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Amid Mounting Debts and Searing Criticism from Its Largest Shareholder, Triad Agreed to Be Taken Private in $4.7 Billion Deal Before Accepting $6.8 Offer from Community Health Systems
Summary of Findings

Legacy Hospital Partners (hereinafter "Legacy") is the contrivance of the former senior executive leadership of Triad Hospitals Inc. (hereinafter "Triad"), including former Triad chief executive officer James “Denny” Shelton and former Triad executive vice president for development Dan Moen, now Legacy’s chairman and chief executive officer, respectively.

Legacy held its first board meeting on January 15-16, 2008, six months after Triad was bought out by Community Health Systems for $6.97 billion – a bid that trumped a smaller offer from Legacy financing partner CCMP Capital Investments. Although Legacy claims to pursue a “unique strategy of acquiring hospitals though joint ventures with not-for-profit hospital companies,” the very same strategy was in fact employed by Triad throughout its eight-year existence. Legacy, however lacks Triad’s substantial infrastructure, itself the byproduct of Triad’s spinoff from hospital giant Columbia/HCA in 1999. At the time of its launch, Legacy had just nine in employees in an office one mile from Triad’s former headquarters in Plano, Texas. Legacy’s much touted financial partners, CCMP and the Canadian Pension Board, have each made up to $500 million in funding available, but in actuality made only “small initial investments,” according to the trade publication Modern Healthcare.

Conflicts of Interest

Legacy’s stated goal of 20 acquisitions and $3.5 billion in annual revenues within 5 years, combined with its apparent lack of infrastructure, has fueled the temptation to cut corners. At least two of its board members are sitting not-for-profit hospital CEOs, raising the issue of why it is acceptable for the chief executive of one company to serve on the board of a new company competing in the same industry. According to David Burda of Modern Healthcare, “many” Legacy board members are “well-known double-dippers who serve as paid directors on numerous healthcare boards. Ironically, Legacy board member Uwe Reinhardt chaired a state commission that blamed conflicts of interest for “threaten[ing] the integrity of the governance process.”

For his part, Legacy Chairman Denny Shelton joined the board of Omnicare, Inc., one of the nation’s leading providers of pharmaceutical care for the elderly, and Ventas, Inc. a real estate trust expanding its medical office business, in the immediate aftermath of Legacy’s launch. Contemporaneously, Shelton was appointed an executive advisor to CCMP Capital Advisors, suggesting that CCMP’s oversight of its investment will lack a jaundiced eye. Moreover, Shelton’s separation agreement with Triad included a three-year clause prohibiting competition in markets where Triad had a facility. While Shelton claims that his nonexecutive chairman role precludes enforcement of the agreement against Legacy, and the clause is unlikely to be applicable in the New Jersey – New York area, where Triad had no facilities, it does loom as a potential complication as Legacy moves into Triad’s former turf in the South, Southwest and West.

Prior to targeting the former site of Pascack Valley Hospital, Legacy had announced two notable deals. In Idaho, Legacy was recently approved by the Bannock County Commission as investment partner for the Portneuf Medical Center. Pending voter approval of the joint venture in November, Legacy will own 77% of the facility. More notably, in May, Legacy and the University of New Mexico signed a letter of intent to build a new $100 Million to $150 Million teaching hospital, with financing split between Legacy and the university. This deal strikes at the heart of Legacy’s arguments that its investments are a boon, not a bust to taxpayers. Shortly after the deal was announced, Sandoval County Commissioners proposed a 4.25 mill, $13.27 million annual tax levy on the November ballot supporting the development of the teaching hospital and another medical facility. With Legacy’s university partners strongly endorsing the proposal, the county commission cleared the tax increase for voter approval.
Triad

Considering Legacy’s only very short track record and its inextricable links with Triad, perhaps the best way to predict where Legacy is going is to review where Triad has been. Triad was spun off from Columbia/HCA in May 1999 as its parent company was being investigated by the federal government for Medicare and Medicaid fraud. Triad’s management team, including CEO Denny Shelton, was handpicked by Columbia/HCA; Triad retained the benefits of its former parent’s infrastructure and purchasing power while being indemnified against all legal claims. Columbia/HCA got a tax-free deal that netted $900 million when factoring in a second spinoff, LifePoint Hospitals, Inc.

75% of Triad’s hospitals were located in the South, West and Southwest.

Financial Performance – Running Up Massive Debts Even While Cutting Costs and Services, All the While Employing “ Remarkably Poor Financial Analysis and Controls”

Triad racked up massive losses totaling over $180 million during its last year under Columbia/HCA and its first year as an independent company. Although Triad turned a profit in 2000, it continued to be plagued by bad debt into 2004. The supposedly “unique strategy” of pursuing partnerships with not-for-profit hospitals was a key part of Triad’s philosophy at its inception. Several years later, CEO Denny Shelton lamented that many of Triad’s investments with struggling not-for-profit and for-profit hospitals began as “bottom feeders” – a statement to recall as Triad hones in on a bankrupt facility in New Jersey.

By early 2003, Triad’s debt hit $1.8 billion; four years later, at the time of its buyout by Community Health Systems, long-term debt stood at $1.7 billion, posing, by Triad’s own admission, the threat of a “significant effect on our operations.”

Somewhat ironic given its massive assumption of debt, Triad quickly gained a reputation for cutting costs and shunning the uninsured. Critics charged that Triad pursued policies limiting exposure to uninsured patients, avoided uninsured patients by locating new and replacement facilities in wealthy neighborhoods, and funneled uninsured patients to competing hospitals, forcing at least one facility’s sale.

When Triad was purchased in 2007, it was at least in part at the beckoning of its largest shareholder, the hedge fund TPG-Axon Capital Management LP, who excoriated Triad for “remarkably poor financial analysis and controls.” At the time, the major credit ratings agencies had sharply downgraded Triad’s debt.

Government Subsidies – Seeking Handouts from Taxpayers While Suing to Reduce Its Own Taxes

Triad was a frequent beneficiary of tax abatements and other government subsidies, strongly suggesting that if its former executives succeed in taking over the Pascack Valley site, whatever their posturing, taxpayers will be asked to come the rescue sooner rather than later.

While laying off employees and cutting hours at its McKenzie-Willamette Hospital in Eugene, Oregon, Triad angled, ultimately un成功的ly, to purchase a parcel of downtown land at a discount rate to build a new hospital. The City Council voted to provide incentives worth $15 million to $20 million if Triad built the hospital near downtown, and even considered a bond issue and tax increase to fund improvements related to the development. But as city officials weighed raising taxes on everyone else, the hospital appealed its own valuation and sought lower tax payments. Then, when Triad decided to build the new hospital on a golf course rather than downtown, it sought additional offsets from the city, including any aid the city was “prepared to absorb.”
For a new hospital development in Cedar Park, Texas, Triad received five years of tax abatements, assistance in site selection and design, and economic development funds for infrastructure around the project.

 Appropriately, Triad employed a “VP of Tax,” who pushed its strategy of seeking abatements on hospitals acquired through the Columbia/HCA spinoff and obtaining abatements for new hospitals before breaking ground.

**Legal Issues and Litigation – Legacy’s New CEO Was at the Center of At Least Two Federal Criminal Investigations**

Dan Moen joined Triad in October 2001, emerging from the shadow of legal clouds relating to his tenure as a senior executive at Columbia/HCA during the 1990s. Under Moen’s watch, several Columbia/HCA executives were indicted on charges of Medicare fraud. Moen himself became the target of federal investigators probing Columbia/HCA’s business practices, including an effort to purchase Tampa General Hospital at a substantially reduced price. Though not indicted, Moen resigned from Columbia/HCA apparently under pressure in June 1998 (he was slated to receive a $1.2 million severance package). In January 2000, Moen learned that he had escaped criminal prosecution in another federal investigation, into home-care kickbacks.

Notable legal issues flowing directly from Triad’s operations included a Congressional investigation into its billing practices and a 15-count felony indictment against a former senior executive.

**Hospital Sales and Closures – a Legacy of Broken Promises and Shattered Dreams**

Triad aggressively shed hospitals in the immediate aftermath of its spinoff from Columbia/HCA. By October 2000, Triad had sold or closed 13 hospitals.

Triad’s slash and burn strategy left heartbreak in its wake. Most notable was Triad’s shuttering of Douglas Community Medical Center in Roseburg, Oregon, after promising to rebuild the hospital. According to *The Register-Guard* in Eugene, the closure had a “devastating effect on the community.” 300 employees were given just two weeks notice of the shutdown, while patients were forced into a rival hospital, “stowed in nurse’s stations and even supply closets.” Before the closure, patient advocates said that Triad’s hospital had stopped providing its share of charity care.

Conceding his failure in Roseburg, Denny Shelton commented that “[we] were burning bridges left and right.”

In Arizona, Triad’s late 1999 sale of Phoenix Regional Hospital was expected to result in 500 layoffs.

In Arkansas, Triad placed DeQueen Regional Medical Center for sale three days after acquiring the facility from Columbia/HCA. Local officials accused Triad of “trying to close our hospital,” leaving a “growing town without a hospital,” and were forced to intervene and buy the facility to prevent Triad from closing its doors.

Other notable Triad sales and closures included Community Medical Sherman in Texas; Mission Bay Hospital in San Diego; and Central Arkansas Hospital.

As a Triad hospital executive put it in 2006: “for all intents and purposes our primary customers are physicians” – not patients.
Layoffs and Job Losses

In addition to jobs lost during hospital closures, scores of other employees lost their jobs as a result of Triad’s business strategy. Triad’s late 2000 acquisition of Quorum Health Group, Inc. led to 77 employees at Quorum headquarters losing their jobs.

After Triad acquired McKenzie-Willamette Hospital in Eugene, Oregon, management laid off 40 nurses and reduced retirement benefits.
Compendium of Findings

Legacy Hospital Partners

Background

Legacy is Headquartered in Plano, Texas and Owned by Affiliates of CCMP Capital Advisors and the Canada Pension Plan Investment Board. “Legacy Hospital Partners, Inc. is a privately held company that will own, operate and manage acute care hospitals in small cities and select urban markets throughout the United States. Headquartered in Plano, Texas, and established in January 2008, Legacy is owned by affiliates of private equity firm CCMP Capital Advisors, LLC and the Canada Pension Plan Investment Board as well as members of management.” (Legacy Health Partners, Press Release, “Legacy Hospital Partners, Inc. Begins Business,” 1/21/08)

Legacy Announced Its Launch on January 21, Pursuing “Unique Strategy of Acquiring Hospitals Through Joint Ventures with Not-for-Profit Hospital Companies.” “Legacy Hospital Partners, Inc. (Legacy), a privately held hospital company that will own, operate and manage acute care hospitals in small cities and in select urban markets throughout the United States, commenced business today. Dan Moen, Legacy chief executive officer, said the Plano, Texas-headquartered company will proceed with a unique strategy of acquiring hospitals through joint ventures with not-for-profit hospital companies.” (Legacy Health Partners, Press Release, “Legacy Hospital Partners, Inc. Begins Business,” 1/21/08)


Former Triad Chairman Denny Shelton Launched Legacy Six Months After Triad Was Acquired by Community Health Systems. “Denny Shelton is getting the band back together. Shelton, the former chairman, president and chief executive officer of Triad Hospitals, is the nonexecutive chairman of a new hospital company, Legacy Hospital Partners, which launched last week. The company held its first board of directors meeting in New York Jan. 15-16, less than six months after Triad was acquired by Community Health Systems for $6.97 billion.” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

Shelton Signed Noncompete Clause in Final Triad Contract Precluding Competition in Markets Where Triad Had a Facility. “Before getting down to new business, however, Shelton has one piece of old business to deal with: the three-year noncompete clause that was in his final employment contract with Triad Hospitals. Shelton said his personal legal counsel advised him that the clause prohibits competing in markets where Triad had a facility. Legacy will stay out of those markets for three years from July 25, 2007-the date Community completed its acquisition of Triad, Shelton and Moen said.” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

Shelton Sees “Chairman” Role as Exempting Legacy from Terms of Noncompete Clause. “Shelton emphasized that he is a nonexecutive chairman who won't have a day-to-day role in managing the company. 'I see my role, with Nancy-Ann and other members of the board, is to work on governance and hold everyone's feet to the fire on culture,' Shelton said. Whether that will be enough to satisfy the conditions of the noncompete clause is an open legal question, said Stephen Fox, a labor and employment lawyer with Fish & Richardson in Dallas. The clause raises two questions, Fox said: Is nonexecutive chairman a position that is covered by the clause? And, if yes, how is the ‘geographic area’
in which Triad did business, and in which Shelton is restricted, defined? As a practical matter, Fox said, “These kinds of restraints are absolutely invitations to get competing parties to the bargaining table. An agreement will contain them in the hope that when one threatens to en-force the restraints, the other side will say, ‘Let’s not fight about this. Let’s come up with a business solution in the boardroom, and not in the courtroom.’” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

**Legacy Started with Nine Employees in an Office One Mile from Triad’s Former Headquarters.** “Legacy starts with nine employees in a Plano, Texas, office building located about a mile from Triad's old headquarters, said Dan Moen, Legacy's president and CEO and former executive vice president for development at Triad. One of the two main investors in Legacy also was involved with the attempt to take Triad private before the Community offer. ‘There were a number of people in our organization who wanted to keep going, who weren't ready to quit working,’ Shelton said in an exclusive interview with Modern Healthcare. As summer became fall, we started having some discussions with the financial sponsors who came forward and said, ‘We really think there is a need here.’” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

**Business Strategy**

“**Bridging**” For-Profit and Non-Profit Hospitals is an Emulation of Triad’s Strategy. “Bridging the for-profit and not-for-profit hospital worlds is Legacy’s strategy, as the company plans to acquire hospitals through joint venture deals with not-for-profit systems. That was the main growth strategy Triad employed in its final few years of operation … The company had 10 such deals in place when Community purchased Triad. ‘Some of these guys being involved reinforces that our No. 1 priority is to be in the business of taking care of patients,’ Shelton said. ‘If we do a good job of taking care of patients, we'll have a good business.’” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

**Legacy Sees “Hundreds” of Non-Profit Hospitals as Potential Targets.** “The Legacy team believes that there are hundreds of not-for-profit hospitals that find capital scarce, even with good operating results, and would consider a joint venture to provide that capital. … Michael ‘Trey’ Crabb, a managing director at Avondale Partners and co-head of its healthcare investment banking unit, sees opportunity, too, especially because Legacy differs from other for-profit companies in its willingness to do joint ventures.” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

**Legacy Set Its Sights on “Acute Care” Facilities with More Than 200 Beds, $80 Million in Revenue, Located in Cities of 50,000 to 500,000.** “Legacy’s roughly 10 employees will search for ‘acute care’ community hospitals -- where patients need long-term treatment -- with more than 200 beds and about $80 million or more in revenue, said Dan Moen, Legacy’s chief executive officer. Mr. Moen was formerly Triad’s executive vice president for development. The hospitals will most likely be in cities of 50,000 to 500,000 and ideally with growing economies.” (Eric Torbenson, “Ex-Triad execs in Plano target community hospital turnarounds,” The Dallas Morning News, 1/22/08)

**Legacy’s Initial Goal is One to Two Deals Annually with Community Hospitals.** “Legacy will aim for one or two deals a year with community hospitals initially, depending on what the market bears. The managed-hospital industry has struggled with cost controls and profitability; Mr. Shelton and Mr. Moen hope that a new Congress and administration will help alleviate the industry’s bureaucracy and improve its outlook. ‘We think the industry is in a valley, but it could be back at the peak in four or five years,’ Mr. Shelton said.” (Eric Torbenson, “Ex-Triad execs in Plano target community hospital turnarounds,” The Dallas Morning News, 1/22/08)

**Legacy Asserted a Goal of 20 Total Acquisitions in Five Years, with $3.5 Billion in Annual Revenue.** “Moen and his team are seeking to make Legacy a $3.5 billion-in-revenue-per-year business in five years with 20 or more acquisitions, working closely with physicians in each market in which the company makes an acquisition. Its business approach calls for each Legacy hospital to operate with the oversight of a local board of trustees with at least half of its members comprised of physicians from a local Legacy hospital medical staff, along with local community leaders.” (Kelly Holman, “PE Firms Launch New Hospital Platform,” Mergers & Acquisitions Report, 1/28/08)
Partnership with CCMP Capital Markets

CCMP and the Canadian Pension Board Made “Small Initial Investments,” While Committing to Make Up to $500 Million in Equity Available. “CCMP and the Canadian pension board have made small initial investments, but have committed to make up to $500 million in equity available to Legacy as the company needs the funds to make deals, said Nancy-Ann DeParle, a managing director with CCMP.” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

One Year Earlier, CCMP Tried and Failed to Buy Triad and Take It Private. “CCMP was one of two private-equity firms that joined Triad management in a $6.4 billion deal announced in February 2007 to take the company private. Community Health Systems, Franklin, Tenn., trumped that deal a month later, leaving the Triad management team without a company to run once the deal was completed.” (Vince Galloro, “After Triad, a chain is born,” Modern Healthcare, 1/21/08)

Legacy is CCMP’s First Healthcare Investment from Its $3.4 Billion Private Equity Fund. “Legacy is CCMP’s first healthcare investment from its $3.4 private equity fund, which closed at the end of September. That fund is the firm’s first new pool of capital since CCMP was spun out of J.P. Morgan Chase & Co. in August 2006.” (Christine Idzelis, “CCMP, CPP back hospital firm,” Daily Deal, 1/23/08)

CCMP Continues to Manage Other Healthcare Companies Held by J.P. Morgan Partners Global Fund. “CCMP continues to manage healthcare companies held by J.P. Morgan Partners LLC’s $6.5 billion glob-al fund. Among them are CareMore Medical Enterprises, a Downey, Calif., managed healthcare provider it picked up in the first quarter of 2006, as well as more dated investments National Surgical Care, a manager of ambulatory surgery centers across the U.S., and specialty pharmaceutical company Warner Chilcott.” (Christine Idzelis, “CCMP, CPP back hospital firm,” Daily Deal, 1/23/08)

Legacy is Likely to Assume Debt to Support Its Growth. “Legacy isn't leveraged. But, once the company reaches sufficient size it is likely to secure debt to support its growth, says Kevin O'Brien, a managing director at CCMP Capital.” (Kelly Holman, “PE Firms Launch New Hospital Platform,” Mergers & Acquisitions Report, 1/28/08)

Conflicts of Interest

At Least Legacy Two Board Members are Sitting Not-for-Profit Hospital CEOs. “What we didn't expect to see on Legacy's board are sitting not-for-profit hospital system CEOs. It has two: David Bernd, CEO of Sentara Healthcare based in Norfolk, Va.; and Douglas Hawthorne, president and CEO of Texas Health Resources in Arlington. In an interview with Modern Healthcare reporter Melanie Evans, Bernd said he doubted there is any potential conflict of interest in running Sentara and serving Legacy. Through a spokesman, Hawthorne told Evans much the same … At the risk of sounding simplistic, let us point out the potential conflicts: Let's say Bernd learns of a good community hospital on the edge of Sentara's service area that's in need of capital. Does he seek to merge the hospital into Sentara? Or, does he pick up the hotline to Denny Shelton, Legacy's nonexecutive chairman, and tell him he's got a lead for Legacy? And if the call results in a deal with Legacy and strengthens the community hospital, did that put Sentara at a competitive disadvantage? Or let's say one of Texas Health Resources' 13 hospitals is struggling and dragging down the system's overall financial performance. Does Hawthorne continue to pump system capital into the hospital? Or, does he recommend that his system consider a joint venture arrangement with Legacy to save the hospital without risking Texas Health Resources’ capital but benefiting him personally as a Legacy director? Who knows?” (David Burda, Op-Ed, “Is this really their Legacy?” Modern Healthcare, 2/4/08)

David Burda, Modern Healthcare: “In What Industry … Would It Be Acceptable for the Chief Executive of One Company to Serve on the Board of a New Company Competing in the Same Industry?” “We're still scratching our heads over this one. In what industry other than healthcare would it be acceptable for the chief executive officer of one company to serve on the board of a new company
competing in the same industry? But that's exactly the situation with Legacy Hospital Partners, the new for-profit hospital chain launched last month by several former executives of Triad Hospitals … [.]” (David Burda, Op-Ed, “Is this really their Legacy?” Modern Healthcare, 2/4/08)

Burda: “Many” Legacy Board Members are “Well-Known Double Dippers Who Serve as Paid Directors on Numerous Healthcare Boards.” “Legacy's board has 14 members, many of whom are well-known double dippers who serve as paid directors on numerous healthcare boards: Uwe Reinhardt, Nancy-An DeParle and Gary Mecklenburg … DeParle, a former Triad director like Reinhardt, is a commissioner of the Medicare Payment Advisory Commission, which advises Congress on Medicare payment issues. And Mecklenburg it appears rarely has met a board he wouldn't serve on, even when he was president and CEO of Northwestern Memorial Health-Care in Chicago. He's the current chairman of the board of directors of Regency Hospital Co., the long-term acute-care hospital chain.” (David Burda, Op-Ed, “Is this really their Legacy?” Modern Healthcare, 2/4/08)

Board Member Uwe Reinhardt Chaired State Commission That Blamed Conflicts of Interest for “Threaten[ing] the Integrity of the Governance Process.” “Reinhardt recently chaired a special commission in New Jersey that looked at the causes of its frail hospital system … One of the problems, according to the final report was issues related to hospital boards' governance. In a case of inescapable irony, the report said: 'Conflicts of interest can threaten the integrity of the governance process. Hospital boards should have strong and explicit conflict of interest policies.'” (David Burda, Op-Ed, “Is this really their Legacy?” Modern Healthcare, 2/4/08)

Notable Deals

University of New Mexico – Rio Rancho Teaching Hospital

In May 2008, Legacy, the University of New Mexico and the City of Rio Rancho Signed a Letter of Intent to Build a 75 to 125 Bed Teaching Hospital. “The city, UNM and a private company called Legacy Hospital Partners Inc. have signed a letter of intent to build a 75 to 125 bed hospital on 60 acres of university-owned land right next to City Hall and to the planned Rio Rancho campuses of UNM and Central New Mexico Community College. The project will help grow more medical professionals in the state, through programs at the community college and university, and the hospital will also address a vital need for health services in the communities north and west of Albuquerque, said UNM President David Schmidly.” (Sue Vorenberg, “Hospital Poised To Fill Void,” The Santa Fe New Mexican, 5/30/08)

Construction Was Estimated at $100 Million to $150 Million and Slated to Begin in January 2009, with the Hospital Opening in 2010. “Construction on the $100-million-to-$150-million project will begin in early 2009, and the hospital should be finished and open for business starting in 2010, said Dan Moen, chief executive officer of Legacy Hospital Partners … [.]”(Sue Vorenberg, “Hospital Poised To Fill Void,” The Santa Fe New Mexican, 5/30/08)

Construction Costs Will Be Split Between UNM Medical Group and Legacy. “Construction costs will be split between UNM Medical Group, a nonprofit entity separate from but associated with the university, and Legacy Hospital Partners, a for-profit company.” (Sue Vorenberg, “Hospital Poised To Fill Void,” The Santa Fe New Mexican, 5/30/08)

Legacy Asserted That the Hospital Will Pay $800,000 a Year in Property Taxes and Provide Indigent Care. “The facility will also have a full-service 24-hour emergency room, an intensive-care unit, a critical-care unit, a cancer center and a medical office building, among other things, Moen said. 'We'll also be one of the biggest tax-paying entities in the communities of Rio Rancho and Sandoval County,' Moen said, adding the company estimates paying about $800,000 a year in property and real estate taxes. And it will provide indigent care, he added. ‘No one will be turned away,’ Moen said.” (Sue Vorenberg, “Hospital Poised To Fill Void,” The Santa Fe New Mexican, 5/30/08)
County Commissioners Weighed Tax Hike to Support the Hospital. “Sandoval County commissioners are scheduled to consider a decision that could affect the scope of health care services within the county. Commissioners will decide at their Thursday meeting whether to put a question on the November ballot asking for a property tax increase to support health care service providers. If the commission and voters approve the mill levy increase, it would raise the annual property taxes on a home valued at $100,000 by $141.66, Sandoval County spokesman Gayland Bryant said. The county estimates the proposed 4.25-mill tax increase would yield $13.27 million a year in additional revenues for health care contracts for providers throughout the county, including hospitals that Presbyterian Healthcare Services and the University of New Mexico plan to build in Rio Rancho, County Manager Debbie Hays said. … She said state law allows counties to generate funds to support health care providers.,” (Rosalie Rayburn, “Voters May Decide Property Tax Hike,” Albuquerque Journal, 8/6/08)

The County Commission Endorsed the Tax Hike After UNM Officials Testified in Support of the Proposal. “Debbie Hays, Sandoval County manager, took the stand Thursday afternoon to face the commissioners with determination. She asked them to recommend placing a 4.25 mill tax levy on the November ballot for the support of two hospitals building in Rio for residents to consider. … Billy Sparks, University of New Mexico executive director of communications and marketing; Dr. Paul Roth, dean of the UNM School of Medicine and executive vice president for Health Sciences; and Presbyterian Health Services president Gabriel Parra, were on hand to lend Hays a hand. ‘We all know the health care system isn’t doing well,’ Roth said to the commissioners. ‘Some would say it’s broken.’ Roth went on to explain that the University of New Mexico would bring above average medical care to the Westside. It would also be a teaching hospital for nurses and doctors … Commissioners gave their approval on the hospital tax.” (Lia Martin, “County manager urges commissioners to support medical care in Rio Rancho,” The Observer (Rio Rancho), 8/8/08)

Portneuf Medical Center – Eastern Idaho

In August 2008, the Bannock County Commission Approved Legacy as the New Investment Partner for the Portneuf Medical Center. “Leaders in Bannock County are turning to a Texas company to be the new investment partner for the Portneuf Medical Center in eastern Idaho. The next step is for voters to approve the joint venture in November. The Bannock County Commission on Thursday picked Legacy Hospital Partners, of Plano, Texas, to become the majority owner of the Pocatello-based medical center. Legacy, a which currently doesn’t operate any hospitals, was one of two companies bidding for the joint venture. Under terms, Legacy would own 77 percent of PMC, while the Portneuf Health Care Foundation will own 23 percent. Officials say a newly formed hospital board would include more balance representation. Commissioner Lin Whitworth says the arrangement guarantees local influence over the hospital will continue.” (“Officials pick Texas company as hospital partner,” The Associated Press, 8/15/08)

Pascack Valley Hospital

In August 2008, Legacy Announced $80 Million Plan to Reopen Pascack Valley Hospital in Partnership with HUMC. “A private equity firm wants to invest $80 million to reopen Pascack Valley Hospital in Westwood as a 128-bed community hospital in partnership with Hackensack University Medical Center. Legacy Hospital Partners Inc. of Plano, Texas, would provide the capital to reopen a full-service hospital by the end of next year, its chief executive said. As a for-profit hospital - known as Hackensack University Medical Center North at Pascack Valley - it would pay real-estate and sales taxes.” (Lindy Washburn, “Healthy interest in Pascack,” The Record, 8/17/08)

HUMC Pledged Not to Seek State Money. “‘We’re not asking the state for any money,’ said John Ferguson, Hackensack’s chief executive officer, explaining why he anticipates state support. ‘We want to open up a facility that the communities up there want to see reopened. We know how to run the business. I see it as a no-brainer.’” (Lindy Washburn, “Healthy interest in Pascack,” The Record, 8/17/08)

HUMC Would Be Responsible for All Medical Policies, but Hold a Much Smaller Financial Stake. “Although Hackensack’s financial stake is much smaller, the structure of the joint venture ‘gives us a strong element of control,’ said Hackensack’s chief financial officer, Robert Glenning. Half of the new
hospital's board would be appointed by each partner, and a majority of each side's members would be needed to approve any measure. Hackensack would appoint the board chairman and could terminate the chief executive at any time. Hackensack would be responsible for all medical policies. 'The same way we treat patients here, they'll be treated up there,' said Ferguson."

(Lindy Washburn, “Healthy interest in Pascack,” The Record, 8/17/08)

A State Commission Led by Legacy Director Uwe Reinhardt Noted That the State's Oversupply of Hospital Beds is “Particularly Noticeable” in Bergen-Passaic. “A commission appointed by Governor Corzine to analyze the problem noted earlier this year that the state's oversupply of hospital beds is ‘particularly noticeable in the Hackensack, Ridgewood and Paterson areas.’ The Bergen-Passaic area, along with Newark and Jersey City, has more financially weak hospitals than anywhere else in the state, it found. The commission also recommended that hospital board members be vetted to avoid possible conflicts of interest. The commission was led by Uwe Reinhardt, an internationally known professor of health economics at Princeton University. Reinhardt is on the 14-member board of directors of Legacy Hospital Partners, the company that intends to invest with Hackensack in Pascack Valley.”

(Lindy Washburn, “Healthy interest in Pascack,” The Record, 8/17/08)

Reinhardt Saw No Conflict in His Dual Roles. “Reached after a board meeting in Texas, Reinhardt said he saw no conflict in his dual roles. ‘I know very little about this,’ he said of Legacy's plans for Westwood. ‘I have recused myself from that particular discussion.’ As chairman of the New Jersey Commission on Rationalizing Health Care Resources, he said, ‘we never had details on any particular hospitals.’”

(Lindy Washburn, “Healthy interest in Pascack,” The Record, 8/17/08)

Legacy Chairman James “Denny” Shelton

Shelton Joined Columbia/HCA as President of Its Central Group in 1994

Shelton Came to Columbia/HCA After Serving as National Medical Enterprises Executive Vice President. “In addition to Hill's recent appointment as Dallas market president, the company also named former National Medical Enterprises Inc. central district Executive Vice President James ‘Denny’ Shelton to its leadership ring. Shelton will serve as president of Columbia/HCA's central group, including Texas, Oklahoma, Missouri and Kansas. That group encompasses 51 hospitals and other facilities. The central group will be based in Dallas and, with the Dallas market office, will employ about 20 people.”


Amid Massive Downsizing, Shelton Was Named Head of Columbia/HCA’s Pacific Group in Late 1997. “Columbia/HCA Healthcare confirmed Monday that it will become a smaller but still dominant hospital company as it reorganizes, a plan that includes spinning off or selling more than 100 of its hospitals. … All the groups except Pacific will be run out of Columbia's Nashville, Tenn., headquarters. The Pacific division will be run out of Dallas by Denny Shelton, who oversees the company’s North Texas Division.”

(Jim Fuqua, “Columbia/HCA to Sell or Spin Off More Than 100 Hospitals,” Fort Worth Star-Telegram, 11/18/97)

After Spinoff from Columbia/HCA in 1999, Shelton Became Triad CEO

Shelton Steered Triad's Aggressive Divesture Strategy. “One year out of the Columbia/HCA Healthcare Corp. nest, the 29-hospital, Dallas-based company is nearly done with divesting facilities that did not fit its strategy and is ready to buy and build more, said James ‘Denny’ Shelton, Triad's chairman and chief executive officer. ‘We're at that crossroads,’ Shelton said. ‘We find ourselves looking at some significant opportunities to grow the company,’ he told analysts during a conference call last week.”

(Barbara Kirchheimer, “Triad ready for a growth spurt,” Modern Healthcare, 5/15/00)

Shelton Received 63% Raise After Becoming Triad CEO. “Triad chairman James ‘Denny’ Shelton made $ 529,125 as a group president with Columbia/HCA Healthcare in 1998. In 1999, after Triad was spun off from HCA, he made $ 860,412.”

(Doug J. Swanson, “Executives' Pay Soars as Hospitals Talk of Crisis,” The Record, 8/17/08)
Just One Year After Triad Was Spun Off from Columbia/HCA, Triad Acquired a Hospital in Denton, Texas Placing It in Direct Competition with Columbia/HCA

In June 2000, Triad Announced Acquisition of Three Hospitals, Including Denton Community Hospital, a Former Columbia/HCA Property. “...Triad Hospitals Inc. of Dallas honored a handshake agreement to split the spoils of its latest acquisition with Health Management Associates Inc. Earlier this year, Triad and Naples, Fla.-based HMA jointly bid for Greenbrier Valley Medical Center in Lewisburg, W. Va., and Davis Medical Center in Statesville, N.C., facilities operated by privately held Net-Care Health Systems. In negotiations that began last year with a proposal to sell all of its hospitals, Nashville, Tenn.-based NetCare would only accept a deal that also included Denton Community Hospital in Denton, Texas. NetCare acquired Denton Community Hospital in 1996 after Healthtrust merged with Columbia/HCA. Under a Federal Trade Commission edict, HCA divested the facility, one of its two hospitals in Denton.” (Kevin DeGeeter, “Triad closes a civil deal,” Daily Deal, 6/27/00)

Shelton Admitted He Was Hesitant to Compete with Columbia/HCA Facility Located Just Eight Miles Away. “James D. Shelton, Triad's CEO, and other top executives helped integrate the Healthtrust deal while employed by Nashville, Tenn.-based Columbia/HCA. Triad and Nashville, Tenn.-based LifePoint Hospitals Inc. were spun off from Columbia/HCA last year as part of the troubled hospital operator's restructuring plan. Shelton was hesitant to compete with HCA's facility eight miles away, but was swayed by the region's growth. Denton, on the outskirts of Dallas, is one of the 10 fastest-growing counties in the United States. Triad, which operates three other facilities in Dallas region, is confident of Denton supporting two hospitals.” (Kevin DeGeeter, “Triad closes a civil deal,” Daily Deal, 6/27/00)

Shelton Has Tenet Connection, and Was Once Mentioned as a Possible Candidate to Become Its CEO

Shelton Worked at Company Later Merged into Tenet, and Was “Floated” as a Tenet CEO Candidate in 2003. “Triad's Mr. Shelton is no stranger to Tenet, which runs a large payment processing center and four hospitals in the Dallas area. He worked for the National Medical Enterprise in the late '80s and early '90s before the company was merged into Tenet. His name has been floated as a candidate to be the new CEO for Tenet, which is looking to replace Jeffrey Barbakow, who resigned earlier this year amid the scandals. But Mr. Shelton, through his public relations department, denied that he would be interested in the job.” (Roger Yu, “Plano, Texas-Based Triad to Buy Four Arkansas Hospitals from Tenet Healthcare,” The Dallas Morning News, 9/3/03)

Shelton Received $42.8 Million Package When Triad Was Bought Out in 2007

Shelton Also Received Severance Payment of $8.4 Million, Binding Him to Three-Year Noncompete Agreement. “Denny Shelton, Triad's chairman and CEO, will net a total of $42.8 million at the close of the deal. His equity-based compensation will be nearly $27.6 million, according to a Modern Healthcare analysis of a securities filing Triad made earlier this month. That filing was based on the original $6.4 billion buyout offer for Triad valued at $50.25 per share. Both bids also include taking on $1.7 billion in Triad debt. If the deal is completed, all equity-based compensation held by employees and directors will fully vest at closing and be exchanged for $54 per share. Under terms of an employment contract that Triad and Shelton agreed to in December, Shelton also will receive a severance payment of $8.4 million, but he will be bound by a three-year noncompete agreement that prohibits him from working or consulting for related services in the same geographic areas. O'Connor said severance payments are meant to ensure that the CEO has the incentive of getting the highest price possible for shareholders, such as the extra $400 million that will go to shareholders under the bid by Community Health Systems.” (Vince Galloro, “Cashing in at Triad,” Modern Healthcare, 3/26/07)
After joining Legacy, Shelton was appointed CCMP Executive Advisor, and appointed to Boards of Pharmaceutical Care Company and Real Estate Trust

Shelton was appointed CCMP Capital Advisors Executive Advisor. “CCMP Capital Advisors appointed James ‘Denny’ Shelton and John Bowlin as executive advisors. Ironically, Shelton was previously chairman and chief executive of Triad Hospitals, which CCMP and Goldman Sachs tried unsuccessfully to acquire last year. The offer from CCMP and Goldman’s private equity arm was trumped by Community Health Systems in a transaction selected by IDD as the 2007 Healthcare Deal of the Year … Shelton, currently chairman of Legacy Hospital Partners, led Triad’s 1999 spinoff from Columbia/HCA, which he joined as central group president in 1994.” (“UBS Appoints New Head of I-Banking,” Investment Dealers Digest, 2/18/08)

Shelton was appointed to Pharmaceutical Care Company Board. “Omnicare, Inc. … one of the nation’s leading providers of pharmaceutical care for the elderly, today announced the appointment of James D. Shelton to its Board of Directors. Mr. Shelton’s appointment represents the first of two planned appointments of independent directors to Omnicare's Board prior to its 2008 Annual Meeting of Stockholders. … ‘I am pleased to be joining Omnicare's Board,’ said Mr. Shelton. ‘I have long admired what Omnicare has accomplished over its long history. I look forward to working closely with the other Board members and the Company's management to build upon the Company's solid foundation and drive shareholder value.’ Mr. Shelton is chairman of the board of Legacy Hospital Partners, Inc., a privately held company that will own, operate and manage acute care hospitals in small cities and select urban markets throughout the United States.” (Omnicare, Inc., Press Release, “Omnicare Appoints James D. Shelton to Board of Directors,” 2/27/08)

Shelton was appointed to Ventas, Inc. Real Estate Trust Board. “Ventas, Inc. … said that James ‘Denny’ Shelton and Robert D. Reed have been appointed to its Board of Directors, effective immediately. Shelton is Chairman of Legacy Hospital Partners, Inc., and most recently was the Chairman and Chief Executive Officer for Triad Hospitals, Inc. Reed is Senior Vice President and Chief Financial Officer for Sutter Health (see also Ventas, Inc.). ‘The addition of Denny and Bob to the Ventas Board continues our focus on excellence. These highly respected hospital executives will bring significant operating and financial experience and insights to the Ventas Board,’ Ventas Chairman, President and Chief Executive Officer Debra A. Cafaro said. ‘As we focus on expanding our medical office building business and on meeting the growing needs of not-for-profit and investor owned hospital systems, their industry knowledge will greatly enhance our efforts.’” (“Ventas Appoints James D. Shelton and Robert D. Reed to Board,” Pharma Business Week, 3/17/08)

Legacy CEO Dan Moen

From the 1970s Through the 1990s, Moen Worked for Humana and Columbia/HCA in Florida

Moen worked at Humana “During Its Ill-Fated Journey into Managed Care in the 1980s.” “Moen, who was highly regarded within Columbia for building its $4-billion division in Florida, was soon brought into the Cleveland discussions. In addition to his success in Florida, his credentials included working at Humana during its ill-fated journey into managed care in the 1980s. ‘David Jones (president and CEO of Humana) always said it was the right strategy at the wrong time,’ Moen noted.” (Sandy Lutz, “Sowing The Seeds Of Partnership Between Providers, Managed Care,” Modern Healthcare, 4/8/96)

After 14 Years at Humana, Moen Moved to Columbia in 1991. “The strategists of Columbia Hospital Corp. have scored another tactical point—the hiring of the top local executive from rival hospital chain Humana Inc. Columbia has named Daniel J. Moen, Humana's vice president of market operations, as president of its South Florida division. ‘I thought it was a good opportunity to be in on the ground floor of a growing, aggressive company,’ Moen said. ‘I think their strategy of working with doctors is a winning strategy.’ Columbia Chief Executive Officer Richard Scott, a man not given to hyperbole, speaks of Moen in glowing terms. … Moen, 39, who has been with Humana for 14 years, was integral in its 1987 acquisition of International Medical Centers, a feat Moen considers one of his highest achievements at
Humana.” (Anne Bilodeau, “Columbia Hires Daniel Moen From Competitor Humana Inc.,” South Florida Business Journal, 9/30/91)

**Moen Was Named President of Columbia/HCA’s Florida Group in 1994.** “Columbia/HCA named four hospital-group presidents: Eugene C. Fleming, eastern group; William C. Lievense, international group; Daniel J. Moen, Florida group; and David R. White, single market group.” (Rachael Kamuf and Eric Benmour, “Columbia/HCA Staying Put,” Business-First Louisville, 3/7/94)

**Moen Left Florida to Become President of Columbia/HCA’s New Network Group in 1996.** “Columbia/HCA Healthcare Corp.’s North Florida chief has been named president of the company’s state operations. Jim Fleetwood will assume responsibility for the company’s 54 hospitals across the state. He replaces Dan Moen, who was recently appointed to a national position as president of Columbia/HCA’s new network group.” (“Columbia Chief Moving,” Florida-Times Union, 2/20/96)

**Moen Helped Close Columbia/HCA Hospital in Destin, Florida, Isolating Local Residents 45 Minutes from the Next Closest Facility**

Citing Cost Control, Columbia/HCA Closed Destin Hospital in 1994. “Last May the country's largest hospital chain, which had recently acquired the eight-year-old Destin Hospital, closed most of it in the name of efficiency. The only part left open was the emergency room, which, lacking the support of an intensive-care unit and ready surgeons, could not treat many life-threatening conditions. As of now, the hospital is completely closed. Officials of the company, Columbia/HCA Healthcare Corporation, noted that fewer than one-third of the hospital's 50 beds had been filled on average and that two other hospitals it owned were only about 15 miles away. 'We simply can't have a hospital on every corner,' David T. Vandewater, chief operating officer of Columbia, said in a recent interview. ‘We just can't afford it.’” (Erik Eckholm, “A Town Loses Its Hospital, In the Name of Cost Control,” The New York Times, 9/26/94)

Residents Were Isolated Up to 45 Minutes from the Nearest Hospital. “But what Mr. Vandewater described as a sensible economic step created an uproar in Destin, where travel to the other hospitals can take as long as 45 minutes in the tourist season when the roads are crowded. People here see the hospital's closing as a threat to their health and prosperity, and as a callous move by a company that had gained a stranglehold on the medical market here. 'This company has basically lost our respect,' said Charles Clary Jr., an architect and City Council member in Destin. ‘The community here doesn't trust them anymore to work for our good.’ … But Columbia, based in Louisville, Ky., has been a highly visible leader in bringing hard-nosed corporate tactics to the once-staid world of medicine: buying hospitals, closing weak ones, zealously competing for doctors and their patients. The company, after several recent mergers, owns 195 hospitals and 125 outpatient surgery centers. It says its size brings economies of scale, allowing quality care at lower prices. Indeed, Columbia describes itself as a grass-roots leader in the national overhaul of health care. In Florida alone, Columbia has bought 45 hospitals, accounting for one-third of the state's hospital beds; it is now the state's largest private employer. … Dan Moen, president of Columbia’s Florida Group, said that Destin residents still lived within 20 minutes of two other hospitals, also usually half-empty -- a 247-bed one in Fort Walton Beach and a 75-bed one in Niceville.” (Erik Eckholm, “A Town Loses Its Hospital, In the Name of Cost Control,” The New York Times, 9/26/94)

**Moen Viewed the Closure of Underused Hospitals as Desirable.** “The outcry has not changed Columbia officials' views; they say the shutdown of underused hospitals is both desirable and unstoppable. ‘It's going to happen again and again around the country,’ Mr. Moen said.” (Erik Eckholm, “A Town Loses Its Hospital, In the Name of Cost Control,” The New York Times, 9/26/94)
Under Moen's Watch, Several Columbia/HCA Executives Were Indicted for Medicare Fraud, with Moen Himself Narrowly Escaping Prosecution as a Target of Numerous Federal Investigations

Under Moen’s Watch, Three Columbia Executives Were Indicted on Charges of Medicare Fraud. “Columbia/HCA Healthcare Corp. executives got lush stock options last year, and another federal agency joined the nationwide investigation of whether the company broke state and federal laws, Columbia disclosed last week. … Executive Daniel Moen will receive three years’ salary, set at $400,000 in 1997, plus other benefits if he resigns. Moen was supposed to lead the merger of ValueHealth into Columbia, but Columbia decided to sell a majority of the company soon after its August 1997 acquisition. Moen then agreed to return to Columbia's managed-care division, where he had worked since March 1996. Previously, Moen had headed Columbia's Florida and South Florida operations, in which three executives were indicted last July on charges of Medicare fraud. Moen has not made any public statement on whether he will resign, and a Columbia spokesman said he hasn't decided.” (Patricia B. Limbacher, “High Pay, More Trouble,” Modern Healthcare, 4/6/98)

Moen Was Targeted by Federal Investigators Probing Columbia/HCA’s Business Practices, Including an Effort to Purchase Tampa General Hospital at a “Substantially Reduced Price.” “Federal government … reveal the FBI had requested inter-views with Moen in the past about Columbia business practices. Last year, Moen and Scott were key figures in an investigation by the U.S. attorney's office in Tampa of the actions of David Bussone, former CEO of Tampa General Hospital. The records said the investigation dealt with Columbia's failed attempt to buy the public hospital in 1995 at a ‘substantially reduced price.’ Specifically, the investigation looked into allegations that Bussone intentionally tried to devalue the hospital to lower the sale price for Columbia. Bussone and Columbia denied the existence of any such conspiracy, and the investigation was dropped with no charges filed.” (Bruce Japsen, “More Exes Depart As Columbia's Troubles Mount,” Modern Healthcare, 8/18/97)

Moen Resigned from Columbia in June 1998. “Columbia/HCA Healthcare Corp. last week appointed George Morgan as senior vice president of managed care. Morgan, 45, currently serves as president of Columbia's ambulatory surgery division and will assume his new position July 1. Morgan replaces Dan Moen, who was the interim senior vice president for about six months. Moen also coordinated the integration and dissemination of Value Health, a benefits management company acquired by Columbia in August 1997 for $1.1 billion. Columbia sold three of Value Health's four divisions in separate transactions totaling about $656.5 million.” (“Newsmakers,” Modern Healthcare, 6/29/98)

In January 2000, Moen Learned That He Would Avoid Criminal Prosecution in a Separate Investigation into Home-Care Kickbacks. "Former high-ranking Columbia/HCA Healthcare Corp. executive Dan Moen and four others won't be prosecuted in connection with an illegal kickback scheme involving Columbia and Melville, N.Y.-based home health giant Olsten Corp. In July 1999 Olsten and subsidiary Kimberly Home Health Care agreed to pay $61 million in civil and criminal fines and pleaded guilty to three felony kickback and false claims charges to settle allegations that they defrauded Medicare in Alabama, Florida, Georgia and New York in 1995 and 1996. In that case, which was based on a 1997 whistleblower lawsuit filed by former Olsten Vice President Donald McClendon, the government alleged that Olsten and Columbia charged Medicare for Columbia's purchase of Olsten home health agencies, disguising the acquisition costs as management fees. Olsten admitted guilt and agreed to cooperate with the government in the ongoing investigation of Columbia. The U.S. Justice Department joined McClendon's lawsuit against Columbia, which is pending. During the probe, federal investigators came upon unrelated allegations of home-care kickbacks against Moen, who headed the Columbia Sponsored Network Group, a Nashville-based managed-care unit; Jay Jarrell, the former chief executive officer of Columbia's southwest Florida division; and former Olsten officials Frank Liguori, Terry Mitchell and Robert Fusco. The executives were told late last month they would not be criminally charged in the alleged kickback scheme.” (Mark Taylor, “Ex-Columbia execs avoid prosecution,” Modern Healthcare, 1/10/00)
After Resigning from Columbia/HCA, Moen Worked for HealthLine Management, St. Louis and Three Florida Health Plans

Moen Joined HIP of Florida and Beacon Health Plan in January 2001. “Dan Moen, a former executive at HCA-The Healthcare Co. when it was Columbia/HCA Healthcare Corp., last week was named chief executive officer of two South Florida health plans: 207,000-member HIP of Florida, Hollywood, and 21,000-member Beacon Health Plan, Coral Gables. Moen, who could not be reached for comment, used to head the Columbia Sponsored Network Group, a managed-care unit. Last year, federal prosecutors abandoned a 21/2-year-old investigation into an alleged kickback scheme involving Moen and executives from a home healthcare company, saying the government didn't have a case … Moen most recently was CEO of HealthLine Management, St. Louis, a physician-staffing company.” (Former HCA exec to run two plans,” Modern Healthcare, 1/15/01)

After a Controversial Buyout, Moen Was Shifted over to Foundation Health One Month Later. “Boca Raton physician-entrepreneur Steven Scott continued his acquisition binge this week, agreeing to purchase the financially ailing Sunrise-based HMO Foundation Health for $48 million. But the march of Scott, who has snapped up several under-performing Florida HMOs in the past year, is raising some concern among competitors and observers who believe that should the ventures fad, the fallout could be catastrophic to the industry. … Scott has seen his managed care holdings grow dramatically in the past year He has acquired Holly-wood-based HIP Health Plan of Florida and Coral Gables-based Beacon … Dan Moen, whom Scott hired from HCA-The Healthcare Co. in January to oversee HIP and Beacon, will change jobs and oversee Foundations operations. Joe Berding, who headed Humana's Florida operations for the past 14 years, will join Scott and take charge of HIP and Beacon.” (JP Bender, “Scott's latest $48 million buy worries competition,” South Florida Business Journal, 2/23/01)

Moen Joined Triad as Executive Vice President of Hospital Management and Chief Executive Officer of Quorum Health Resources in October 2001

Moen Arrived at Triad After Less Than Nine Months in Florida. “Triad Hospitals, Inc. … announced the appointment of Dan Moen as Executive Vice President of Hospital Management where he will serve as Chief Executive Officer of Quorum Health Resources (QHR), the Company's hospital management subsidiary. Triad also announced that it would continue to own and operate QHR, acquired through its purchase of Quorum Health Group, Inc. earlier this year. After evaluating whether to sell or continue operating QHR, Triad has determined that the business is more valuable to the Company than to potential buyers. ‘We are very excited that Dan Moen has decided to join our Company. He brings over 20 years of healthcare experience to QHR. I have known Dan for many years and know him to be one of the most capable and experienced healthcare managers in the country,’ said James D. Shelton, Chairman and CEO of Triad.” (Triad Hospitals, Inc., Press Release, “Triad Appoints Hospital Management CEO, Keeps QHR,” 10/1/01)

Moen Worked Under Denny Shelton at HCA. “Triad named Dan Moen, a former high-ranking HCA executive, to become executive vice president of hospital management and CEO of QHR. Most recently, Moen, 49, was CEO of a 200,000-enrollee HMO called HIP Health Plan of Florida, in Hollywood, Fla. He was a group president of HCA hospitals in Florida in the mid-1990s, when Shelton was president of HCA’s central group.” (Barbara Kirchheimer, “New attitude,” Modern Healthcare, 10/8/01)

Moen Joined Legacy as CEO in January 2008

Moen Was Part of Core Triad Team That Formed Legacy. “Legacy's roughly 10 employees will search for 'acute care' community hospitals -- where patients need long-term treatment -- with more than 200 beds and about $80 million or more in revenue, said Dan Moen, Legacy's chief executive officer. Mr. Moen was formerly Triad's executive vice president for development. The hospitals will most likely be in
cities of 50,000 to 500,000 and ideally with growing economies. ‘We want to be an equity partner with these hospitals and help share the risk and the governance,’ Mr. Moen said in an interview Monday.” (Eric Torbenson, “Ex-Triad execs in Plano target community hospital turnarounds,” The Dallas Morning News, 1/22/08)

Triad Hospitals Inc.

Background

Triad Hospitals Was Spun Off from Columbia/HCA in May 1999 with a Management Team Selected by Columbia/HCA. “The company that once made its reputation gobbling up other companies is about to kick two hospital divisions out of the nest to fend for themselves in the marketplace, reflecting a trend among the industry's larger companies to pare down and focus on their core markets. The two new companies, LifePoint Hospitals and Triad Hospitals, will have the luxury of beginning their lives with management teams put in place by Columbia Chairman and Chief Executive Officer Thomas Frist Jr., M.D. They will leave the starting gate with numerous hospitals under their corporate umbrellas and a vision of where they are headed.” (Barbara Kirchheimer, “Launching The Baby Columbias,” Modern Healthcare, 5/3/99)

The Tax-Free Spinoffs Netted Columbia/HCA $900 Million. “In May, Columbia completed the tax-free spinoffs of 61 hospitals into two companies, LifePoint Hospitals Inc. and Triad Hospitals Inc., netting the company $900 million.” (Karin Miller, “Columbia/HCA earnings improve as patient admissions increase,” The Associated Press, 7/27/99)

Triad Retained Benefits of Columbia/HCA’s Infrastructure and Purchasing Power While Indemnified Against All Legal Claims. “LifePoint and Triad will benefit significantly from ties to their former parent. Although they will be independent, they have signed contracts with Columbia to maintain their information systems and computer support, and they will participate in Columbia's group purchasing organization. But in one important way, the two will be removed from Columbia's shadow. If the federal government's investigations into Columbia relate to Triad or LifePoint hospitals, the liability will be Columbia's responsibility. The indemnification agreement refers not only to the investigation but to all malpractice claims and other liabilities that arose before the two companies were separated.” (Barbara Kirchheimer, “Launching The Baby Columbias,” Modern Healthcare, 5/3/99)

Triad Was Launched as an Independent Company, Publicly Traded on NASDAQ. “As independent, publicly traded companies, they will keep some of the benefits of a relationship with a large company but leave behind some of the problems associated with Columbia. LifePoint and Triad are scheduled to be spun off May 7, when they will become independent, publicly traded companies listed on the NASDAQ trading system. Columbia shareholders will receive one share in each new company for every 19 Columbia shares they held on April 30.” (Barbara Kirchheimer, “Launching The Baby Columbias,” Modern Healthcare, 5/3/99)

Columbia/HCA Executive Denny Shelton Was Named Triad CEO. “James ‘Denny’ Shelton has been named chairman and CEO. Shelton has been with Columbia since 1994 as president and CEO of its Central Group, which included 105 hospitals in Arkansas, Louisiana, Ok-lahoma and Texas. Before joining Columbia, he served as executive vice president at National Medical En-terprises, a predecessor to Santa Barbara, Calif.-based Tenet Healthcare Corp.” (Barbara Kirchheimer, “Launching The Baby Columbias,” Modern Healthcare, 5/3/99)

The Deal Enabled Columbia/HCA and Its Spinoffs to Focus on Their Core Markets. “Those watching the deal from inside and outside the company seem to agree that the spinoff is likely to benefit operations and finances for Columbia and the two spinoffs. Columbia will be able to focus more on its core markets, and Triad and LifePoint can pursue strategies more suitable to their respective markets. ‘From Columbia's point of view, you get rid of hospitals operating at lower margins than the ones that are remaining,’ says Sheryl Skolnick, senior healthcare analyst with BancBoston Robertson Stephens in New York. ‘What you'll see is a smaller company with less revenue but better profitability.’ Even after the two companies are spun off, Columbia will still be a mammoth hospital company com- pared with most. It will still own 240 hospitals, but that number is expected to drop to 220 eventually, says Columbia spokesman Jeff Prescott.
The spinoffs, meanwhile, will have more flexibility in dealing with their specific markets, Skolnick says.”
(Barbara Kirchheimer, “Launching The Baby Columbias,” Modern Healthcare, 5/3/99)
Triad Reported $1.6 Billion Revenues in 1998. "Within Columbia, the Triad hospitals reported revenues of $1.6 billion, or 9% of Columbia's revenues, during 1998. Net losses totaled $87 million. Shelton says that in recent quarters, however, the hospitals have shown signs of improvement. 'We've seen significant growth in the last quarter in almost every facility,' he says. 'We've seen these hospitals rebounding nicely.'" (Barbara Kirchheimer, "Launching The Baby Columbias," Modern Healthcare, 5/3/99)

75% of Triad's Hospitals Were Located in South, West and Southwest, with a Small-City Base. "Triad Hospitals, which will trade under the symbol TRIH, is the new name for what was the Pacific Group. It is based in Dallas and boasts 33 hospitals in Alabama, Arizona, Arkansas, California, Kansas, Louisiana, Missouri, New Mexico, Oklahoma, Oregon and Texas. ... 'The strength of the organization, the bulk of the organization, is built around small cities,' Shelton says of his new fiefdom. Three-quarters of Triad's hospitals are in the South, West and Southwest, in small cities where they are the only hospitals or one of two in the community. The rest are in larger urban areas with high population growth. More than half of Triad's hospitals are in Arizona, New Mexico and Texas." (Barbara Kirchheimer, "Launching The Baby Columbias," Modern Healthcare, 5/3/99)

Triad Left Columbia Carrying About $675 Million in Debt. "Triad left the Columbia nest carrying about $675 million in debt. The debt stemmed from a bridge loan for a $75 million sale of assets; two term loans-one for $65 million and another for $200 million; and $325 million in high-yield bonds." (Barbara Kirchheimer, "Triad Still Struggling With Transition," Modern Healthcare, 10/4/99)

Triad Planned to Sell Five Hospitals to Cut Expenses. "Five hospitals-Beaumont (Texas) Medical and Surgical Hospital; Huntington Beach (Calif.) Hospital; Research Psychiatric Center in Kansas City, Mo.; Silsbee (Texas) Doctors Hospital; and West Anaheim (Calif.) Medical Center, -are being held by Triad for sale sometime after the spinoff. Selling these hospitals will improve the company's balance sheet quickly, Shelton says." (Barbara Kirchheimer, "Launching The Baby Columbias," Modern Healthcare, 5/3/99)

Shelton and Columbia/HCA Chairman and CEO Thomas Frist Jr. Envisaged Triad Partnering with Not-for-Profit Hospitals. "Shelton constructed several partnerships that Columbia struck with not-for-profit organizations, a history of collaboration that will help the new company, Frist says. 'Denny has a lot of credibility in the industry and has already worked out relationships with others in other communities to make his hospitals more well-positioned,' Frist says. Already, Shelton mentions the possibility of potential partnerships with Phoenix-based Samaritan Health System and Lutheran Health Systems of Fargo, N.D., two not-for-profit systems that announced merger plans in January." (Barbara Kirchheimer, "Launching The Baby Columbias," Modern Healthcare, 5/3/99)

Shelton Selected at Least Two Directors Hand-Picked by Frist, Including Frist's Son. "Shelton has assembled an eight-member board of directors, six of whom come from outside the company. Two more directors have yet to be chosen to complete the 10-person board. Of the selections so far, Shelton made two at the direct suggestion of Frist. One of those is Frist's son, Thomas Frist III, a principal of FS Partners, an investment company based in New York. 'His family obviously has a large interest in Triad and what we're doing,' Shelton said. 'I chose all of them except for the two. I could use the tutoring, and (Frist) was nice enough to give me some ideas.'" (Barbara Kirchheimer, "Alike Yet Different," Modern Healthcare, 7/5/99)

A Triad Hospital Executive Averred That "For All Intents and Purposes Our Primary Customers Are Physicians" — Not Patients. "People trying to parse the significance of Oregon Medical Group's announcement Thursday that it is exploring a partnership with Triad Hospitals Inc. could learn a lot from this comment by Rosie Pryor: 'For all intents and purposes our primary customers are physicians.' That may come as a surprise to folks who assumed patients were a hospital's primary customers, but Pryor, director of marketing and planning at McKenzie-Willamette Medical Center, knows the truth is that the doctor-hospital relationship is at least as important to a hospital's success as its relationship with patients." (Editorial, "A beneficial partnership," The Register-Guard (Eugene), 7/23/06)
Financial Performance and Acquisitions

During Its Short History, Triad Encountered Difficulties with Bad Debt and Was Noted for Associating with “Bottom Feeder” Hospitals

Trial Lost $85.5 Million in 1998 and $95.6 Million in 1999. “Columbia spinoff Triad loses money. Dallas-based Triad Hospitals, one of two companies spun off from Columbia/HCA Healthcare Corp. last year, lost $95.6 million, or $3.12 per share, for the year ended Dec. 31, compared with a loss of $85.5 million, or $2.80 per share, for 1998. Revenue fell 25% to $1.2 billion, reflecting the sales of several facilities. Triad also announced plans to sell 160-bed Community Medical Center Sherman (Texas), one of the 30 hospitals the company owns or manages.” ("For the record," Modern Healthcare, 3/6/00)

Triad Reported Net Income of $4.4 Million During 2000, Despite Losses During Fourth Quarter. “Triad reported a net loss of $3.7 million, or 11 cents per share, for the quarter ended Dec. 31, 2000, compared with a loss of $52.1 million, or $1.68 per share, in the 1999 quarter. Those figures included ‘unusual items’ such as $1 million in revenue and a charge of $7.1 million resulting from the closure of Triad’s Mission Bay Hospital in San Diego. Revenue rose 6.7% to $320.1 million from $300.1 million. For the year, Triad reported net income of $4.4 million, or 13 cents per share, compared with a net loss of $95.6 million, or $3.12 per share in the prior year. Revenue dropped 7.7% to $1.2 billion in 2000 from $1.3 billion in 1999.” (Barbara Kirchheimer, “Quorum still sitting in the window,” Modern Healthcare, 3/5/01)

Triad’s Profitability Remained “Volatile” into 2002, Following a “Skimpy” $2.8 Million Net in 2001. The company’s profitability has been volatile. In 1999, the company reported a loss of $96 million on revenues of $1.3 billion. In 2000, the picture improved to a thin profit of $4.4 million on revenues of $1.2 billion. In 2001, revenues surged to $2.7 billion, but the profit dipped to a skimpy $2.8 million. In the first nine months of 2002, the company reported that revenues were $2.6 billion, and profits hit $106 million.” (Joe Harwood, “Triad agrees to build new hospital,” The Register-Guard (Eugene), 1/31/03)

Through May 2001, Triad Needed IRS Approval for Major Transactions. “If Triad wants to complete a major transaction within two years of its May 1999 spinoff from HCA-The Healthcare Co., it must get a green light from the IRS because of the tax-free nature of the separation from its former parent.” (Barbara Kirchheimer, “Quorum still sitting in the window,” Modern Healthcare, 3/5/01)

By Early 2003, Triad Had Assumed “Massive Debt” - $1.8 Billion – to Partner with Hospitals. “Already, the company has taken on massive debt to partner with hospitals. The company has $1.8 billion in debt, Shelton said Thursday. That debt load is expensive to carry. In the first nine months of 2002, the company spent $102 million making interest payments, according to its filings with the Securities & Exchange Commission.” (Joe Harwood, “Triad agrees to build new hospital,” The Register-Guard (Eugene), 1/31/03)

In Late 2003, Triad Closed on Several Transactions, Adding 6 Hospitals and 730 Licensed Beds. “Triad Hospitals, Inc., (TRI) announced that it closed several transactions, adding 6 hospitals and 730 licensed beds to the company. The company closed on an acquisition of four hospitals in Arkansas from subsidiaries of Tenet Health-care Corporation (THC); a joint venture with Valley Hospital in Palmer, AK, to operate the existing hospital and build a replacement hospital; and an asset acquisition and facility lease of Woodward Regional Hospital in Woodward, Oklahoma. The company paid a total of $173.6 million for these transactions: $142 million (excluding accounts receivable) for the four Arkansas hospitals; $25 million to acquire a 76% interest in Valley Hospital, plus an obligation (with interest) to build a replacement hospital; and $6.6 million (including working capital) for the asset acquisition and facility lease of Woodward Regional Hospital.” ("Triad closes hospital transactions," Health & Medicine Week, 12/29/03)

As of Early 2004, only Three Triad Hospitals Had a Unionized Work Force. “The Springfield [Oregon] hospital is one of just three Triad hospitals with a unionized work force. The corporation owns 55
Bad Debts Plagued the Company into Early 2004. “If Burke Whitman had his way, the U.S. would have private-sector-run universal health insurance. That would solve his company's biggest headache -- bad debts. Triad Hospitals thought it had the problem under control a couple of years ago when its bad debt expense was 7%-8% of revenue. Then came the recession. Suddenly bad debts leaped to 10%. While some of the new defaulters could but wouldn't pay, most were people who had lost their jobs. Some were folks whose employers had stopped providing health insurance, says Whitman, Triad's chief financial officer. 'It was the single biggest bump to our otherwise steady improvement in financial performance,' he said. 'It hit us hard in the third quarter of 2003.' Triad's earnings sank by 63% in that quarter and were down 3% for the year. 'We got surprised by the severity of the deterioration,' Whitman said. But the company has snapped back. In the second quarter, earnings climbed 10% to 56 cents. Revenue rose 22% to $1.09 billion.” (Peter Benesh, “Seeking Small Towns, Few Hospital Rivals,” Investor's Business Daily, 8/5/04)

Triad Attacked Its Bad Debt Problem by Screening Patients as They Entered the Hospital – Even While Putatively “Caring for Those Uninsured People.” “Triad tried to tackle the bad debt problem as patients came in the front door, says Whitman. Each hospital screens patients and tries to provide them with assistance. 'We're still caring for those uninsured people,' Whitman said. The company needed to find a longer-term approach. It is working on a new charity and discount policy that Whitman plans to unveil in the next few weeks. … Whitman sees a bigger problem: 'We have 44 million uninsured in this country. It's a social, community and national political issue of which we are a part.’” (Peter Benesh, “Seeking Small Towns, Few Hospital Rivals,” Investor's Business Daily, 8/5/04)

Triad Earned Reputation for Cost-Cutting Measures and Reducing Uninsured Admissions. “Standard & Poor’s believes that hospital operator Triad Hospitals … will continue to produce above-average revenue and earnings growth. Triad's results should be bolstered, in our view, by its aggressive physician-recruiting efforts, cost-cutting measures, and a favorable Medicare and managed-care reimbursement environment. Underlying demographics, including a rising senior population, should drive demand for hospital services, in our view. In addition, we believe that a decline in the number of uninsured admissions will improve bad debt trends for the hospital industry.” (Cameron Lavey, “Triad Hospitals: In the Pink,” Business Week Online, 3/8/05)

Denny Shelton Admitted That Most of Triad’s Investments Began as “Bottom Feeders.” “Shelton acknowledged that most of Triad's investments begin as ‘bottom feeders,’ but Triad has led the industry both with for-profits and nonprofits in volume growth. 'We have to get our house in order,' Shelton said. 'The house is not crumbled. It's not to the ground. There's a good foundation to build on. We just have to do some things to get back into a competitive position to do business.’” (Carly Harrington, “Deal resolves Baptist Health System's future,” Knoxville News-Sentinel, 6/14/06)

In Early 2007, Triad Acknowledged That “Our Substantial Leverage” – Including Long-Term Debt of $1.7 Billion – “Could Have a Significant Effect on Our Operations.” “Our substantial leverage could have a significant effect on our operations. Our capital structure includes a significant amount of debt. As of December 31, 2006, our consolidated long-term debt equaled approximately $1.7 billion. As of December 31, 2006, we also were able to draw upon a revolving line of credit in an aggregate principal amount of up to $600.0 million, and there were no amounts outstanding. We had $16.1 million of letters of credit issued as of December 31, 2006 that reduced amounts available under the line of credit. We also have the ability to incur significant amounts of additional debt, subject to the conditions imposed by the terms of our credit facility and the indentures governing our outstanding debt securities. Although we believe that our future operating cash flow, together with available financing arrangements, will be sufficient to fund our operating requirements, our leverage and debt service obligations could have important consequences, including the following:

• The terms of our existing debt obligations contain, and the terms of any future debt obligations may contain, numerous financial and other restrictive covenants, which, among other things, restrict our ability to pay dividends, incur additional debt and sell assets. If we do not comply with these obligations, it may cause an event of default, which, if not cured or waived, could require us to repay the indebtedness immediately.
• We may be more vulnerable in the event of downturns in our businesses, in our industry, in the economy generally or if the government implements further limitations on reimbursement under Medicare and Medicaid.

• We may have difficulty obtaining additional financing at favorable interest rates to meet our requirements for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes.

• We may be required to dedicate a substantial portion of our cash flow to the payment of principal and interest of our indebtedness, which could reduce the amount of funds available for operations.

• Any borrowings we may make at variable interest rates leave us vulnerable to increases in interest rates generally.” (Triad Hospitals Inc., Form 10-K Annual Report for the Fiscal Year Ended 12/31/06, Filed with the Securities and Exchange Commission, 2/28/07)

Triad Frequently Sought Abatements and Subsidies, Employing a “VP of Tax” to Help Manage Its Efforts

Triad Sought Abatements on Hospitals Acquired During HCA Spinoff, and Advanced a Strategy of Seeking Abatements Before Breaking Ground. “Advance action is Lesson One, several tax pros said. For starters, you should be planning and requesting an abatement before your company breaks ground, not as you're about to bring a project on line, said Rob Frutiger, VP of tax at Triad Hospitals Inc./Dallas, which sought abatements on hospitals it acquired during a corporate spin-off. 'If you're going out to a community and you know you're going to build a facility that will add [fulltime jobs], you need to request [abatements] at that point;' Frutiger said. 'Once that project is completed, there is no incentive for the county to give you an abatement, and even if they want to, they may be restricted under the law.”” (‘Advance Planning Pays With Property Abatements,” Tax Incentives Alert, January 2005)

Consumer Advocates Assailed Triad for Aligning with Not-For-Profits, Citing Potential Conflicts of Interest and the Shunning of Uninsured Patients

The Advocacy Group Community Catalyst Issued a Report Assailing Triad for Its Attempts to Form Ventures with Not-For-Profit Hospitals and Alleged That It Shut Out Uninsured Patients. “A healthcare consumer advocacy group and Triad Hospitals are engaged in a war of words over Triad's attempts to form joint ventures with not-for-profit hospitals. A recent report by Community Catalyst rebuked Plano, Texas-based Triad for its attempts to purchase not-for-profit hospitals managed by the company's Quorum Health Resources management subsidiary and suggested that Triad pursues policies that limit its hospitals' exposure to uninsured patients. Triad in turn accused the group of lying and criticized its work as lazy.” (Vince Galloro, “Verbal assault,” Modern Healthcare, 2/2/04)

The Report Alleged That Triad Had an Inherent Conflict of Interest Purchasing Hospitals Managed by Its Quorum Subsidiary. “The report, published as Community Catalyst's States of Health winter 2004 edition, contends that Triad has an inherent conflict of interest in purchasing hospitals managed by its own subsidiary. Triad has pur-chased an Oklahoma hospital managed by Quorum and has a pending deal to purchase a North Carolina hospital that Quorum manages. … 'Any valid negotiation should be where both parties are at arm's length from each other to have an in-dependent process,' said Dawn Touzin, director of Community Catalyst's Community Health Assets Project. 'I'm not finding that where Quorum is doing the management.' Denny Shelton, chairman and CEO of Triad, said he was 'upset and disappointed' with the report. 'It's not research at all,' Shelton said in a phone interview. 'It's just opinions that have been gathered from a few people that they have talked to.'” (Vince Galloro, “Verbal assault,” Modern Healthcare, 2/2/04)

The Report Accused Triad of Locating New and Replacement Hospitals in Wealthy Neighborhoods to Avoid Uninsured Patients. “The report accuses Triad of locating new and replacement hospitals in wealthy neighborhoods that aren't served by public transportation to avoid uninsured patients. Touzin said the company skillfully obscures the impact on access by promoting their projects as spurs to economic development. Specifically, the report looked at the pending North Carolina deal, in which Triad hopes to acquire a majority stake in a joint venture that would own Good Hope Hospital, Erwin, N.C. Good Hope is
managed by Quorum. The report quotes a local businessman who said local Quorum managers told employees that their jobs would be in jeopardy if the joint venture wasn't formed. The businessman also questions whether other potential buyers had a chance to bid on the hospital. The report includes statements by the executive director of the North Carolina Health Access Coalition condemning the Triad-Quorum connection as a conflict of interest. … An unfavorable certificate-of-need ruling on the Good Hope replacement hospital has stalled the joint venture, although the partners are appealing the ruling.” (Vince Galloro, “Verbal assault,” Modern Healthcare, 2/2/04)

The Report Asserted That Triad’s MountainView Regional Medical Center in New Mexico Funneled Patients to a Nearby Hospital and Forced Its Sale. "The report also describes Triad's opening of MountainView Regional Medical Center in Las Cruces, N.M., in August 2002 and the effects the opening had on Memorial Medical Center. The report quotes Memorial's former chief executive officer, MaryAnn Digman, as saying that Triad located the new hospital in a wealthy area that isn't served by local bus lines as a way to limit the hospital's exposure to uninsured patients. In a phone interview with Modern Healthcare, Digman added that she wasn't saying Triad picked the location because of the lack of bus service, and she noted that the neighborhood is a growing part of town. Digman also said MountainView sometimes stabilized emergency patients and then sent them on to Memorial during MountainView's first six months of operation. Triad said MountainView transferred 24 uninsured psychiatric patients to Memorial in 2003 because MountainView does not have a psychiatric unit. Digman said MountainView's opening changed Memorial's payer mix, with more insured patients going to the new hospital, and that shift hurt the public hospital's finances. The financial pressure prompted Memorial's owners, the city of Las Cruces and the county of Dona Ana, to put the hospital up for sale; they have a pending deal to lease it to Province Healthcare Co. for $150 million over 40 years.” (Vince Galloro, “Verbal assault,” Modern Healthcare, 2/2/04)

Quorum Health Group

In October 2000, Triad Announced the $2.4 Billion Acquisition of Quorum Health Group, Inc., Creating the Nation’s Third Largest Hospital Company. “Dallas-based Triad Hospitals Inc. said Thursday it will acquire Quorum Health Group Inc. for $1.4 billion in cash and $1 billion in assumed debt, creating the third-largest hospital company in the country. The purchase, which unites two former HCA-The Healthcare Co. units, would extend Triad's reach to 17 states from 12 states and decrease its dependence on Texas as a revenue source. The company receives 50 percent of its revenue from Texas. After the acquisition it will generate 23 percent of its revenue in the state. … Under the agreement, Triad would acquire 22 hospitals, increasing its network to 53 hospitals and its employees to 36,500 from 15,900.” (J.C. Conklin, “Dallas-Based Hospital Company to Merge, Creating 3rd-Largest Hospital Chain,” The Dallas Morning News, 10/20/00)

Quorum Faced Numerous Legal Troubles at the Time of the Announcement. “Quorum, spun off from HCA in 1989, has been a laggard in the hospital industry, hamstrung by tenuous relationships with doctors, unfavorable health plan contracts and whistleblower suits. Two months ago, the company hired Goldman, Sachs & Co. as a financial adviser to explore strategic alternatives including a sale. A couple of weeks ago, Quorum agreed with the U.S. Justice Department to pay $95.5 million to settle two civil lawsuits that alleged Quorum had inflated cost reports. Two more whistleblower suits have yet to be settled, said Darren Lehrich, an analyst at ING Barings. ‘I don't think the government is that interested in those suits. I don't think there's a whole lot there,’ Mr. Lehrich said.” (J.C. Conklin, “Dallas-Based Hospital Company to Merge, Creating 3rd-Largest Hospital Chain,” The Dallas Morning News, 10/20/00)

Triad Subsequently Increased by $16 Million Its Estimated Liability for Quorum’s Outstanding Lawsuits. “What did surprise [ING Barings analyst Darren] Lechrich is Triad's estimated $16 million increase in liability for all of Quorum’s out-standing lawsuits. Quorum reached an agreement with the U.S. Department of Justice in October to pay $18 million for a lawsuit regarding allocation of costs at an Alabama hospital to its home health services agency. And the company has a tentative agreement for a $77.5 million settlement regarding allegations that the company illegally inflated Medicare cost reimbursement reports.” (Molly Cate, “Sale of Quorum nixes 77 positions,” Nashville Business Journal, 4/20/01)
Shelton Indicated That Triad Intended to Sell Six Quorum Hospitals. “Shelton said he was unable to disclose details about which Quorum hospitals Triad planned to divest as part of its acquisition of Brentwood, Tenn.-based Quorum because of confidentiality agreements. In the past, he has indicated that the company wants to sell about six hospitals as well as Quorum's hospital management business, Quorum Health Resources. He also has left open the door to sell some Triad facilities, but he said last week that he had no plans to do so at the time of the Quorum acquisition.

Shelton said he has visited all of the Quorum hospitals Triad intends to keep and is excited about opportunities in Quorum's largest market, Fort Wayne, Ind., and at its hospital in Bentonville, Ark., which Quorum has promised to replace with a new facility.” (Barbara Kirchheimer, “Quorum still sitting in the window,” Modern Healthcare, 3/5/01)

Quorum Shareholders Filed Suit, Claiming Triad Offered an Insufficient Price for the Company. “Triad Hospitals isn't paying enough for Quorum Health Group, and Quorum should reopen the bidding, according to a shareholder lawsuit filed against Quorum's board of directors and Triad. The lawsuit alleges that Quorum's directors breached their fiduciary duties by agreeing to sell Quorum to Triad without doing all they could to seek higher bids, and that Triad helped them clinch the deal. Quorum shareholder Samuel Brand filed the lawsuit Oct. 20 in state circuit court in Nashville on behalf of all Quorum shareholders. Triad disclosed the suit last week in its quarterly filing with the Securities and Exchange Commission.” (Barbara Kirchheimer, “Quorum shareholders file suit,” Modern Healthcare, 11/20/00)

The Shareholder Lawsuit Was Settled by April 2001. (Stephanie Patrick, “Triad Hospitals deal nears completion date,” Dallas Business Journal, 4/20/01)

77 Employees at Quorum Headquarters Lost Their Jobs as a Result of the Merger. “The $2.4 billion sale of Quorum Health Group Inc. to Dallas-based Triad Hospitals Inc. has left 77 employees at the hospital company's Brentwood headquarters out of work. Quorum announced the potential for layoffs when the two companies announced a merger agreement in October. The newly-combined company's headquarters will be in Dallas. About 50 Quorum employees will stay in Nashville to finish projects, such as integrating the company's data and information systems, says Quorum spokeswoman Shea Davis. Their stay could range anywhere from 30 days to a year, depending on the project, she says. Three Brentwood employees, including two regional presidents and a regional chief financial officer, are moving to Dallas, Davis says.” (Molly Cate, “Sale of Quorum mixes 77 positions,” Nashville Business Journal, 4/20/01)

The Companies Finally Closed the Deal in Late April 2001, Roughly Doubling Triad's Size. “After a 10-month courtship, Triad made it official on April 27 when it completed its $2.4 billion acquisition of Quorum, following shareholder votes by both companies one day earlier. … The new 49-hospital Triad, which has roughly doubled in size with the acquisition to become the nation's third-largest investor-owned hospital chain … [.]” (Barbara Kirchheimer, “No more Quorum,” Modern Healthcare, 4/30/01)

McKenzie-Willamette Hospital – Oregon

In January 2003, Triad Announced That It Would Acquire McKenzie-Willamette Hospital, Providing $80 Million to Develop and Build a New 114-Bed Hospital. “Triad Hospitals Inc., the nation's third-largest for-profit hospital chain, will become the majority owner of McKenzie-Willamette Hospital under a preliminary partnership agreement signed Thursday. Under the deal, Texas-based Triad will provide approximately $80 million in cash to develop and build a new 114-bed hospital for McKenzie-Willamette somewhere in the Eugene-Springfield area. McKenzie-Willamette and Triad officials said they haven't chosen a site yet, but did say they were looking for about 35 acres to build a 180,000- to 220,000-square-foot hospital. The parcel would also be home to a 70,000- to 80,000-square-foot medical office building the partnership would build, they said.” (Joe Harwood, “Triad agrees to build new hospital,” The Register-Guard (Eugene), 1/31/03)

The Oregon Attorney General Approved the Transaction, But Required the Joint Venture to Serve Its “Fair Share” of Poor Patients. “The proposed partnership between McKenzie-Willamette Hospital and Triad Hospitals Inc. cleared its last major hurdle … when Oregon Attorney General Hardy Myers determined the deal is in the public interest and won't harm access to health care in the community. But
McKenzie-Willamette Lost $5.8 Million in the Nine Months Preceding Triad's Takeover, and Continued to Lose Money Afterward. “McKenzie-Willamette Medical Center bled buckets of red ink in 2003, just as for-profit Triad Hospitals Inc. was stepping in to save it, the hospital's latest financial report shows. In its report for 2003, filed with the state last month, McKenzie-Willamette said it lost $6.4 million in 2003, by far the hospital's biggest annual loss since at least the early 1990s. The report underscores how perilous the hospital's financial condition was, even as it sought a bailout from Triad, and waged an antitrust lawsuit against giant rival PeaceHealth. McKenzie-Willamette lost $5.8 million in the first nine months of 2003, prior to the merger with Triad, and another nearly $600,000 in the final quarter under Triad ownership, according to the reports. McKenzie-Willamette joined Triad, the nation's third-largest for-profit hospital chain, last Oct. 1. 'There was nothing magical that happened on Oct. 1 that happened to make us automatically stop losing money,' said Karen Francis, McKenzie-Willamette's chief financial officer.” (Christian Wintol, "Report outlines hospital's woes," The Register-Guard (Eugene), 7/4/04)

In February 2004, the Hospital Laid Off Several Employees and Reduced Hours. “McKenzie-Willamette Medical Center has laid off some employees and reduced hours for others in re-sponse to lower-than-expected patient volumes, hospital and union officials said. McKenzie-Willamette spokeswoman Rosie Pryor wouldn't disclose the number of employees affected by the cutbacks, but she confirmed the hospital is cutting hours of some employees. 'We are absolutely evaluating positions with an eye to living within our means,' she said.” (Tim Christie, “Hospital lays off several workers,” The Register-Guard (Eugene), 2/26/04)

Union Officials Expressed Concern over the Cutbacks, Attributing the Moves to Triad's Bottom-Line Approach. "Union representatives said some employees are anxious about the staff reductions. 'With the economy the way it is, any time you lose a family wage job, it's of concern,' said Mike Becker, steward with Local 49 of the Service Employees International Union. SEIU represents non-nursing employees at the hospital. Becker did not know the number of layoffs, but he estimated that it was fewer than 20 and said it includes groundkeepers, materials managers, respiratory therapists and admissions clerks. The hospital employs about 850 people. He said under Triad's influence, McKenzie-Willamette managers appear determined to run a leaner hospital. 'To the best of our knowledge, Triad has asked department managers to look at their operations and see where they can be more efficient,' Becker said. 'For the last 48 years, McKenzie-Willamette was able to sustain a bit of a deficit,' he said. 'Triad, as a for-profit, is concerned about the bottom line as any business is. We're having to rethink the processes that go on in the hospital and make sure it makes fiscal sense, or else we're not going to be here.'” (Tim Christie, “Hospital lays off several workers,” The Register-Guard (Eugene), 2/26/04)

Triad Immediately Reduced Nurses' Retirement Benefits. "The 290 registered nurses at the hospital haven't been affected by layoffs, though a few have seen their hours reduced, said Paul Goldberg, local labor representative for the Oregon Nurses Association. But like other employees, nurses are wary about how the hospital will be managed under Triad's influence, he said. … The nurses’ contract expires at the end of this year, with negotiations set for the fall. They'll know then how hard a line Triad takes, but early signs were not encouraging, Goldberg said. ‘When Triad first came in, they said they would offer comparable pay and benefits to our community standard,’ he said. ‘The first thing that occurred was they decreased the retirement plan of the nurses to be-low Sacred Heart’s, significantly. That did not instill confidence in Triad. ‘The nurses’ union agreed to reduced retirement benefits to ensure that the partnership deal with Triad was completed and that the hospital remained open, he said.” (Tim Christie, “Hospital lays off several workers,” The Register-Guard (Eugene), 2/26/04)
In May 2004, the Hospital Laid Off 40 Nurses. “Meanwhile, patient volumes at McKenzie-Willamette have not met budget projections, and the hospital in May laid off nearly 40 nurses.” (Christian Wihtol, “Report outlines hospital's woes,” The Register-Guard (Eugene), 7/4/04)

In 2003, the Eugene City Council Set Aside $500,000 for Use as Incentives to Develop the New Hospital. “Any possible subsidies would come on top of $500,000 the City Council last year set aside for use as incentives related to the development of a hospital.” (Joe Harwood, “Eugene, Ore., Officials Eye Taxpayer Options to Help Fund Hospital,” The Register-Guard (Eugene), 6/9/04)

The City Council Later Voted to Provide “Broad Incentives” Worth $15 Million to $20 Million if Triad Built the Hospital Downtown. “The Eugene City Council last year voted to provide broad incentives if Triad built the hospital within a 2.5-mile radius of downtown. The council wanted the hospital in a central location to foster compact growth. When Triad was considering the Eugene Water & Electric Board campus, those city subsidies, mostly for road improvements, were estimated at $15 million to $20 million.” (Joe Harwood, “Hospital sends city moving to do list,” The Register-Guard (Eugene), 11/24/05)

City Officials Even Considered a Tax Increase and a Bond Issue to Fund the Development. “Another option floated by the city is asking voters to approve a capital levy of up to 10 years to cover public improvements related to a hospital development. But the city staff deemed a levy undesirable because it would butt up against Measure 5 property tax limitations and cause a loss of taxes levied for the city library and school programs, according to the city's analysis. Another option listed by the city would be to issue urban renewal bonds to finance street and access improvements at the EWEB site, and possibly even the construction of a parking garage. Estimates put those improvement costs at $15 million or more.” (Joe Harwood, “Eugene, Ore., Officials Eye Taxpayer Options to Help Fund Hospital,” The Register-Guard (Eugene), 6/9/04)

Meanwhile, in 2005, the Hospital Appealed Its Valuation, Seeking Lower Tax Payments. "After going almost 50 years without receiving a property tax bill on their hospital, McKenzie-Willamette Medical Center officials apparently experienced sticker shock of sorts when the center became a for-profit entity and the first invoice arrived last fall. The county pegged the real market value of the hospital's land, building and equipment at $22.8 million, with an assessed value of $16.3 million. Annual taxes due on that $16.3 million: $270,139. McKenzie-Willamette paid the bill, then in January filed a petition with the Lane County Board of Property Tax Appeals seeking a lower valuation. Since losing in that venue, the hospital has appealed to a state magistrate. The hospital is seeking an assessment that would require it to pay about $57,000 a year in property taxes. 'We feel our current assessment is too high,' McKenzie-Willamette spokeswoman Rosie Pryor said. 'So we're pursuing an adjustment (just) as other taxpayers do.' … If the current appeal is successful and the Oregon Tax Court gives McKenzie-Willamette a real market value of $5 million, its property taxes due would be about $57,000 instead of the $270,139 the county levied.” (Joe Harwood, “Hospital disputes assessed tax value,” The Register-Guard (Eugene), 5/12/05)

The Hospital's Arguments Contradicted an Appraisal Prepared in Anticipation of Triad's Purchase. “The assessor's office also examined a report prepared in 2003 by Triad and McKenzie-Willamette as part of a review by the office of Oregon's attorney general into the merger. State law requires the attorney general to make sure that a selling nonprofit entity is receiving fair market value for it's business, including the property, building and equipment. That report, using an appraisal from hospital valuation experts American Appraisal Associates, put a value of $32 million on McKenzie-Willamette. That number included the value not only of the property, buildings and equipment, but also the intrinsic value of the ongoing hospital business enterprise. Mahn said the county is trying to figure out how much of the $32 million represented property value vs. intrinsic business value. Because McKenzie-Willamette is arguing that its land, building and equipment is worth only $5 million, that would mean its value of the ongoing business is about $27 million, Mahn said. But when Triad bought McKenzie-Willamette, the nonprofit was suffering from a string of money-losing years. 'How much business value could they have if they've been losing money?' Mahn asked. 'That's what we want to know.'” (Joe Harwood, “Hospital disputes assessed tax value,” The Register-Guard (Eugene), 5/12/05)

The Hospital Ultimately Dropped the Appeal, Claiming to be a “Good Corporate Citizen.” “McKenzie-Willamette Medical Center … withdrew its appeal before the Oregon Tax Court in which it
sought a steep reduction in its property taxes. … McKenzie-Willamette spokeswoman Rosie Pryor on Wednesday said hospital officials still believe the assessment is high. 'But we talked it through and decided we preferred to withdraw the appeal,' Pryor said. 'This is our de-but as a taxpayer, so we want our friends and supporters to know we are a good corporate citizen.'” (Joe Harwood, “McKenzie-Willamette drops property tax appeal,” The Register-Guard (Eugene), 6/30/05)

After Choosing to Build the New Hospital on a Golf Course – Rather Than Downtown – Management Sought Taxpayer Subsidies, Including Any Aid “the City is Prepared to Absorb.” “On the same day McKenzie-Willamette Medical Center officials announced plans to build a new hospital on a portion of a north Eugene golf course, they also went fishing for city aid to help offset development costs. In a Nov. 15 letter, McKenzie-Willamette CEO Roy Orr asked Eugene City Manager Dennis Taylor to identify any fees or charges associated with the proposed hospital ‘the city is prepared to absorb.’ Also, Orr asked the city to ‘ensure transportation improvements necessary to support our proposed development’ on the 42-acre parcel, according to the letter. Those requirements include expanding Delta Highway North from the hospital site southward to Belt Line Road to four lanes, adding traffic signals and installing street lights, covered bus stops, landscaping and irrigation, Orr wrote. In addition, the letter asks Taylor to clarify land use changes such as zoning, annexation and amendments to the area's growth management plan that would have to be made in order to develop a hospital on the back nine holes of RiverRidge Golf Course.” (Joe Harwood, “Hospital sends city moving-to-do list,” The Register-Guard (Eugene), 11/24/05)

Baptist Health – Birmingham, Alabama

In July 2003, Baptist Health System Abandoned Planned Collaboration with Triad and Fired Its Own CEO Amid Outcry over Partnering Religious Hospital with Investor Owned Company.

“Demonstrating the power of religion and the worldly might of physicians, two key constituencies coalesced earlier this month to force a turnaround at Baptist Health System, which scuttled a planned partnership with Triad Hospitals and sacked the chief executive who crafted the controversial deal. Less than a month after voting to pursue the joint venture with Triad, Baptist's board of trustees gathered July 12 in the company's Birmingham, Ala., headquarters to execute a nimble turnaround triggered by protests from physicians, hospital employees and parishioners demanding that Baptist remain a faith-based system under local control.” (Michael Romano, “Healthcare hath no fury,” Modern Healthcare, 7/21/03)

The “Bloodletting” Began with a Doctor-Led Petition Drive. “Within hours of the Baptist board meeting being called to order at 8 a.m., trustees terminated negotiations with Triad and convened a special executive session to fire Dennis Hall, president and chief executive officer for the past nine years and a principal architect of the doomed deal. At that meeting, five of the 21 board members—including Chairman Bobby Keith Jr., a key Hall ally and confidant—resigned in the bloodletting that began months earlier with a petition-signing protest by influential doctors dead set against any collaboration with an investor-owned hospital company. ‘It's gratifying to know that physicians are finally being listened to when they're championing a cause that's so important to them,’ said Jack Hasson, a pulmonologist at 347-bed Princeton Baptist Medical Center in Birmingham and an early critic of the deal. 'It was the right thing for the board to do. It was the right thing for the community, our system and our patients.’” (Michael Romano, “Healthcare hath no fury,” Modern Healthcare, 7/21/03)

A Hospital Consultant Warned Trustees That “There Is No Such Thing as a Joint Venture Between a For-Profit and a Not-For-Profit When the Not-For-Profit Doesn't Lose Control.” “Joshua Nemzoff, a hospital consultant from New Hope, Pa., who was hired as an adviser to the board about three weeks ago, said he told trustees during one of his first conversations that 'there is no such thing as a joint venture between a for-profit and a not-for-profit when the not-for-profit doesn't lose control.' “Board members asked if it would be possible to do a joint venture with Triad and still have control,” Nemzoff said. ‘I said, ‘Absolutely not--no one's going to come in, assume debt and assume responsibility for running this system and then not have control.’” (Michael Romano, “Healthcare hath no fury,” Modern Healthcare, 7/21/03)
Triad’s Failure Was Seen as a Warning to Other For-Profits. “In the wake of Baptist’s retreat from its collaboration with Triad, investor-owned companies, which often entice cash-strapped not-for-profits with the lure of major capital investments, might need more than deep pockets to convince religious institutions that the rescue is worth the ultimate cost, observers suggested.” (Michael Romano, “Healthcare hath no fury,” Modern Healthcare, 7/21/03)

Arkansas – Tenet Acquisition

In September 2003, Triad Announced That It Would Buy Four Hospitals in Arkansas from Troubled Competitor Tenet Health Care Corp. for $142 Million. “The Plano-based hospital chain said … that it agreed to buy four hospitals in Arkansas from Tenet Healthcare Corp. for $142 million, a move that augments Triad’s strategy to expand its presence in rural and midsize markets. The nation’s second-largest hospital chain, Tenet, which is based in Santa Barbara, Calif., has been selling hospitals in recent weeks to offset falling revenue and mounting losses and to become leaner as it emerges from controversies and federal investigations involving its billing methods. ‘These hospitals will be a great addition to Triad. They will complement our five existing hospitals in Arkansas,’ James D. Shelton, Triad chairman and chief executive, said in a statement. Triad will assume $8 million of Tenet’s debt, but Tenet will retain the accounts receivables, a thorny matter in hospitals where medical bills often go unpaid. … The hospitals acquired are the 193-bed Central Arkansas Hospital in Searcy, the 166-bed National Park Medical Center in Hot Springs, the 104-bed Regional Medical Center of Northeast Arkansas in Jonesboro and the 170-bed Saint Mary’s Regional Medical Center in Russellville.” (Roger Yu, “Plano, Texas-Based Triad to Buy Four Arkansas Hospitals from Tenet Healthcare,” The Dallas Morning News, 9/3/03)

Arkansas – Sparks Regional Medical Center

In October 2003, Triad and Sparks Health System Signed a Letter of Intent to Build, Jointly Own and Operate a Private, For-Profit Hospital in Fort Smith. “Sparks Health System’s board of trustees Tuesday signed a letter of intent with Plano, Texas-based Triad Hospitals Inc. to build, jointly own and operate a private, for-profit hospital in Fort Smith. Triad, a leading publicly traded hospital chain in business for investors, and Sparks, which invests its cash surpluses in new medical services and staff, are both seeking to increase their profitability and improve their offering of health services, analysts said. Hospitals in Arkansas, including Sparks, are under increasing financial strain because of Medicaid and Medicare reimbursement delays, cutbacks and rising fixed costs. The jointly owned hospital would be called Sparks Regional Medical Center.” (Dave Hughes and Tom Darin, “Fort Smith Sparks, Triad to team up on hospital,” Arkansas Democrat-Gazette, 10/29/03)

Triad Would Contribute $150 Million and Appoint Four Directors for the Venture. “Four community representatives for Sparks and four Triad representatives will form an eight-member board of directors for the new venture. The board chairman will be elected from among the community representatives, a prepared news release stated. Sparks will contribute its working capital, equipment and business operations to the new venture, and Triad will dip into its corporate funds to contribute $150 million. The percentage of ownership of the new venture will depend on a third-party, independent valuation of Sparks’ contributed assets, the company said. But each party will have an equal voice in governance, as indicated by the composition of its board of directors, Sparks said.” (Dave Hughes and Tom Darin, “Fort Smith Sparks, Triad to team up on hospital,” Arkansas Democrat-Gazette, 10/29/03)

One Year Later, the Deal Fell Through When Sparks Could Not Resolve Existing Debt Obligations. “Sparks Health System announced … that it dropped plans to build a new hospital in Fort Smith. In August, Sparks Health board of directors announced it forged an agreement to build the hospital in partnership with Texas-based Triad Hospitals Inc. The deal fell through because of tax-exempt bonds that Sparks issued in the past, according to a news release Sparks issued … Tom Webb, chairman of Sparks’ board of directors, said in the release that the deal fell through because Sparks could not ‘resolve certain obligations,’ including the annulment of tax-exempt bonds. In the release, Webb did not elaborate on the tax-exempt bonds, saying the issue ‘will not be of concern since this venture has been discontinued.’” (Christopher Leonard, “Sparks, Triad call off plans for new Fort Smith hospital,” Arkansas Democrat-Gazette, 10/27/04)
Development of New Hospital – Williamson County, Texas

In November 2004, Triad Announced Plans to Build a New Hospital in Cedar Park. “Williamson County just won the hospital lottery. Two hospital systems announced plans ... to build in the county. The Seton Healthcare Network is planning a hospital on the edge of Round Rock, and Triad Hospitals Inc. of Plano is keen on the Cedar Park area. The hospitals, if built, would intensify health care competition in Central Texas and make inpatient and emergency care more convenient to residents in one of the nation's fastest-growing counties.” (Mary Ann Roser and Anita Powell, “2 new medical centers planned,” Austin American-Statesman, 11/5/04)

The City Council Authorized Five Years of Tax Abatements for Triad. “Thursday night, after 10 months of negotiation, Cedar Park announced its plan for a $55 million, 75-bed, full-service hospital that promises to bring 150 jobs to the city by its expected opening date in 2007. The hospital will have a 24-hour emergency room, inpatient care and surgery, obstetrics, cardiology, pediatrics and more. The City Council unanimously authorized Antle to sign a nonbinding agreement with Triad to give the proposed hospital five years of tax abatements, assistance in site selection and design, and economic development funds for infrastructure around the project. A definitive agreement is expected in the next six months.” (Mary Ann Roser and Anita Powell, “2 new medical centers planned,” Austin American-Statesman, 11/5/04)

Legal Issues and Litigation

In 2003, Triad's Billing Practices Were Placed Under Investigation by a Congressional Committee

The House Energy and Commerce Committee Sent Formal Inquiries to 20 Hospital and Health Systems Nationwide, Including Triad. “Citing ‘significant health and consumer protection issues,’ a congressional committee launched a formal investigation into hospital billing practices that often require uninsured patients to pay rates that far exceed what other payers, including the government and HMOs, are charged. The House Energy and Commerce Committee sent seven-page letters to 20 hospital and health systems nationwide asking them detailed questions about their finances and their billing practices in relation to both the uninsured and major payers, such as insurers and managed-care companies. The committee also asked the hospitals to disclose their charity-care practices and how they go about identifying financially needy patients who may need help.” (Lucette Lagnato, “House Panel Begins Inquiry Into Hospital Billing Practices,” The Wall Street Journal, 7/17/03)

The Investigation Focused on “Charges” - or the “Inflated” Retail Prices Charged by Hospitals. “At the heart of the congressional investigation is the thorny issue of ‘charges,’ which are the retail prices that hospitals list for their services. According to the letter, these rates are ‘often inflated far beyond [the hospitals’] actual costs and reasonable profit.’ Some payers are able to negotiate discounts and pay far less, but ‘individual uninsured patients are expected to pay this full, undiscounted ‘sticker’ price,’ the congressional letter said.” (Lucette Lagnato, “House Panel Begins Inquiry Into Hospital Billing Practices,” The Wall Street Journal, 7/17/03)

In October 2003, a Former Triad Senior Executive Was Indicted on 15 Counts, Including Money Laundering and Obtaining Fraudulent Commissions

Former Triad Vice President of Acquisitions James Lee McElhaney Was Indicted on Felony Charges Including Money Laundering and Obtaining Fraudulent Commissions. “A federal grand jury in Dallas has indicted a former Triad Hospital Inc. executive on felony charges including money laundering and obtaining fraudulent commissions. The executive, James Lee McElhaney, was vice president of acquisitions and development for the Plano-based hospital operator until early last year. According to the 15-count indictment ... Mr. McElhaney inserted bogus fees, commissions and other costs that were then funneled back to him as he handled real estate acquisitions and sales for Triad. The
alleged fraudulent activity exceeded $1 million, according to prosecutors. The U.S. attorney's office in Dallas charged Mr. McElhaney, a licensed real estate broker, with seven counts of mail fraud, one count of conducting 'an illegal monetary transaction,' five counts of money laundering, and two counts of wire fraud. … The indictment alleges the fraudulent activities occurred between May 1998 and January 2002, when Mr. McElhaney resigned from the company. Mr. McElhaney had worked for Triad since 1995, when the company was part of its predecessor Columbia/HCA. Triad was spun off in 1999.” (Roger Yu, “Former Executive at Triad Hospital Inc. Faces 15 Counts, Denies Charges," The Dallas Morning News, 10/24/03)

**Triad Claimed to Have Initiated the Investigation Internally and Turned the Matter over to Federal Authorities.** "In a statement, Triad said it had initiated the investigation internally before turning the matter over to federal authorities and added that Mr. McElhaney's resignation 'was related to the investigation.' Triad said the alleged activity had no impact on patient care and no material impact on the company's reported financial results. The company said it has retained Paul Coggins, a Dallas lawyer who previously served as the U.S. attorney in Dallas, to assist the company with its investigation." (Roger Yu, “Former Executive at Triad Hospital Inc. Faces 15 Counts, Denies Charges," The Dallas Morning News, 10/24/03)

**In 2006, Triad Was Sued for Allegedly Improperly Billing Medicare for Triad's Own Mistakes**

The Lawsuit Accused Triad of Breaching Its Duties to Medicare by Accepting Millions of Dollars in Payments to Correct Its Own Mistakes. "A Tampa, Fla., law firm is accusing two of the nation's biggest hospital chains of improperly billing Medicare when they correct their own medical mistakes, in two lawsuits filed in federal court in Little Rock. Medicare announced last month it will try to cut off payments for major hospital errors, which until recently were a noncontentious part of the reimbursement system. The firm, Wilkes & McHugh, which says Catholic Health Initiatives and Triad Hospitals Inc. 'breached their duties to Medicare,' is independently looking for hospitals to stop receiving reimbursements for their mistakes. … The lawsuits, filed … in U.S. District Court … claim that the two companies should not have accepted ‘millions of dollars in payments’ from Medicare for treating patients who were hurt during their hospital stay. Wilkes & McHugh is also suing the two companies' malpractice insurers. The Center for Medicare and Medicaid Services, or CMS, which administers Medicare, is not involved in the lawsuit, but would collect double what it paid out if Wilkes & McHugh succeeds.” (Brian Baskin, “Hospitals can't bill for errors, suits say," Arkansas Democrat-Gazette, 6/7/06)

CMS Had Recently Announced a Policy of Refusing to Reimburse Hospitals for Mistakes That Kill or Severely Injure a Patient. “In May, Mark McClellan, who heads CMS, told the U.S. Senate Finance Committee that the government shouldn't have to reimburse hospitals for 27 categories of mistakes that kill or severely injure a patient, which 'should never happen.' Starting in October 2007, Medicare will lower payments for infections, with an eye on wider cuts in the future, according to a May statement by the agency. A 'never event' can be anything from a hospital-acquired infection to surgery performed on the wrong body part. CMS says that it has no firm statistics on the number or cost of the medical errors.” (Brian Baskin, “Hospitals can't bill for errors, suits say," Arkansas Democrat-Gazette, 6/7/06)

**In 2006, the Tennessee Supreme Court Upheld a Ruling Finding Triad Liable for $1.8 Million in Punitive Damages for Tortious Interference with Contract**

A Tennessee Hospital Executive Sought Severance Pay After His Employer's Takeover by Triad Marginalized His Role. “On September 1, 1999, Cambio Health Solutions, LLC, hired a new CEO and entered into an executive consulting agreement with him to govern the terms of his employment. The agreement provided that upon a ‘change in control’ at Cambio or Intensive Resource Group, LLC (IRG), which owned a majority of Cambio's stock at the time of the agreement, the CEO would have the option to terminate his employment for ‘good reason’ and receive severance pay. The agreement defined ‘good reason’ to include a failure to pay compensation and benefits. Under the agreement, the CEO received a 10 percent ownership stake in Cambio. When Cambio and the CEO entered into the agreement, IRG owned 80 percent of Cambio's stock. The remaining shares were owned by the CEO (10%) and private investors (10%). At that time, IRG was a wholly owned subsidiary of Quorum Health Resources, LLC (QHR), which was a wholly owned subsidiary of Quorum Health Group (QHG). On April 27, 2001, Triad
Hospitals, Inc., acquired QHG, which then merged into Triad. The Triad merger and various actions taken by IRG, QHR, and Triad after the merger marginalized the CEO's role at Cambio. On March 14, 2002, he resigned and requested severance pay under his agreement with Cambio, asserting that Triad's acquisition of QHR was a 'change of control' under the agreement and his resignation was therefore for 'good reason.' In response, IRG, QHR, and Triad directed Cambio to file suit in federal district court and ask the court to rule that the CEO wasn't owed severance pay. (“Tennessee Supreme Court expands liability for contract interference claims,” The Tennessee Employment Law Letter, January 2007)

Triad Was Ordered to Pay $1.8 Million in Punitive Damages for Tortious Interference with Contract. “Once that lawsuit was under way, the CEO filed his own lawsuit, including a claim for breach of contract against Cambio and claims against IRG, QHR, and Triad for interfering with his contract and inducing Cambio to breach it in violation of Tennessee common and statutory law. At the time his lawsuit was filed, Triad owned 100 percent of IRG, which owned between 80 and 90 percent of Cambio. The CEO still owned 10 percent of Cambio. At trial, the jury found that Cambio had breached the agreement by not giving the CEO severance pay and awarded him $815,000 in compensatory damages for breach of contract. The jury also found that Triad, QHR, and IRG interfered with the contract between Cambio and the CEO and induced Cambio to breach it. It awarded $1.8 million in punitive damages against Triad, $3 million in punitive damages against QHR, and $200,000 in punitive damages against IRG.” (“Tennessee Supreme Court expands liability for contract interference claims,” The Tennessee Employment Law Letter, January 2007)

In 2007, Triad and an Alabama Affiliate Were Sued for Blocking Sale of Medical Office Building

A Huntsville Firm Sued Triad and Crestwood Medical Center for Allegedly Blocking Sale of Medical Office Building Near the Hospital's Entrance. “A Huntsville development company is suing Crestwood Medical Center and its former CEO for allegedly blocking the sale of a medical office building near the hospital's entrance. The civil lawsuit, filed last month, claims that hospital officials 'sought to disrupt, discourage and intimidate' Alabama Digestive Disorders Center physicians from buying a building at 4800 Whitesport Circle that they have been leasing since December 2001. The proposed sale fell apart in March. Now, building owner Capital Investors Properties Group Inc. is seeking at least $1.75 million in compensatory and punitive damages from Crestwood, former CEO Brad Jones and Crestwood's then-parent company, Triad Hospitals Inc. Jones resigned from Crestwood in April, shortly after learning that the hospital was being sold to Community Health Systems Inc. of Franklin, Tenn.” (Steve Doyle, “Developers sue Crestwood,” Huntsville Times, 7/31/07)

Hospital Sales and Closures

Triad Aggressively Sold and Closed Hospitals in the Immediate Aftermath of Its Spinoff from Columbia/HCA

Within Five Months of Its Spin Off, Triad Sold Four Hospitals, with Five More Expected to Be Sold by the End of 1999. “So far, the company has completed four transactions. It sold two hospitals-114-bed Huntington Beach (Calif.) Hospital and 219-bed West Anaheim Medical Center, Anaheim, Calif.-to Vanguard Health Systems. In return for 117-bed Doctors Hospital of Laredo (Texas), which the company gave to Universal Health Services in a swap deal, Triad received 122-bed Victoria (Texas) Regional Medical Center. It also has sold 21-bed Panhandle Surgical Hospital in Amarillo, Texas, to 385-bed Baptist St. Anthony's Health System in Amarillo. That leaves five more sales to go, Whitman says. The first one he expects to announce is the sale of 371-bed Beaumont (Texas) Medical and Surgical Hospital and the physical assets of the closed Silsbee (Texas) Doctors Hospital to Memorial Hermann Healthcare System in Houston, a deal that has been in the works since before Triad separated from Columbia. All five sales are expected to close before year-end.” (Barbara Kirchheimer, “Triad Still Struggling With Transition,” Modern Healthcare, 10/4/99)
By October 2000, Triad Had Sold or Closed 13 Hospitals. “Mr. Shelton is known to act quickly. After Triad was spun-off from HCA in May 1999, he pared down the company’s hospitals to 31 from 44. And he helped the company increase its same-facility revenue by 7.4 percent to $299.7 million. In addition, patient admissions were up by 4.7 percent to 30,748 in the second quarter of this year.” (J.C. Conklin, “Dallas-Based Hospital Company to Merge, Creating 3rd-Largest Hospital Chain,” The Dallas Morning News, 10/20/00)

DeQueen Regional Medical Center - Arkansas

Triad Placed Rural Hospital for Sale Three Days After Acquiring It from Columbia/HCA. “Triad said it would sell the rural hospital within three days of acquiring it in May from Columbia-HCA Healthcare Corp. The scramble to keep the 122-bed facility open has been going on ever since. About 15 years ago, the city sold the hospital - then De Queen General Hospital - to Hospital Corporation of America, which later was part of a merger into Columbia/HCA, the nation's largest hospital chain.” (“City tries to buy back hospital,” The Associated Press, 9/15/99)

Local Officials Accused Triad of “Trying to Close Our Hospital,” Leaving a “Growing Town Without a Hospital.” “City leaders hope to buy back the De Queen Regional Medical Center that was sold 15 years ago. Triad Hospitals of Dallas put the hospital on the market three months ago. Triad is trying to close our hospital. And everybody's in agreement that you can't have a growing town without a hospital,” Sevier County Judge Dick Tallman said Tuesday.” (“City tries to buy back hospital,” The Associated Press, 9/15/99)

State and Local Officials Intervened to Prevent Triad from Closing the Hospital. “DeQueen Mayor Chad Gallagher said state and local officials worked to keep Triad from just shutting down the hospital.” (“Sale of hospital at De Queen delayed,” The Associated Press, 10/21/99)

Community Leaders Negotiated to Buy the Hospital and Partner It with a Nonprofit Organization. “Triad is talking with community leaders to turn the facility over to a local nonprofit organization. If the sale to the city goes through, the hospital would require a partnership, possibly with Texarkana’s Christus St. Michael Health Care Center. A non-profit organization would own the hospital and St. Michael could operate it. With a county population of 13,750, everyone feels that De Queen Regional Medical needs to remain where it is, Tallman said. ‘Negotiations are continuing. We're hoping St. Michael will get the backing they need. The county doesn't want to operate the hospital because we don't know what we're doing. So if that doesn't work out with St. Michael, then we'll have to go back to the drawing board,’ Tallman said.” (“City tries to buy back hospital,” The Associated Press, 9/15/99)

Phoenix Regional Hospital – Sale and Planned Layoff of 500 Employees

In Late 1999 Triad Announced Sale of Phoenix Regional Hospital to Phoenix Children's Hospital. “Triad Hospitals is closing one of its two Phoenix-area hospitals after receiving an offer from Phoenix Children's Hospital to buy and turn it into a new children's hospital. Triad, the Dallas-based spinoff from Columbia/HCA Healthcare Corp., was not considering selling 174-bed Phoenix Regional Hospital until Phoenix Children's made an offer, said Triad spokeswoman Pat Ball. Phoenix Children's agreed to pay Triad $30 million for the facility, which will close Nov. 18 to undergo renovations and an expansion. Those are expected to be completed in 2001. The entire project is expected to cost Phoenix Children's $70 million, said Burl Stamp, president and chief executive officer of the children's hospital.” (Barbara Kirchheimer, “Triad Agrees To Sell Phoenix Hospital,” Modern Healthcare, 10/25/99)

Triad Planned to Layoff 500 Employees. “Triad's 500 employees at the hospital will receive severance packages and will be paid through Dec. 17. Patients' medical records will be transferred to Triad's other Phoenix hospital, 140-bed Paradise Valley Hospital.” (Barbara Kirchheimer, “Triad Agrees To Sell Phoenix Hospital,” Modern Healthcare, 10/25/99)
**Douglas Community Medical Center - Roseburg, Oregon**

In January 2000, Triad Announced That It Would Close the 118-Bed Douglas Community Medical Center. “Triad Hospitals, a spin-off of Columbia/HCA Healthcare Corp., said on Monday that its fourth-quarter results will reflect losses on 118-bed Douglas Community Medical Center, a hospital in Roseburg, Oregon, which it intends to close. The Dallas-based hospital company previously announced that Douglas Community was up for sale but now says that it has not reached an agreement with a potential buyer.” (“Triad's 4Q to reflect Oregon hospital losses,” Reuters, 2/1/00)

**The Hospital Lost $3 Million in 1999.** “Douglas Community lost $3 million before interest, taxes, depreciation and amortization in 1999. The loss will be reflected in Triad's total operating performance for the year ended December 31, 1999. The company also said that it would record a non-cash asset impairment during the fourth quarter as a result of its decision to divest the hospital. ‘Our decision will let Triad focus the company's capital and human resources on more favorable opportunities both inside and outside the company,’ explained Chairman and Chief Executive Officer Denny Shelton.” (“Triad's 4Q to reflect Oregon hospital losses,” Reuters, 2/1/00)

**Triad Had Promised to Rebuild the Hospital.** “What Roseburg residents did notice were the promises, beginning with the 1996 announcement by then-owner Columbia/HCA Healthcare Corp., of a planned $20 million remodel including a three-story addition and a 45,000-square-foot medical office building with a skybridge connecting the two. When Columbia/HCA broke up in 1999, the Dallas, Texas-based Triad bought Douglas Community in a package of hospitals - and the new company renewed the promise to rebuild the hospital. Triad brought in Rosemari Davis, its McMinnville hospital CEO, who was flush with the success of the $45 million replacement hospital there. Her mission was to help Douglas Community finish its major overhaul and increase its market share. The corporation spent $4 million for engineering and design work. It submitted preliminary plans to the city and began asbestos removal and demolition of the old buildings. But the project stalled because of troubles that actually began two or three years before the Triad spin-off, Davis said.” (Diane Dietz, “Hospital's closure devastated Roseburg,” *The Register-Guard* (Eugene), 2/9/03)

**According to Patient Advocates, the Hospital Stopped Providing its Share of Charity Care.** “Douglas Community stopped providing its share of charity care, said Linda Mullins, executive director of a clinic for low-income people, which was then called the Open Door Community Health Center. The hospital leadership seemed distant and distracted. ‘It was more of a challenge to keep them at the table,’ Mullins said. ‘They did stay involved, but it was not as easy or as much.’” (Diane Dietz, “Hospital's closure devastated Roseburg,” *The Register-Guard* (Eugene), 2/9/03)

**Triad CEO Denny Shelton Admitted to “Burning Bridges” Left and Right.** “‘Unfortunately, (we) were burning bridges left and right,’ Triad CEO Denny Shelton said in court papers. ‘This thing was getting ugly.’” (Diane Dietz, “Hospital's closure devastated Roseburg,” *The Register-Guard* (Eugene), 2/9/03)

**Denny Shelton Decided to Close the Hospital, Claiming “It Was Losing Money Like Crazy.”** “In Roseburg, Shelton was the one who decided to pull the plug on Douglas Community. ‘It was losing money like crazy,’ he said. The hospital lost $4.6 million in 1999 on the heels of a $7.2 million loss in 1998. ‘We made a decision that life's too short and we have too many other things to do than be in a community where physicians don't have any interest in two hospitals, so we got out.’” (Diane Dietz, “Hospital's closure devastated Roseburg,” *The Register-Guard* (Eugene), 2/9/03)

**The Closure Had a “Devastating Effect on the Community”; 300 Employees Were Given Just Two Weeks Notice Before the Shutdown.** “The closure in February 2000 had a devastating effect on Roseburg, residents said. Triad gave its 300 employees just two weeks' notice before shutting the doors. ‘There were employees who worked there a long time who were just put out. They felt promises were made and never fulfilled,’ said Greg Johnson, a real estate broker who observed the Roseburg hospital wars for nearly four decades.” (Diane Dietz, “Hospital's closure devastated Roseburg,” *The Register-Guard* (Eugene), 2/9/03)
Patients Were Forced into Rival Hospital, and “Stowed in Nurse’s Stations and Even Supply Closets.” “The transition was traumatic for the town, too. Douglas Community's sudden closure cut the number of hospital beds in Roseburg by half. Mercy's 126 beds overflowed and patients were stowed in nurse's stations and even supply closets.” (Diane Dietz, “Hospital's closure devastated Roseburg,” The Register-Guard (Eugene), 2/9/03)

Community Medical Center Sherman – Texas

Triad Announced Plans to Close Community Medical Center After Reporting Large Companywide Losses for 1999. “Columbia spinoff Triad loses money. Dallas-based Triad Hospitals, one of two companies spun off from Columbia/HCA Healthcare Corp. last year, lost $95.6 million, or $3.12 per share, for the year ended Dec. 31, compared with a loss of $85.5 million, or $2.80 per share, for 1998. Revenue fell 25% to $1.2 billion, reflecting the sales of several facilities. Triad also announced plans to sell 160-bed Community Medical Center Sherman (Texas), one of the 30 hospitals the company owns or manages.” (*For the record,* Modern Healthcare, 3/6/00)

Mission Bay Hospital – San Diego

In October 2000, Triad Announced That It Would Close 91-Bed Mission Bay Hospital. “In a separate announcement last week, Triad said it will close 91-bed Mission Bay Hospital in San Diego by Jan. 24 [2001]. Mission Bay's management cited an estimated $150 million cost to replace the hospital to meet California's stringent seismic-safety requirements.” (Barbara Kirchheimer, “A family reunion,” Modern Healthcare, 10/23/00)

UniMed Medical Center and Kenmare Community Hospital – North Dakota

Pursuant to Its Merger with Quorum, Triad Announced Plan to Sell Two Hospitals in Minot, Threatening to Create “Another One-Hospital Town.” “Triad Hospitals’ pending $2.4 billion acquisition of Quorum Health Group may not pose antitrust problems on a national scale, but one of the sale's secondary transactions may create another one-hospital town. ... Dallas-based Triad last week signed a definitive agreement to sell Quorum's 160-bed UniMed Medical Center, in Minot, N.D., and nearby 42-bed Kenmare (N.D.) Community Hospital to Trinity Health. The company is the parent of 472-bed Trinity Hospital, the only other acute-care hospital in Minot, a town of 35,926 which is 116 miles from Bismarck, N.D., the nearest sizeable city.” (Barbara Kirchheimer, “For one town, a Triad side effect,” Modern Healthcare, 3/26/01)

Purchaser Trinity Health Asserted That the Deal Would “Set the State for Consolidating Health Services in Minot and the Region.” “Trinity President and CEO Terry Hoff said in a written statement that the deal would ‘set the stage for consolidating health services in Minot and the region,’ although he did not provide details. Forrest Burke, Trinity's lawyer and head of the healthcare practice of law firm Dorsey and Whitney in Minneapolis, said the market does not need two acute-care providers. ‘The fact is, it's not a market that supports two viable systems.'” (Barbara Kirchheimer, “For one town, a Triad side effect,” Modern Healthcare, 3/26/01)

Triad Sold the Hospitals for $38 Million. (Molly Cate, “Sale of Quorum nixes 77 positions,” Nashville Business Journal, 4/20/01)
Central Arkansas Hospital

In September 2005, Triad Announced That It Would Sell Central Hospital to a Not-For-Profit Hospital, Imperiling School Tax Revenues. “The Searcy Public School District will soon learn whether it will face a hole in future budgets, after Central Arkansas Hospital, one of White County's largest taxpayers, is acquired by its tax-exempt neighbor on Nov. 1. Central, owned by for-profit Triad Hospitals Inc., paid $180,000 in property taxes in 2004. But nonprofit White County Medical Center announced Sept. 14 that it is buying out Central Arkansas Hospital and three clinics. The Medical Center will pay property taxes on the clinics, but nobody knows yet whether the main hospital building in downtown Searcy - the bulk of Central's tax burden - will be exempt, said Medical Center spokesman Cassandra Feltrop. White County Medical Center will seek an opinion from the state Attorney General's office about its tax-exempt status, she said. The first year Central Arkansas Hospital could become exempt would be 2007, Feltrop said.” (Brian Baskin, “Hospital buyout in Searcy leaves school tax uncertain,” Arkansas Democrat-Gazette, 10/8/05)

Local Schools Faced a Potential $80,000 Budget Shortfall as a Result of the Transaction. “Local schools would be the hardest hit by the loss of Central's taxes, as they receive over 95 percent of property tax revenue in White County. If the hospital is found to be exempt, the Medical Center will donate $100,000 to the county annually, with the same 95 percent proportion going to schools as if the hospital were paying property taxes, she said. That would still leave a shortfall of up to $80,000 in the schools' $29 million budget. ‘We have to have that revenue,’ said White County Judge Bob Parrish. ‘It's a lot of money. It certainly is in the budget to the schools.’” (Brian Baskin, “Hospital buyout in Searcy leaves school tax uncertain,” Arkansas Democrat-Gazette, 10/8/05)

Triad Closed at Least One Health Clinic Before Selling the Hospital. “White County Medical Center sold two rural health clinics to a private operator … less than a week before they were to close. Cabot Healthcare Center LLC, a 2-year-old company that runs a clinic in Austin, will take over the Quitman and Rose Bud rural health facilities … said Jack Weir, Cabot Healthcare's chief executive officer. Austin is in Lonoke County, Quitman is in Cleburne County and Rose Bud is in White County. …The Rose Bud and Quitman clinics, which provide nonemergency care, vaccinations and testing, are the only such providers in the two towns. Each is 10 to 20 miles from Heber Springs, where Baptist Health System operates a 25-bed hospital, and 20 to 30 miles from the 245-bed White County Medical Center. … White County Medical Center took over the clinics when it acquired neighboring Central Arkansas Hospital from Dallas based Triad Hospitals Inc. in September. Last week, the medical center told clinic staff to pack up supplies and prepare to shut down Nov. 1, said Merlene Cook, the Rose Bud clinic's nurse practitioner. Word spread quickly of the looming closure, bolstered by reports of a shuttered Central Arkansas Hospital clinic in nearby Pangburn. … Weir said Triad closed that clinic before selling Central Arkansas Hospital.” (Brian Baskin, “Medical center sells 2 rural health clinics,” Arkansas Democrat-Gazette, 10/27/05)

Proposed Sale to CCMP Capital Advisors and GS Capital Partners and Buyout by Community Health Systems

Amid Mounting Debts and Searing Criticism from Its Largest Shareholder, Triad Agreed to Be Taken Private in $4.7 Billion Deal Before Accepting $6.8 Offer from Community Health Systems

In February 2007, Triad Agreed to Be Taken Private in $4.7 Billion Sale to CCMP Capital Advisors and GS Capital Partners. “Triad Hospitals Inc. said Monday it agreed to be taken private in a $4.7 billion sale to an affiliate of Goldman Sachs and a JPMorgan Chase & Co. spinoff. The hospital industry is struggling with flat volume and rising numbers of unpaid bills from uninsured patients. But analysts said hospital companies generate huge amounts of cash, making them attractive buyout targets. The Triad announcement comes on the heels of hospital giant HCA Inc.'s $21.3 billion sale to private owners. Triad agreed to be purchased for $50.25 per share, a 16 percent premium over Triad's closing stock price on
Friday. The buyers, affiliates of CCMP Capital Advisors and GS Capital Partners, will also assume $1.7 billion in debt.” (David Koenig, “Triad Hospitals agrees to sale to private-equity firms for $4.7 billion,” The Associated Press, 2/5/07)

The Announcement Came After Triad's Largest Shareholder Accused the Company of “Remarkably Poor Financial Analysis and Controls.” “Triad's stock has slumped since mid-2005. In December, its largest shareholder at nearly 9 percent, hedge fund TPG-Axon Capital Management LP, accused Triad of 'remarkably poor financial analysis and controls' and falling to clearly state how it would improve financial performance. TPG-Axon, formed by another buyout firm, Texas Pacific Group, and a former Goldman Sachs executive, also threatened to run candidates for Triad's board. Shelton said the sale wasn't a response to TPG-Axon's pressure.” (David Koenig, “Triad Hospitals agrees to sale to private-equity firms for $4.7 billion,” The Associated Press, 2/5/07)

Triad Was Sharply Downgraded by Credit Ratings Agencies. “Standard & Poor's Ratings Services dropped Triad to two notches below investment-grade and warned it could downgrade again. Moody's Investors Service, which has Triad debt three steps below investment-grade, put Triad under review for a possible downgrade until it can study the amount of debt used to complete the deal.” (David Koenig, “Triad Hospitals agrees to sale to private-equity firms for $4.7 billion,” The Associated Press, 2/5/07)

Triad Was Given 40 Days to Solicit Better Offers. “Triad has 40 days to solicit better offers, and it would pay a relatively light $40 million penalty for walking away from CCMP, which spun off from JP Morgan's private-equity arm, and the Goldman Sachs affiliate. Shelton said he wasn't talking to other potential bidders, but if anyone else comes along, 'we'll be helpful in providing them the same information’ Triad gave the current buyers.” (David Koenig, “Triad Hospitals agrees to sale to private-equity firms for $4.7 billion,” The Associated Press, 2/5/07)

On March 19, 2007, Community Health Systems Inc. Agreed to Purchase Triad for $6.8 Billion, Creating the Nation's Largest Publicly Traded Hospital Company. “A Tennessee-based company that operates rural hospitals said Monday that it has agreed to buy Triad Hospitals Inc. of Plano for $6.8 billion, topping a private-equity group's bid and creating the nation's largest publicly traded hospital company. Community Health Systems Inc. of Franklin, Tenn., will pay $54 per share in cash, $3.75 a share higher than an earlier offer from CCMP Capital Advisors and Goldman Sachs Capital Partners, the two hospital companies said. The combined company will own or operate 130 hospitals in 28 states. In Texas, Triad has nine hospitals and one under construction; Community has eight. All are in rural towns, midsize cities or suburbs.” (Bob Moos, “Triad gets higher bid for buyout,” The Dallas Morning News, 3/20/07)

Analysts Expected Triad's Hospitals to Fare Better Under Community's Management Than Under Triad's Management. “Kenneth Weakley of UBS Securities wrote in a note to clients that Community Health Systems will bring 'dramatically stronger discipline' to Triad. He said he expects Triad's hospitals to fare better under Community Health Systems' management team. Analysts also predicted that the combined company would have greater purchasing power and lower overhead. Community Health Systems has typically acquired hospitals in nonurban markets with little or no competition, which allows it to charge top dollar. The combined company will operate the sole hospital in 65 percent of its markets.” (Bob Moos, “Triad gets higher bid for buyout,” The Dallas Morning News, 3/20/07)

Community's Options Were to "Devour Someone Else or Be Devoured Itself." "Community Health Systems is the smaller of the two companies, with a market value of $3.6 billion and revenue of $4.4 billion last year. Triad has a market value of $4.4 billion and reported revenue of $5.5 billion in 2006. … Sheryl Skolnick of CRT Capital Group said the merger ‘isn't a perfect fit, but it's not a bad one. I expect Community will capitalize on the two companies' synergy and move many of the Plano management operations to Tennessee.’ … Community Health Systems has typically acquired hospitals in nonurban markets with little or no competition, which allows it to charge top dollar. The combined company will operate the sole hospital in 65 percent of its markets. Community Health Systems was founded in 1985 and taken private in 1996. Four years later, it went public again. ‘Community is stepping out of its comfort zone with this deal, but it figured its options were to devour someone else or be devoured itself,’ Ms. Skolnick said.” (Bob Moos, “Triad gets higher bid for buyout,” The Dallas Morning News, 3/20/07)
Triad Shareholders Approved the Buyout in June 2007. ("Triad Hospitals shareholders approve $5.1 billion buyout offer from Community Health Systems," The Associated Press, 6/12/07)