

Friday, November 2, 2007

## Partners \$110M apart on hospital

Dallas Business Journal  
by Jennifer Gordon Staff Writer

Texas Health Resources wants to buy Presbyterian Hospital of Denton, but remains at odds with its joint venture partner over the sales price.

Triad Hospitals Inc. originally was THR's partner in the hospital, but an acquisition of Triad this summer by Nashville-based Community Health Systems (NYSE: CYH) left CHS to negotiate the sale.



Presbyterian Hospital of Denton / Photo: Jake Dean

After weeks of due diligence and initial attempts at negotiating, which left the sides more than \$100 million apart on the purchase price, THR filed a lawsuit asking a Sherman federal court to affirm its right to purchase the former Triad's interest in the hospital. The two sides continue to negotiate both inside and outside of the courthouse.

Because the hospital already was a joint venture, and THR controlled its board, a sale to THR isn't expected to have much impact on the facility's operations. But getting to the sale has been a bumpy road.

For the past two months, lawyers for THR and CHS have been duking it out in a series of harshly worded letters. The day after the suit was filed, CHS "did terminate Texas Health Resources' unfettered access to the hospital and its representatives," according to a Sept. 19 letter from CHS General Counsel Rachel A. Seifert to THR's attorney.

Recently, though, the sides have begun to talk. On Oct. 31, both parties filed a proposal with the court that would settle some matters tied to the Denton hospital's information technology contracts.

"Everyone is now cooperating for the effective transfer of the facility for the community it serves," said Gregory Blaies, of law firm Blaies & Hightower LLP. Blaies represents THR. He declined to comment further on the case.

Representatives from THR, CHS and CHS' counsel, Tom Graves at McKool Smith PC in Dallas, could not be reached for comment or declined to comment.

THR and Triad formed the joint venture 2003. THR chipped in 20% of the equity and Triad contributed 80% to open the \$100 million, 245-bed hospital in 2005.

Everything proceeded without a major hitch, and the hospital began to gain market share and prominence in Denton. Then, in July, Triad was acquired.

The original partnership agreements included a "triggering-events" clause allowing THR to purchase the outstanding interest in the Denton hospital if Triad's ownership changed.

Wayne T. Smith, Community's president, chairman and CEO, has said publicly that his company won't continue Triad's model of partnering on hospitals.

## **A \$110 million gap**

In September, the two sides became stuck on the purchase price. THR says that, based on the parameters in the lease agreement, the cost should be \$60.8 million. CHS put the price tag at \$170.8 million, according to court documents filed Oct. 3.

"THR was forced to file suit because the price quoted by the defendants for the partnership interests was well beyond any rational or real numbers and not based upon proper construction of the underlying partnership agreement," a Sept. 27 letter from Blaies said. "Given there was a pending closing deadline within 90 days, we were concerned that the defendants were seeking to stall the process.

In a letter dated Sept. 28, CHS' Graves takes issue with Blaies' language regarding the lawsuit, saying that representatives from both parties participated in a conference call on Sept. 12, prior to the suit being filed.

"Given the voluminous nature of the petition filed, it is apparent that such a petition had been prepared before the conference call and that THR had already decided to file suit," Graves' Sept. 28 letter retorted.

Blaies shot back on Oct. 1 that the decision to file came after the conference call.

"It wasn't until after that meeting, and after it became clear that the defendants were not providing a good faith calculation of the special purchase price, that the decision to file was made."

The original lease agreements stipulated that the purchase option was only good for 90 days after THR exercised its right to purchase the hospital. The 90-day period ends Nov. 26.

So with the days ticking away, THR filed its suit on Sept. 12 to protect its purchase right. The case is now in U.S. District Court's Eastern District in Sherman.

Both sides have said that the deal could still close in time.

Find Article at:

<http://www.bizjournals.com/dallas/stories/2007/11/05/story3.html>

Dallas Business Journal: <http://dallas.bizjournals.com/dallas/>