairman*

Mr. Rash, a co-founder of APP, has over 30 years of experience in healthcare services. Mr. Rash is Chairman and CEO of RegionalCare Hospital Partners, Inc., a hospital company that he recently founded and for which he raised \$300 million of equity from New York-based Warburg Pincus. Previously, he was Chairman and CEO of Province Healthcare Company, which he founded as a start-up in 1996 backed by Chicago-based GTCR. Under his direction, Province completed a successful IPO in 1998 and grew to 21 hospitals across the U.S. with

revenues of nearly \$1 billion by 2004 when it was sold to Lifepoint Hospitals, Inc. (NASDAQ: LPNT) for \$1.7 billion.

Previously, Mr. Rash was Executive Vice President and COO at Community Health Systems, Inc. (NYSE: CYH). During his tenure there, he led the growth of the company from 10 to 41 hospitals in 17 states. Mr. Rash was an early investor in Odyssey Healthcare, one of the largest hospice companies in the U.S. and is currently a board member of HealthSpring, Inc. (NYSE: HS), a managed care organization. Mr. Rash was also past Chairman of the Federation of American Hospitals and the Nashville Health Care Council. Mr. Rash holds a bachelors degree and an MBA from Middle Tennessee State University.

# Bloomberg

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## RegionalCare Said to Set Rates on \$295 Million Buyout Loan

By Michael Amato - Oct 19, 2011

RegionalCare Hospital Partners Inc., a provider of health-care services, set the interest rate on a \$295 million first-lien term loan it's seeking to back its purchase of Essent Healthcare Inc., according to a person with knowledge of the transaction.

The debt will pay 6.25 percentage points to 6.5 percentage points more than the London interbank offered rate, said the person, who declined to be identified because the terms are private. Libor, a rate banks charge to lend to each other, will have a 1.5 percent floor.

RegionalCare is proposing to sell the loan at 96 cents to 97 cents on the dollar, the person said, reducing proceeds for the company and boosting the yield to investors.

The first-lien term debt will have one-year soft-call protection of 101 cents, meaning Brentwood, Tennessee-based RegionalCare would have to pay lenders 1 cent more than face value to refinance the debt during the first year, the person said.

Citigroup Inc. is arranging the deal and lenders must submit commitments by Oct. 31 at 5 p.m. in New York.

The company is also seeking a \$100 million revolving line of credit due in five years and a \$65 million second-lien term loan due in 7 1/2 years, according to data compiled by Bloomberg.

John Bakewell, chief financial officer of RegionalCare, declined to comment.

First-lien debt is repaid first in a bankruptcy or liquidation, second-lien debt is repaid next. In a revolving credit facility, money can be borrowed again once it's repaid; in a term loan, it can't.

To contact the reporter on this story: Michael Amato in New York at [mamato3@bloomberg.net](mailto:mamato3@bloomberg.net)

To contact the editor responsible for this story: Faris Khan at [fkhan33@bloomberg.net](mailto:fkhan33@bloomberg.net)

# RegionalCare Said to Be Seeking \$460 Million of Buyout Loans

*By Michael Amato - Oct 18, 2011 3:20 PM ET*

RegionalCare Hospital Partners Inc., a provider of health-care services, is seeking \$460 million of loans to back its purchase of Essent Healthcare Inc., according to a person with knowledge of the transaction.

The financing for the Warburg Pincus LLC-owned company will include a \$295 million first-lien term loan B maturing in seven years, a \$100 million revolving line of credit expiring in five years and a \$65 million second-lien term piece due in 7 1/2 years, said the person, who declined to be identified because the terms are private.

The first-lien term debt will have one-year soft-call protection of 101 cents, meaning RegionalCare would have to pay lenders 1 cent more than face value to refinance the debt during the first year, the person said.

Citigroup Inc. is arranging the deal for the Brentwood, Tennessee-based company and lenders must submit commitments by Oct. 31 in New York.

RegionalCare is buying Essent from Vesta Capital Partners and Cressey & Co LP, according to a statement from its website.

John Bakewell, Chief Financial Officer of RegionalCare, declined to comment.

First-lien debt is repaid first in a bankruptcy or liquidation, second-lien debt is repaid next. In a revolving credit facility, money can be borrowed again once it's repaid; in a term loan, it can't.

To contact the reporter on this story: Michael Amato in New York at [mamato3@bloomberg.net](mailto:mamato3@bloomberg.net)

To contact the editor responsible for this story: Faris Khan at [fkhan33@bloomberg.net](mailto:fkhan33@bloomberg.net)

## Greer, Leslie

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**From:** Lazarus, Steven  
**Sent:** Thursday, November 03, 2011 8:28 AM  
**To:** Greer, Leslie  
**Subject:** FW: Essent Healthcare  
**Attachments:** 20111102165200802.pdf

Please add to the record, Report No.: 11-31720-DTR CON Determination.

Thank you ,  
Steven

*Steven W. Lazarus*  
*Associate Health Care Analyst*  
Connecticut Department of Public Health  
Division of Office of Health Care Access  
410 Capitol Avenue, MS 13HCA  
Hartford, Connecticut 06134  
Phone: (860) 418-7012 (Direct)  
Fax: (860) 418-7053 (Main)

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**From:** Martone, Kim  
**Sent:** Thursday, November 03, 2011 7:32 AM  
**To:** Lazarus, Steven  
**Subject:** Fw: Essent Healthcare

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**From:** Jennifer Groves [mailto:JGroves@uks.com]  
**Sent:** Wednesday, November 02, 2011 06:15 PM  
**To:** Martone, Kim; Dillon, Melanie  
**Cc:** Browder, Mike <mike.browder@EssentHealthcare.com>  
**Subject:** Essent Healthcare

Kim/Melanie,

Per our discussion, attached is a letter from Michael Browder, CEO of Essent Healthcare, Inc., regarding the proposed merger of Essent Healthcare and RegionalCare Hospital Partners. Please feel free to call me with any additional questions.

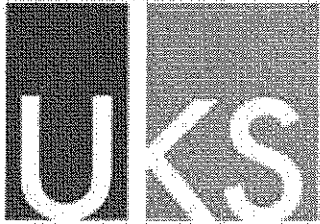
Thanks,

Jen

Jennifer L. Groves, Esq.  
Principal  
Updike, Kelly & Spellacy, P.C.

One Century Tower  
265 Church Street  
New Haven, CT 06510  
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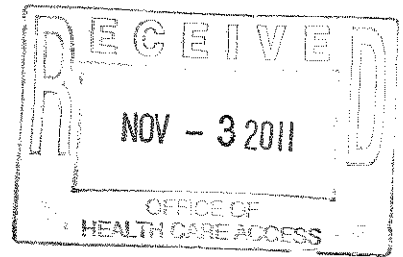


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Essent Healthcare, Inc.  
3100 West End Ave., Suite 900  
Nashville, Tennessee 37203  
615 312-5100  
615 312-5101 Facsimile



November 1, 2011



Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
P. O. Box 340308  
Hartford, CT 06134-0308

Re: RegionalCare Hospital Partners, Inc./Essent Healthcare, Inc. Merger

Dear Ms. Martone,

I am writing on behalf of Essent Healthcare, Inc. ("Essent"), the parent company of Essent Healthcare of Connecticut, Inc. ("Essent Connecticut"), which owns and operates Sharon Hospital ("Sharon" or the "Hospital"). On September 9, 2011, OHCA determined that CON approval was not required for the merger of RegionalCare Hospital Partners, Inc. ("RegionalCare") with Essent (Report No. 11-31720-DTR). On October 28, 2011, we received a copy of correspondence from Attorney Charlene LaVoie and Representative Roberta Willis to OHCA, requesting that OHCA seek the assistance of the Attorney General in evaluating the proposed merger. Attorney LaVoie and Rep. Willis also asked that the agency reverse its decision in Report No. 11-31720-DTR, and require CON approval for the parent company level transaction. In light of this letter we were asked to meet with representatives of OHCA to discuss the proposed transaction involving Essent and RegionalCare. This letter documents the information presented by Essent at an October 31, 2011 meeting with agency staff.

***Sharon Hospital Governing Boards – No Change In Control***

At issue is whether the merger of Essent and RegionalCare constitutes a change of ownership for which Certificate of Need ("CON") approval is required. As a threshold matter, the Attorney General's Office does not have jurisdiction over the proposed transaction because it does not involve the conversion of a hospital from not-for-profit to for-profit status, which would be subject to Attorney General review pursuant to Sections 19a-486 et seq. of the General Statutes. Moreover, Essent maintains that the proposed merger is not a change of ownership under the OHCA statutes, because the parent level transaction does not result in a change in control of Essent Connecticut, the licensed operator of Sharon Hospital, for the reasons set forth in our previous submissions to OHCA. The proposed transaction is not a "sale" of Sharon, it is a merger under applicable law of parent level corporations, to which Essent CT is not a party, and



there are no planned changes in the boards that govern the Hospital in connection with the merger.

By way of background, there are three boards involved in the governance of Sharon Hospital. As mentioned in our CON Determination request and in our prior correspondence regarding this matter, there is an Advisory Board of Trustees that was created as a result of the Attorney General's Orders in the 2002 conversion proceedings involving Sharon. The Advisory Board exists to provide Essent with physician and community input on matters affecting the Hospital. It is comprised of public officials, members of the Hospital Medical Staff, and other community members, and its composition and rights and responsibilities cannot be altered by Essent, Essent CT or RegionalCare without prior written consent of the Attorney General. A list of current Advisory Board members is attached as Exhibit A. These individuals will remain members of the Advisory Board after the proposed merger with RegionalCare.

There is also a Local Governing Board for Sharon Hospital, which derives its authority from the Essent Connecticut Board of Directors (discussed below), and deals with issues relating to the day-to-day operations at the Hospital. Because the members of the Essent Connecticut Board of Directors are not resident in Connecticut, authority has been delegated to the Local Governing Board to oversee matters including, but not limited to, physician credentialing, evaluation of performance of local management (i.e. CEO), and monitoring of clinical quality efforts. The Local Governing Board has its own bylaws and fulfills and exercises real corporate authority, as is evidenced by the fact that its members are covered by the Company's Directors and Officers liability insurance. The Local Governing Board also fulfills the requirement that the Hospital have a governing board in order to be accredited by The Joint Commission ("TJC"). A list of current Local Governing Board members is attached as Exhibit B. There will be no changes to Local Governing Board membership with the proposed merger.

Lastly, there is the Board of Directors of Essent Connecticut. Essent Connecticut, as a Connecticut corporation, is required to have a Board of Directors. In addition to appointing the Local Governing Board, the Essent Connecticut Board of Directors appoints and elects officers of the corporation and exercises authority over significant matters such as borrowing money. It is worth noting that because Essent Connecticut is not a party to, or signatory of, the Merger Agreement between Essent and RegionalCare, the Essent Connecticut Board of Directors has no role with respect to the approval of the proposed transaction.

The Essent Connecticut Board of Directors is comprised of three members: Michael Browder, CEO of Essent; Steven Wylie, COO of Essent; and John Fick, VP & Controller of Essent. While Section 6.2.c of the Merger Agreement between RegionalCare and Essent originally required the resignation of these three individuals from the Essent Connecticut Board of Directors, this is a routine matter of corporate housekeeping typical in all transactions of a similar nature. In this case, since all three members of the Essent Connecticut Board of Directors will remain in place following the completion of the merger, this boilerplate merger language is

waived by the parties. Attached is a letter from Howard T. Wall, III, Executive Vice President and Chief Administrative Officer of RegionalCare, attesting to the fact that membership of the Essent Connecticut Board of Directors will not change with the merger.

Moreover, to the extent that one or more of the individuals on the Essent Connecticut Board of Directors changes subsequent to the merger, this does not constitute a change in control of Sharon Hospital. These changes occur regularly in the normal course of business. By way of example, the former CEO and COO of Essent were once members of the Essent Connecticut Board of Directors, but no longer serve in that capacity because they are no longer employed by the company. OHCA has never found changes in board membership due to the death, retirement, resignation, or other termination of employment of an individual board member to require CON approval. These changes happen at healthcare facilities across the state on a daily basis.

#### ***Debt Associated With Proposed Merger***

As we discussed, there is misperception about the amount of debt associated with the proposed merger, as well as its alleged impact on the merged parent companies and Sharon Hospital. While financial media outlets such as Bloomberg are reporting that there will be \$460 million in loans associated with the merger, the amount being borrowed is only \$360 million. The remaining \$100 million represents a line of credit that has not yet been borrowed. This line of credit will be available if needed, however, it will not be borrowed in connection with the merger and the merged parent company will not pay interest on this money unless and until it is borrowed. As a result of a misreporting of the amount being borrowed, the amount of interest associated with the debt is overstated by approximately 25% (\$28-\$35 million v. \$35-\$44 million).

In addition, assumptions about the servicing of borrowed monies are incomplete. In addition to Essent's earnings you must take into account the earnings of RegionalCare and the anticipated combined earnings of the merged companies. Essent's earnings exceed \$30 million, while RegionalCare's earnings exceed \$40 million, giving the merged companies combined earnings of nearly \$80 million. The merged companies will therefore be well within, if not below, industry standards with respect to the amount of debt as compared with earnings.

The manner of financing associated with the proposed merger will also have a positive impact on the debt position of Sharon Hospital. Because of the prohibition on cross-collateralization in the Attorney General's Order in the conversion proceedings, Essent cannot pledge the assets of Sharon for borrowings used to support other hospitals. This typically results in a substantial amount of debt being allocated to Sharon, separate from debt allocated to the remainder of Essent's operations, as a condition of any financing. However, given the size of the merged companies and the strength of its hospitals, lenders have decided that there is enough security for the proposed \$360 million debt without pledging the assets of Sharon as collateral

and assigning it debt. This means that all existing debt associated with Sharon Hospital will be repaid contemporaneously with the effective date of the merger, and the Hospital will be entirely debt free after the merger is complete. Sharon Hospital will likely be the only debt free hospital in the State of Connecticut.

***Remaining Conditions Of Attorney General And OHCA Order Will Continue To Exist***

Concerns have been expressed that the conditions of the Attorney General and OHCA Orders in the conversion proceedings do not extend beyond two years, when the right of first refusal expires. First, the right of first refusal, which exists by virtue of the Asset Purchase Agreement for the conversion of Sharon Hospital, is an independent contractual obligation which by its approved terms expires ten years from the date of the purchase of Sharon by Essent, or on April 12, 2012. While the right of first refusal will expire on schedule on April 12, 2012, the expiration thereof only affects the right of first refusal. The expiration thereof has no impact on the conditions of the OHCA and Attorney General's Orders, which are independent of the contractual right of first refusal. While some of the conditions have expired by their terms, others remain in effect and will continue to be applicable following the completion of the merger. These include, notably, the following:

- Provision of Charity Care (OHCA Docket No. 012-486-01R, Condition No. 6; Remains in effect unless and until modified by OHCA);
- Prohibition Against Cross-Collateralization of Sharon Hospital's Assets (Attorney General Docket No. 01-486-01; Condition A; Remains in effect unless and until modified by Attorney General);
- Profit Sharing With Conversion Foundation (Attorney General Docket No. 01-486-01, Condition D; Expires April 12, 2012); and
- Establishment/Strengthening of Advisory Board (Attorney General Docket No. 01-486-01, Condition E; Remains in effect unless and until modified by the Attorney General).

***No "Project Cost" Attributable to Sharon Hospital***

Essent has been asked to clarify the absence of an "estimated total project cost" in the CON Determination request for the proposed merger. This information was omitted from the submission because the proposed merger is a parent level transaction and not an asset sale, thus there is no cost attributable to Sharon Hospital. No Essent Connecticut monies are being used in connection with the proposed transaction, nor are any liabilities being incurred by Essent Connecticut in connection therewith. Essent Connecticut is making no capital or other expenditures in connection with the merger. As previously mentioned, Essent Connecticut, a Connecticut corporation, is not a party to the parent level transaction, which is a merger of two Delaware corporations.

*No Changes To Bylaws, Licenses or Certifications*

It is also worth noting that there will be no changes to the Hospital Bylaws or to the Essent Connecticut Bylaws as a result of the proposed parent level transaction. In addition, the Department of Public Health does not consider this matter a change of ownership requiring a new license, because the operating entity of the Hospital will remain unchanged. Essent has received similar feedback from licensing boards in the other states in which it operates. Moreover, Medicare does not consider the proposed merger to be a transaction affecting Sharon Hospital's provider status and TJC does not consider the transaction a change of ownership with respect to accreditation status.

Thank you again for allowing Essent to submit this response. We are happy to provide further clarification upon request or answer any additional questions that you may have.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael W. Browder". The signature is fluid and cursive, with the first name "Michael" and last name "Browder" clearly legible.

Michael W. Browder  
President & CEO

cc: Jennifer L. Groves, Esq.

# EXHIBIT A

### Advisory Board of Trustees Membership

1. Janet Nickson, Chair
2. Sen. Andrew Roraback
3. Rep. Roberta Willis
4. Rep. Brad Kendall
5. Selectman Robert Loucks
6. Dr. Malcolm Brown
7. Dr. Paul Kardon
8. Dr. Mark Marshall
9. Dr. Susan Parisi
10. Dr. Donald Saucier
11. Eileen Fox
12. Donna DiMartino
13. Harriet Weiss

#### Sharon Hospital Senior Leadership Team:

1. Kimberly Lumia
2. Denise Fink
3. Kimberly Richard
4. Jill Musselman

# EXHIBIT B

### Local Governing Board Membership

1. Ben Heller, Chair
2. Patricia Chamberlain, Vice Chair
3. Rob Bettigole
4. Fred Whitridge
5. Ruth Epstein
6. Dr. Margaret Coughlan
7. Dr. Jerome Roth
8. Dr. Ari Namon
9. Dr. William Kirber
10. Dr. Mark Marshall (*ex officio*)
11. Kimberly Lumia (*ex officio*)



# EXHIBIT C



November 1, 2011

To Whom It May Concern,

This letter is to confirm that upon the parent level merger between Essent Healthcare, Inc. ("Essent") and RegionalCare Hospital Partners, Inc., ("RegionalCare") the corporate structure beneath Essent will remain in place. The Essent subsidiary that currently owns and operates Sharon Hospital, Essent Healthcare of Connecticut, Inc., will continue to own and operate Sharon Hospital. The current directors of Essent Healthcare of Connecticut, Inc., Michael Browder, John Fick and Steve Wylie, will continue to serve as Directors after the merger is completed.

If you have any further questions concerning this matter, please do not hesitate to contact the undersigned.

REGIONALCARE HOSPITAL PARTNERS, INC.

By: 

Howard T Wall III

Executive Vice President & Chief Administrative Officer

## Greer, Leslie

---

**From:** Lazarus, Steven  
**Sent:** Thursday, November 03, 2011 8:28 AM  
**To:** Greer, Leslie  
**Subject:** FW: Essent Healthcare  
**Attachments:** 20111102165200802.pdf

Please add to the record, Report No.: 11-31720-DTR CON Determination.

Thank you ,  
Steven

*Steven W. Lazarus*  
*Associate Health Care Analyst*  
Connecticut Department of Public Health  
Division of Office of Health Care Access  
410 Capitol Avenue, MS 13HCA  
Hartford, Connecticut 06134  
Phone: (860) 418-7012 (Direct)  
Fax: (860) 418-7053 (Main)

---

**From:** Martone, Kim  
**Sent:** Thursday, November 03, 2011 7:32 AM  
**To:** Lazarus, Steven  
**Subject:** Fw: Essent Healthcare

---

**From:** Jennifer Groves [mailto:JGroves@uks.com]  
**Sent:** Wednesday, November 02, 2011 06:15 PM  
**To:** Martone, Kim; Dillon, Melanie  
**Cc:** Browder, Mike <mike.browder@EssentHealthcare.com>  
**Subject:** Essent Healthcare

Kim/Melanie,

Per our discussion, attached is a letter from Michael Browder, CEO of Essent Healthcare, Inc., regarding the proposed merger of Essent Healthcare and RegionalCare Hospital Partners. Please feel free to call me with any additional questions.

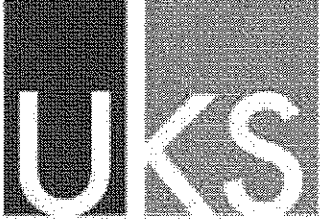
Thanks,

Jen

Jennifer L. Groves, Esq.  
Principal  
Updike, Kelly & Spellacy, P.C.

One Century Tower  
265 Church Street  
New Haven, CT 06510  
Office (203) 786.8316  
Cell (203) 927.8122  
Fax (203) 772.2037  
[www.uks.com](http://www.uks.com)

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MERITAS LAW FIRMS WORLDWIDE

LEGAL NOTICE:

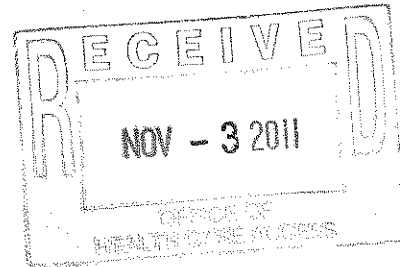
Unless expressly stated otherwise, this message is confidential and may be privileged. It is intended for the addressee(s) only. If you are not an addressee, any disclosure, copying or use of the information in this e-mail is unauthorized and may be unlawful. If you are not an addressee, please inform the sender immediately and permanently delete and/or destroy the original and any copies or printouts of this message. Thank you.

Essent Healthcare, Inc.  
3100 West End Ave., Suite 900  
Nashville, Tennessee 37203  
615 312-5100  
615 312-5101 Facsimile

November 1, 2011



Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
P. O. Box 340308  
Hartford, CT 06134-0308



Re: RegionalCare Hospital Partners, Inc./Essent Healthcare, Inc. Merger

Dear Ms. Martone,

I am writing on behalf of Essent Healthcare, Inc. ("Essent"), the parent company of Essent Healthcare of Connecticut, Inc. ("Essent Connecticut"), which owns and operates Sharon Hospital ("Sharon" or the "Hospital"). On September 9, 2011, OHCA determined that CON approval was not required for the merger of RegionalCare Hospital Partners, Inc. ("RegionalCare") with Essent (Report No. 11-31720-DTR). On October 28, 2011, we received a copy of correspondence from Attorney Charlene LaVoie and Representative Roberta Willis to OHCA, requesting that OHCA seek the assistance of the Attorney General in evaluating the proposed merger. Attorney LaVoie and Rep. Willis also asked that the agency reverse its decision in Report No. 11-31720-DTR, and require CON approval for the parent company level transaction. In light of this letter we were asked to meet with representatives of OHCA to discuss the proposed transaction involving Essent and RegionalCare. This letter documents the information presented by Essent at an October 31, 2011 meeting with agency staff.

***Sharon Hospital Governing Boards -- No Change In Control***

At issue is whether the merger of Essent and RegionalCare constitutes a change of ownership for which Certificate of Need ("CON") approval is required. As a threshold matter, the Attorney General's Office does not have jurisdiction over the proposed transaction because it does not involve the conversion of a hospital from not-for-profit to for-profit status, which would be subject to Attorney General review pursuant to Sections 19a-486 et seq. of the General Statutes. Moreover, Essent maintains that the proposed merger is not a change of ownership under the OHCA statutes, because the parent level transaction does not result in a change in control of Essent Connecticut, the licensed operator of Sharon Hospital, for the reasons set forth in our previous submissions to OHCA. The proposed transaction is not a "sale" of Sharon, it is a merger under applicable law of parent level corporations, to which Essent CT is not a party, and

there are no planned changes in the boards that govern the Hospital in connection with the merger.

By way of background, there are three boards involved in the governance of Sharon Hospital. As mentioned in our CON Determination request and in our prior correspondence regarding this matter, there is an Advisory Board of Trustees that was created as a result of the Attorney General's Orders in the 2002 conversion proceedings involving Sharon. The Advisory Board exists to provide Essent with physician and community input on matters affecting the Hospital. It is comprised of public officials, members of the Hospital Medical Staff, and other community members, and its composition and rights and responsibilities cannot be altered by Essent, Essent CT or RegionalCare without prior written consent of the Attorney General. A list of current Advisory Board members is attached as Exhibit A. These individuals will remain members of the Advisory Board after the proposed merger with RegionalCare.

There is also a Local Governing Board for Sharon Hospital, which derives its authority from the Essent Connecticut Board of Directors (discussed below), and deals with issues relating to the day-to-day operations at the Hospital. Because the members of the Essent Connecticut Board of Directors are not resident in Connecticut, authority has been delegated to the Local Governing Board to oversee matters including, but not limited to, physician credentialing, evaluation of performance of local management (i.e. CEO), and monitoring of clinical quality efforts. The Local Governing Board has its own bylaws and fulfills and exercises real corporate authority, as is evidenced by the fact that its members are covered by the Company's Directors and Officers liability insurance. The Local Governing Board also fulfills the requirement that the Hospital have a governing board in order to be accredited by The Joint Commission ("TJC"). A list of current Local Governing Board members is attached as Exhibit B. There will be no changes to Local Governing Board membership with the proposed merger.

Lastly, there is the Board of Directors of Essent Connecticut. Essent Connecticut, as a Connecticut corporation, is required to have a Board of Directors. In addition to appointing the Local Governing Board, the Essent Connecticut Board of Directors appoints and elects officers of the corporation and exercises authority over significant matters such as borrowing money. It is worth noting that because Essent Connecticut is not a party to, or signatory of, the Merger Agreement between Essent and RegionalCare, the Essent Connecticut Board of Directors has no role with respect to the approval of the proposed transaction.

The Essent Connecticut Board of Directors is comprised of three members: Michael Browder, CEO of Essent; Steven Wylie, COO of Essent; and John Fick, VP & Controller of Essent. While Section 6.2.c of the Merger Agreement between RegionalCare and Essent originally required the resignation of these three individuals from the Essent Connecticut Board of Directors, this is a routine matter of corporate housekeeping typical in all transactions of a similar nature. In this case, since all three members of the Essent Connecticut Board of Directors will remain in place following the completion of the merger, this boilerplate merger language is

waived by the parties. Attached is a letter from Howard T. Wall, III, Executive Vice President and Chief Administrative Officer of RegionalCare, attesting to the fact that membership of the Essent Connecticut Board of Directors will not change with the merger.

Moreover, to the extent that one or more of the individuals on the Essent Connecticut Board of Directors changes subsequent to the merger, this does not constitute a change in control of Sharon Hospital. These changes occur regularly in the normal course of business. By way of example, the former CEO and COO of Essent were once members of the Essent Connecticut Board of Directors, but no longer serve in that capacity because they are no longer employed by the company. OHCA has never found changes in board membership due to the death, retirement, resignation, or other termination of employment of an individual board member to require CON approval. These changes happen at healthcare facilities across the state on a daily basis.

#### ***Debt Associated With Proposed Merger***

As we discussed, there is misperception about the amount of debt associated with the proposed merger, as well as its alleged impact on the merged parent companies and Sharon Hospital. While financial media outlets such as Bloomberg are reporting that there will be \$460 million in loans associated with the merger, the amount being borrowed is only \$360 million. The remaining \$100 million represents a line of credit that has not yet been borrowed. This line of credit will be available if needed, however, it will not be borrowed in connection with the merger and the merged parent company will not pay interest on this money unless and until it is borrowed. As a result of a misreporting of the amount being borrowed, the amount of interest associated with the debt is overstated by approximately 25% (\$28-\$35 million v. \$35-\$44 million).

In addition, assumptions about the servicing of borrowed monies are incomplete. In addition to Essent's earnings you must take into account the earnings of RegionalCare and the anticipated combined earnings of the merged companies. Essent's earnings exceed \$30 million, while RegionalCare's earnings exceed \$40 million, giving the merged companies combined earnings of nearly \$80 million. The merged companies will therefore be well within, if not below, industry standards with respect to the amount of debt as compared with earnings.

The manner of financing associated with the proposed merger will also have a positive impact on the debt position of Sharon Hospital. Because of the prohibition on cross-collateralization in the Attorney General's Order in the conversion proceedings, Essent cannot pledge the assets of Sharon for borrowings used to support other hospitals. This typically results in a substantial amount of debt being allocated to Sharon, separate from debt allocated to the remainder of Essent's operations, as a condition of any financing. However, given the size of the merged companies and the strength of its hospitals, lenders have decided that there is enough security for the proposed \$360 million debt without pledging the assets of Sharon as collateral

and assigning it debt. This means that all existing debt associated with Sharon Hospital will be repaid contemporaneously with the effective date of the merger, and the Hospital will be entirely debt free after the merger is complete. Sharon Hospital will likely be the only debt free hospital in the State of Connecticut.

***Remaining Conditions Of Attorney General And OHCA Order Will Continue To Exist***

Concerns have been expressed that the conditions of the Attorney General and OHCA Orders in the conversion proceedings do not extend beyond two years, when the right of first refusal expires. First, the right of first refusal, which exists by virtue of the Asset Purchase Agreement for the conversion of Sharon Hospital, is an independent contractual obligation which by its approved terms expires ten years from the date of the purchase of Sharon by Essent, or on April 12, 2012. While the right of first refusal will expire on schedule on April 12, 2012, the expiration thereof only affects the right of first refusal. The expiration thereof has no impact on the conditions of the OHCA and Attorney General's Orders, which are independent of the contractual right of first refusal. While some of the conditions have expired by their terms, others remain in effect and will continue to be applicable following the completion of the merger. These include, notably, the following:

- Provision of Charity Care (OHCA Docket No. 012-486-01R, Condition No. 6; Remains in effect unless and until modified by OHCA);
- Prohibition Against Cross-Collateralization of Sharon Hospital's Assets (Attorney General Docket No. 01-486-01; Condition A; Remains in effect unless and until modified by Attorney General);
- Profit Sharing With Conversion Foundation (Attorney General Docket No. 01-486-01, Condition D; Expires April 12, 2012); and
- Establishment/Strengthening of Advisory Board (Attorney General Docket No. 01-486-01, Condition E; Remains in effect unless and until modified by the Attorney General).

***No "Project Cost" Attributable to Sharon Hospital***

Essent has been asked to clarify the absence of an "estimated total project cost" in the CON Determination request for the proposed merger. This information was omitted from the submission because the proposed merger is a parent level transaction and not an asset sale, thus there is no cost attributable to Sharon Hospital. No Essent Connecticut monies are being used in connection with the proposed transaction, nor are any liabilities being incurred by Essent Connecticut in connection therewith. Essent Connecticut is making no capital or other expenditures in connection with the merger. As previously mentioned, Essent Connecticut, a Connecticut corporation, is not a party to the parent level transaction, which is a merger of two Delaware corporations.

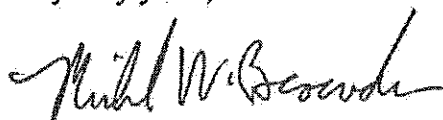


*No Changes To Bylaws, Licenses or Certifications*

It is also worth noting that there will be no changes to the Hospital Bylaws or to the Essent Connecticut Bylaws as a result of the proposed parent level transaction. In addition, the Department of Public Health does not consider this matter a change of ownership requiring a new license, because the operating entity of the Hospital will remain unchanged. Essent has received similar feedback from licensing boards in the other states in which it operates. Moreover, Medicare does not consider the proposed merger to be a transaction affecting Sharon Hospital's provider status and TJC does not consider the transaction a change of ownership with respect to accreditation status.

Thank you again for allowing Essent to submit this response. We are happy to provide further clarification upon request or answer any additional questions that you may have.

Very truly yours,

A handwritten signature in black ink, appearing to read "Michael W. Browder". The signature is fluid and cursive, with the first name "Michael" and last name "Browder" being the most prominent parts.

Michael W. Browder  
President & CEO

cc: Jennifer L. Groves, Esq.

# EXHIBIT A

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2. Sen. Andrew Roraback
3. Rep. Roberta Willis
4. Rep. Brad Kendall
5. Selectman Robert Loucks
6. Dr. Malcolm Brown
7. Dr. Paul Kardon
8. Dr. Mark Marshall
9. Dr. Susan Parisi
10. Dr. Donald Saucier
11. Eileen Fox
12. Donna DiMartino
13. Harriet Weiss

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3. Kimberly Richard
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# EXHIBIT B

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# EXHIBIT C



November 1, 2011

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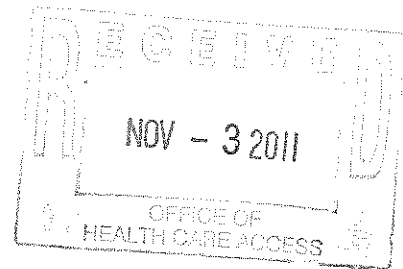
REGIONALCARE HOSPITAL PARTNERS, INC.

By: 

Howard T Wall III

Executive Vice President & Chief Administrative Officer

Essent Healthcare, Inc.  
3100 West End Ave., Suite 900  
Nashville, Tennessee 37203  
615 312-5100  
615 312-5101 Facsimile



November 1, 2011



Kimberly Martone  
Director of Operations  
Department of Public Health  
Office of Health Care Access Division  
410 Capitol Avenue  
P. O. Box 340308  
Hartford, CT 06134-0308

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Very truly yours,



Michael W. Browder  
President & CEO

cc: Jennifer L. Groves, Esq.

# EXHIBIT A

**Advisory Board of Trustees Membership**

1. Janet Nickson, Chair
2. Sen. Andrew Roraback
3. Rep. Roberta Willis
4. Rep. Brad Kendall
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# EXHIBIT C



November 1, 2011

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REGIONALCARE HOSPITAL PARTNERS, INC.

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Howard T Wall III

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